NORTH AMERICAN AVIATION, INC., INGLEWOOD, CALIFORNIA

- Plants in California, Kansas, and Texas

TOKYO...and other Japanese cities were first bombed by North American B-25s from "Shangri-La" under General Doolittle's command.

ALABAMA...at Craig Field North Americaneners have flown 23,000,000 miles without a single accident due to mechanical failure.

GULF OF MEXICO...a specially equipped North American trainer in the service of Mexico here bombed and sank an Axis U-boat.

PHILIPPINES...B-25s were the first planes to bomb Jap positions here, later completing an epic round-trip flight to their bases in Australia.

SOUTH AMERICA...seven of our sister republics use North American trainers, many specially fitted with bomb racks and machine guns.

NORTH ATLANTIC...hundreds of B-25s have crossed these waters, flown to English air-dromes from which they bomb Europe.

OCCUPIED FRANCE...Germans here have learned to fear the North American P-51 Mustang, spearhead of Allied attacks on the Continent.

LIBYAN FRONT...observers here rate the B-25 tops as a medium bomber after seeing it in raids on Axis bases and supply routes.

NORTH AMERICAN PLANES of all types are serving the United Nations on most of the world's present and future battlefronts, many of which cannot be mentioned for security reasons.
BOARD OF DIRECTORS

Henry M. Hogan, Chairman

J. L. Atwood
Ernest R. Breech
Henry B. du Pont

Herbert G. Fales
James H. Kindelberger
R. A. Lambeth

OFFICERS

James H. Kindelberger . . . . . . . . . . . . . . . . . . President
J. L. Atwood . . . . . . . . . . . . . . . . . . . . . First Vice President
R. A. Lambeth . . . . . Vice President in Charge of Finance, and Treasurer
Raymond H. Rice . . . . . Vice President in Charge of Engineering
J. S. Smithson . . . . . Vice President in Charge of Manufacturing
Lisle R. Beardslee . . . . . . . . . . . . . . . . . . . . Secretary

OFFICE OF TRