North American Aviation, Inc.

ANNUAL REPORT TO STOCKHOLDERS 1940

LIPPMOTT LIBRARY
NORTH AMERICAN AVIATION, INC.
Inglewood, California

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Office of Transfer Agent
1775 Broadway
New York, N. Y.
As executive head of North American Aviation, Inc., I feel it my duty to amplify for our stockholders the facts and figures which summarize operations during a year bewildering to many persons and crowded beyond belief to those of us actively engaged in the aviation industry.

During 1940, your company and the industry of which it is a vital part experienced a surge of unprecedented expansion as the National Defense Program gathered momentum. Although National Defense and the ultimate advancement of aviation are uppermost in our minds, we must profoundly regret the international conditions which compel the present expansion. Our primary task today is building good airplanes with all possible speed, and I am proud to report that our organization, down to the last man, is performing that task with commendable zeal and intelligence.

None of us can foresee the developments of the months and years to come. But this fact need not be regarded as an indication of insecurity for the future. We shall work diligently for the present emergency, confident that our production efforts, coupled with continued intensive research, will be instrumental in advancing the defense of our nation and the ultimate welfare of peacetime aviation.

I sincerely trust that each stockholder will find the contents of this annual report interesting and enlightening.

J. W. Kinnebrew
PRESIDENT
NORTH AMERICAN AVIATION, INC.
Inglewood, California

March 22, 1941

To Our Stockholders:

FINANCIAL REPORT FOR 1940

The year 1940 saw an acceleration of the trend noted a year ago toward expanded facilities, greater production, improved products, and new responsibilities in the vital industry of which North American Aviation, Inc., is a member. The effect upon the Company's operations and financial condition is shown in the financial statements and comments submitted herewith.

INCOME . . .

Net income for 1940 amounted to $7,090,336, equivalent to $2.06 a share on the Company's outstanding capital stock. Deliveries of completed airplanes and parts during 1940 exceeded those for 1939, and operating earnings were slightly greater. A much larger proportion of the earnings, however, was absorbed by Federal taxes on income in the current year than in the prior year. As a result, the net income reported above is but slightly higher than that of $7,088,092, also $2.06 a share, reported a year ago. A comparison of operations as between the two years is given hereinafter.

The net income stated is after deducting all costs and expenses of the business, including expenses incurred by non-operating subsidiaries, and after making provision, in amounts considered adequate, for depreciation, income and excess-profits taxes, and all known contingencies.

DIVIDENDS . . .

Cash dividends paid to stockholders during 1940 aggregated $4,293,791, being at the rate of $1.25 a share. Two distributions were made—$0.50 a share on July 1 and $0.75 a share on December 24.

The excess of net income over these dividends, amounting to $2,796,545, was added to earned surplus.

OPERATIONS . . .

Operating results for the year under report are compared below with those for the preceding year:

<table>
<thead>
<tr>
<th>Item</th>
<th>1940</th>
<th>1939</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$36,862,514</td>
<td>$27,608,651</td>
<td>$9,253,863</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>25,757,024</td>
<td>17,862,269</td>
<td>7,894,755</td>
</tr>
<tr>
<td>Gross profit from sales</td>
<td>$11,105,490</td>
<td>$ 9,746,382</td>
<td>$1,359,108</td>
</tr>
<tr>
<td>General administrative and selling expenses</td>
<td>663,999</td>
<td>636,861</td>
<td>27,138</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>$10,441,491</td>
<td>$ 9,109,521</td>
<td>$1,331,970</td>
</tr>
<tr>
<td>Other income</td>
<td>377,807</td>
<td>178,481</td>
<td>199,326</td>
</tr>
<tr>
<td>Gross income</td>
<td>$10,819,298</td>
<td>$ 9,288,002</td>
<td>$1,531,296</td>
</tr>
<tr>
<td>Income charges</td>
<td>736,962</td>
<td>698,910</td>
<td>38,052</td>
</tr>
<tr>
<td>Net income before Federal income and excess-profits taxes</td>
<td>$10,082,336</td>
<td>$ 8,589,092</td>
<td>$1,493,244</td>
</tr>
<tr>
<td>Provision for Federal income and excess-profits taxes</td>
<td>2,992,000</td>
<td>1,501,000</td>
<td>1,491,000</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 7,090,336</td>
<td>$ 7,088,092</td>
<td>$ 2,244</td>
</tr>
</tbody>
</table>
Sales of airplanes, parts, etc., for 1940 reached the highest point in the Company's history. It is interesting to note that these sales were more than twenty-nine times those for 1936, the first full year of operation at Inglewood. As compared with 1939, the increase was approximately 33%. In addition, considerable work was undertaken during the year for delivery in 1941; inventories of contracts and work in progress and raw materials and supplies on hand at December 31, 1940, amounted to $18,717,772, an increase of $13,358,687 over the inventories at January 1, 1940.

Orders received during the year aggregated $190,714,375. This total includes a single order of $72,857,049, the largest ever obtained by the Company, for twin-engine bombers to be supplied to the United States Army Air Corps. The backlog of unfilled orders at December 31, 1940, amounted to $204,451,663, as against $50,599,802 reported a year ago. Most of these orders, of course, call for airplanes and parts to be used for military purposes by the United States and foreign governments. The important part the Company is playing in the defense of America is described in a subsequent section of this report.

To care for the increased business, considerable expansion has been necessary, both in physical plant and in personnel.

At Inglewood, approximately 375,000 square feet of floor space were added during the year to the 429,000 square feet available at the beginning of the year. A further addition of 214,000 square feet was completed early in 1941, and a still further addition of 36,000 square feet is contemplated. At the completion of the present program, therefore, a total area of 1,054,000 square feet will be available—more than six and one-half times the space provided when the first unit of the present plant was erected in 1935. While this construction has been undertaken by the Company at its own expense, arrangements have been made with Defense Plant Corporation, an agency of the Federal Government, whereby Defense Plant Corporation will in large part supply the equipment required for the added space. By virtue of these arrangements the Company will use the equipment under a lease from Defense Plant Corporation.

The expansion program has broken state lines and reached beyond California. At December 31, 1940, construction of a large plant at Dallas was underway, and arrangements had been substantially completed for another plant at Kansas City. The Dallas plant is being built and equipped by Defense Plant Corporation, under arrangements similar to those described above. A subsidiary company, North American Aviation, Inc., of Texas, was organized in 1940 to operate this plant under lease from Defense Plant Corporation. The Kansas City plant is being constructed under North American's supervision but is to be owned in its entirety by the Government. It will be used largely for the assembly of bomber aircraft, under the Company's direction.

Depreciation charges for 1940 amounted to $160,991, including $9,063 for the Maryland plant, which is still idle.

The total payroll for 1940 amounted to approximately $11,250,000, nearly double the total for 1939. In appreciation of their splendid accomplishments during the year, the Board of Directors again authorized additional payments as adjusted compensation to all employees not eligible to participate in the incentive compensation plan.

The amount available for awards to executives and principal employees for 1940 under the North American incentive compensation plan adopted several years ago was determined by the Company's auditors to be $712,784, in accordance with the provisions of the plan. The Compensation Committee of the Board of Directors fixed the incentive fund for the year at $712,700, to be distributed to 252 executives and principal employees. In accordance with the terms of the plan, payments are made to recipients of the awards over a period of approximately two years. The provision charged to income for 1940 in respect of payments under the plan is $5,287 less than the amount of the awards for the year; this difference represents the restoration to income of the unpaid portion of awards made in prior years to employees who have left the Company.

[3]
Provision of $2,992,000 for Federal income and excess-profits taxes includes $80,000 for possible additional assessments for prior years and $511,000 for excess-profits taxes. In determining the provision to be made for excess-profits tax under the Second Revenue Act of 1940, due consideration was given to the excess-profits tax amendments enacted early in 1941.

FINANCIAL CONDITION . . .

The Company's total assets and liabilities more than doubled during 1940, as may be seen from the following comparative condensed balance sheet as of December 31, 1940 and 1939:

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>DECEMBER 31, 1940</th>
<th>DECEMBER 31, 1939</th>
<th>INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$22,440,534</td>
<td>$11,093,274</td>
<td>$11,347,260</td>
</tr>
<tr>
<td>Marketable short-term notes</td>
<td>2,047,695</td>
<td>1,298,154</td>
<td>749,541</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>6,120,818</td>
<td>1,762,053</td>
<td>4,358,765</td>
</tr>
<tr>
<td>Inventories</td>
<td>18,717,772</td>
<td>5,359,085</td>
<td>13,358,687</td>
</tr>
<tr>
<td>Deposits on contracts for purchase of airplane engines, etc.</td>
<td>1,686,595</td>
<td>994,380</td>
<td>692,215</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$51,013,414</td>
<td>$20,506,946</td>
<td>$30,506,468</td>
</tr>
<tr>
<td>Experimental projects in process</td>
<td>20,660</td>
<td>36,230</td>
<td>*15,570</td>
</tr>
<tr>
<td>Due from United States Government on abrogated air mail contract</td>
<td>86,707</td>
<td>86,707</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>37,552</td>
<td>114,712</td>
<td>*77,160</td>
</tr>
<tr>
<td>Fixed assets—California and Maryland plants, less depreciation reserves</td>
<td>2,712,934</td>
<td>1,744,592</td>
<td>968,342</td>
</tr>
<tr>
<td>Deferred charges—Prepaid taxes, insurance, etc.</td>
<td>233,078</td>
<td>112,261</td>
<td>120,817</td>
</tr>
<tr>
<td>Total</td>
<td>$54,017,638</td>
<td>$22,601,448</td>
<td>$31,416,190</td>
</tr>
<tr>
<td>LIABILITIES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$3,887,369</td>
<td>$1,033,477</td>
<td>$2,853,892</td>
</tr>
<tr>
<td>Taxes payable and accrued</td>
<td>3,431,746</td>
<td>1,794,549</td>
<td>1,637,197</td>
</tr>
<tr>
<td>Estimated liability under incentive compensation plan (including unpaid portion of prior year's awards)</td>
<td>878,487</td>
<td>717,250</td>
<td>161,237</td>
</tr>
<tr>
<td>Other accrued liabilities</td>
<td>509,294</td>
<td>186,723</td>
<td>322,571</td>
</tr>
<tr>
<td>Deposits and progress billings on sales contracts</td>
<td>32,678,331</td>
<td>9,033,583</td>
<td>23,644,748</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$41,385,227</td>
<td>$12,765,582</td>
<td>$28,619,645</td>
</tr>
<tr>
<td>Reserve for contingencies</td>
<td>265,820</td>
<td>265,820</td>
<td></td>
</tr>
<tr>
<td>Capital stock and surplus</td>
<td>12,366,591</td>
<td>9,570,046</td>
<td>2,796,545</td>
</tr>
<tr>
<td>Total</td>
<td>$54,017,638</td>
<td>$22,601,448</td>
<td>$31,416,190</td>
</tr>
</tbody>
</table>

*Decrease
The large cash balance at December 31, 1940, is attributable directly to the receipt of deposits and progress payments from customers in connection with contracts for the construction of airplanes. It will be noted that a substantial accountability existed at that date for deposits and progress billings.

A physical inventory of contracts and work in progress and raw materials and supplies was taken by Company employees late in November. Representatives of the Company's auditors observed the count and made physical tests of quantities. The inventories as shown by the balance sheet at the end of the year are based upon the physical inventory, adjusted for transactions recorded between the inventory date and December 31.

The item of experimental projects in progress represents preliminary expenditures in connection with development work. In line with past practice, all research and development expenses are absorbed in operations as rapidly as possible, and no valuation appears in the balance sheet in respect of designs being currently used.

The claim of a subsidiary against the United States Government for services rendered under an air mail contract abrogated on February 19, 1934, was settled during the year under review.

Net additions to fixed assets during the year amounted to $968,342, consisting of property acquisitions of $1,122,061 less an increase of $153,719 in depreciation reserves. Property acquisitions consisted largely of additions to the Inglewood plant, described above in the review of operations. As stated at that point, considerable additional equipment at Inglewood and the entire plants outside of California are being paid for by the Government and do not constitute property of the Company. The fixed-asset accounts in the balance sheet include no amounts in respect of these items. The accounts receivable at December 31, 1940, however, include $1,167,008 due from Defense Plant Corporation for equipment, etc., purchased by the Company for its account.

STATEMENTS . . .

The accompanying balance sheet and statement of income and earned surplus have been certified by Messrs. Haskins & Sells, the independent public accountants approved by the stockholders at their annual meeting of 1940 as the Company's auditors for the year. Their certificate is attached.

NORTH AMERICAN AVIATION, INC.

J. H. KINDELBERGER,  
President.

ERNEST R. BREECH,  
Chairman of the Board.
NORTH AMERICAN AVIATION, INC. (Incorp)

CONSOLIDATED
Decem

ASSETS

Current Assets:

- Cash: $22,440,533.85
- Marketable short-term notes, at amortized values (face value, $2,050,000.00): $2,047,695.49
- Accounts receivable:
  - United States Government Departments: $3,535,638.12
  - Other trade accounts: $1,177,427.92
  - Defense Plant Corporation (for expenditures in connection with defense facilities): $1,167,008.11
  - Sundry accounts and accrued items, etc.: $240,743.86
- Inventories (at cost)—Contracts and work in progress (less cost of partial deliveries) and raw materials and supplies: $18,717,771.95
- Deposits on contracts for purchase of airplane engines, etc.: $1,686,595.12

Total current assets: $51,013,414.42

Experimental Projects in Progress: $20,659.69

Investments (including municipal bonds deposited as surety for performance of obligations, $36,550.37): $37,552.37

Fixed Assets:

- California plant—Buildings, improvements, machinery, and equipment, at cost of $3,100,329.38, less depreciation reserve of $553,749.56: $2,546,579.82
- Maryland plant (not used in business)—Land, buildings, and equipment, at cost of $277,055.66, less depreciation reserve of $110,701.78: $166,353.88

Total fixed assets (net book value): $2,712,933.70

Deferred Charges—Prepaid taxes, insurance, etc.: $233,078.23

TOTAL: $54,017,638.41

Note: There are various claims and suits pending against the companies.

ACCOUNTANT:

NORTH AMERICAN AVIATION, INC.:

We have examined the consolidated balance sheet of North American Aviation and earned surplus for the year ended that date, have reviewed the systems of internal control, records and other supporting evidence by methods and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related statements of the companies at December 31, 1940, and the results of their operations for the year ended on a basis consistent with that of the preceding year.

Los Angeles
March 12, 1941.
LIABILITIES

CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 3,887,368.76</td>
</tr>
<tr>
<td>Taxes payable and accrued:</td>
<td></td>
</tr>
<tr>
<td>Federal income and excess-profits taxes (estimated)</td>
<td>3,075,691.94</td>
</tr>
<tr>
<td>Other taxes</td>
<td>356,054.05</td>
</tr>
<tr>
<td>Estimated liability under Incentive Compensation Plan (including $165,787.50 from prior year)</td>
<td>878,487.50</td>
</tr>
<tr>
<td>Other accrued liabilities</td>
<td>509,293.72</td>
</tr>
<tr>
<td>Deposits and progress billings on sales contracts</td>
<td>32,678,331.42</td>
</tr>
</tbody>
</table>

Total current liabilities                                                    $41,385,227.39

RESERVE FOR CONTINGENCIES                                                   265,820.27

CAPITAL STOCK AND SURPLUS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital stock—Authorized, 6,000,000 shares of the par value of $1.00 a share; issued and outstanding, 3,435,033 shares</td>
<td>$ 3,435,033.00</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>3,109,938.01</td>
</tr>
<tr>
<td>Earned surplus (since December 31, 1934)</td>
<td>5,821,619.74</td>
</tr>
</tbody>
</table>

Total capital stock and surplus                                              $12,366,590.75

TOTAL                                                                        $54,017,638.41
NORTH AMERICAN AVIATION, INC.
and subsidiary companies

SUMMARY OF CONSOLIDATED INCOME AND EARNED SURPLUS
for the year ended December 31, 1940

SALES OF AIRPLANES, PARTS, ETC. ........................................ $36,862,514.31

Cost of Sales ................................................................. 25,757,024.11

GROSS PROFIT FROM SALES .................................................. $11,105,489.90

General Administrative and Selling Expenses ............................. 663,999.14

PROFIT FROM OPERATIONS (after providing $151,928.14 for depreciation) .................................................. $10,441,490.76

OTHER INCOME:
Royalty and license agreements ............................................. $99,979.90
Interest and discounts .......................................................... 124,218.36
Scrap sales, etc. ................................................................. 153,608.62

Total ............................................................................. 377,806.88

GROSS INCOME .................................................................... $10,819,297.64

INCOME CHARGES:
Provision for payments under Incentive Compensation Plan .............. $707,412.50
Idle-plant expenses (including depreciation, $9,062.70), etc. ............ 29,549.36

Total ............................................................................. 736,961.86

NET INCOME BEFORE PROVISION FOR FEDERAL INCOME AND EXCESS-PROFITS TAXES .................................................. $10,082,335.78

PROVISION FOR FEDERAL INCOME AND EXCESS-PROFITS TAXES:
Normal income taxes .............................................................. $2,481,000.00
Excess-profits taxes ............................................................... 511,000.00

Total ............................................................................. 2,992,000.00

NET INCOME ..................................................................... $ 7,090,335.78

Earned Surplus, January 1, 1940 .................................................. 3,025,075.21

GROSS EARNED SURPLUS ...................................................... $10,115,410.99

Less Dividends Paid ($1.25 per share) ........................................ 4,293,791.25

Earned Surplus, December 31, 1940 (since December 31, 1934) .... $ 5,821,619.74

[ 8 ]
The end of the year 1940 found North American Aviation, Inc., expanding its facilities on three fronts to meet production responsibilities under the National Defense Program.

INGLEWOOD . . .

At Inglewood, California, site of the parent factory, production during the year reached a new high level as the organization concentrated on fulfilling the first great need of the air expansion program—training airplanes. For that task the company was unusually well prepared, having manufactured and delivered more than a thousand military trainers before 1940. Therefore an organization skilled in trainer production, with adequate facilities for such production, began manufacturing these airplanes within a few days after the President’s message declaring the existence of a national emergency, with the result that the first AT-6A training airplane was delivered to the U. S. Army Air Corps one month after receipt of a contract covering that type.

The late months of 1940 saw final testing of North American’s B-25 Medium Bomber, for which large orders have been placed by the U. S. Army Air Corps. Production of this effective twin-engine bombardment plane is now underway in Inglewood, and soon a new assembly plant will be erected in Kansas City, Kansas, for the assembly of these bombers in greater quantities.

Most sensational development to emerge from the Inglewood factory during 1940 was the NA-73 Single Seat Fighter—a streamlined wonder powered with an Allison Engine—which is unofficially credited with being the fastest military airplane in the world today at its operative altitude. Late in 1940, the NA-73 had almost completed its air and ground tests, and the type is to be placed in production early in 1941—as the Mustang Fighter for the British Royal Air Force, and as the XP-51 Pursuit plane for the U. S. Army Air Corps.

DALLAS . . .

On November 23, 1940, the first concrete was poured for North American Aviation’s new factory adjoining Hensley Field near Dallas, Texas. Less than two months later, on January 20, 1941, North American personnel had already begun to move into the new factory. The formal opening date, when the building will be entirely completed, is set for April 7, precisely one hundred thirty-six days after work was begun. Although these facts alone are a tribute to North American’s reaction under the challenge of National Defense, it is still more significant that the first Texas-built airplane, an AT-6A Advanced Trainer, will be delivered on the day the factory is formally opened. The ship, along with many others like it, was begun in leased temporary quarters in Dallas long before a single tenable building stood on the Hensley Field site.

The Texas factory itself is as interesting as the airplanes it will build. Under a single roof will be 900,000 sq. ft. of productive floor space, and other buildings of the manufacturing unit will bring the total area to 1,022,400 sq. ft. There are no windows in any of the buildings, but fluorescent lighting and air conditioning will supply ideal and constant working conditions day and night, summer or winter, more than compensating for the absence of natural illumination and ventilation.

Certain problems inherent in the production of all-metal military aircraft will be reduced to a minimum by the layout of the Texas factory. In brief, the Texas plant,
through simplification of certain manufacturing processes and increased volume, will, we believe, constitute one of the most efficient aircraft production units in the nation.

KANSAS CITY...

Ground was broken on March 8, 1941, for the Government-owned assembly plant at Fairfax Airport, Kansas City, Kansas, which North American Aviation will operate for the production of B-25 Twin-Engine Medium Bombers. Total available floor space in the Kansas City unit will be 1,058,200 sq. ft., or slightly more than is now contained in either the Texas or Inglewood plants.

The Kansas City plant will be almost wholly an assembly unit, with parts and sub-assemblies shipped in from various points. Under the arrangement worked out for cooperation between the automotive industry and the aircraft industry for production of vitally needed airplanes, detail parts and sub-assemblies for B-25 Bombers assembled in Kansas City will be fabricated, for the most part, by various units of the General Motors Corporation.

THREE BASIC AIRPLANE TYPES...

Inevitable standardization of the airplane types produced by each manufacturer left North American in an extremely favorable position. For North American's production will be concentrated on three basic types essential to the National Defense Program—trainers, bombers, and fighters. It is a tribute to North American's engineering skill that each of these basic types on the firm's production schedule is generally regarded as outstanding in its classification.

In the trainer classification, North American Aviation delivered during 1940 BT-14 Basic Trainers, BC-1A Basic Combat Planes, AT-6 Advanced Trainers, and AT-6A Advanced Trainers to the U. S. Army Air Corps; SNJ-1, SNJ-2, and SNJ-3 Scout Trainers to the U. S. Navy; and Harvard I and Harvard II Advanced Combat Trainers to the British Royal Air Force. At year-end the future production was tentatively established as confined to the following types: trainers, bombers and pursuits for the U. S. Army Air Corps, trainers for the U. S. Navy, and trainers and pursuits for Great Britain.

In the bombardment category, North American Aviation perfected and began deliveries on the B-25 Medium Bomber during 1940. The same airplane and later developments of the basic B-25 design will be delivered through 1941 and 1942. Thus there will soon be B-25A, B-25B and B-25C Bombers winging from Inglewood and Kansas City to tactical squadrons of the U. S. Army Air Corps.

In the fighter or pursuit classification, North American's NA-73 Mustang, designed and built for Great Britain and the U. S. Army Air Corps, emerged from a period of intense national air research as perhaps the greatest single design development of 1940. That it would play an important role in the air history of 1941 and 1942 seemed inevitable as the slender Allison-powered fighter raced through flight trials over Inglewood late in 1940. Most significant for those interested in the North American organization was the fact that the NA-73 Fighter (identified as the XP-51 Pursuit Plane in its Air Corps version) had been designed and built in one hundred days.

PERSONNEL GROWTH...

During 1940, the total number of persons employed in the Inglewood factory rose from 4,639 to 8,290, an increase of 3,651 or approximately 78%. Forecasts on
January 1, 1941, indicated that North American Aviation's Inglewood plant would probably add from three to four thousand more employees to the payroll before the end of 1941, and that the firm's three manufacturing and assembly units in Inglewood, Dallas, and Kansas City might eventually employ between 35,000 and 40,000 persons.

Although initial examination of these phenomenal personnel expansion figures would seem to indicate a hopeless labor training problem, North American Aviation did not regard it so. With the aid of local and national educational authorities, and public and private trade schools, the company was doing such a good job of developing labor sources that a casual survey at year-end revealed 90% of new men to be in the skilled and semi-skilled brackets, with only 10% unskilled.

In Dallas and Kansas City the training programs were necessarily far broader in scope than anything attempted in Inglewood. But at the same time the degree of job specialization was higher, and North American's own factory training plan, supplemented by courses in public and private schools, appeared to be doing an adequate mass training job on schedule. As an example, more than a thousand trained workmen will be engaged in the Dallas factory when it formally opens on April 7th, although not more than sixty persons were transferred from the Inglewood organization as a supervisory and training nucleus.

RESEARCH . . .

Despite full speed ahead on production for National Defense, North American Aviation engineers worked constantly on experimental projects which will be tomorrow's airplanes, and pursued intensive research to improve materials and processes. One of the new confidential designs, a type reportedly the most effective yet developed, was scheduled to begin flight tests during 1941. In the field of production improvement, North American instituted a Methods Department in 1940 to study production techniques and recommend improvements. Wind tunnel testing of scale models was conducted in several West Coast aerodynamics laboratories, and considerable enlargement of both personnel and facilities occurred in North American's own well-equipped factory research laboratory.

PRODUCTION ACCOMPLISHMENTS . . .

In a year of emphasis on large scale production, North American Aviation led the nation's manufacturers in total quantity of airplanes produced, delivering 83% as many airplanes in the twelve-month period as were produced by the company during the previous four years of operation.

At the end of 1940, the real production performance had scarcely begun. For in December of 1940, North American Aviation delivered approximately twice the number of planes delivered during the best month of 1939, and master production schedules for the months to come indicate that even this record will soon fade into insignificance.

Three thousand airplanes built by North American Aviation are now flying in the world's air services. They include basic and advanced trainers, observation airplanes, pursuit airplanes, light attack bombers, and twin-engine medium bombers. Flying overhead in massed formation, three abreast, this number would be two hours passing a given point.

As North American Aviation continues to do its share under the National Defense Program, producing proven airplanes with proven production methods, this massed flight formation will become steadily longer, faster, and safer.
LEFT—AT KANSAS CITY: 1,058,200 SQUARE FEET.

BELOW—ATINGLEWOOD: 1,054,000 SQUARE FEET.

RIGHT—NEAR DALLAS: 1,022,400 SQUARE FEET.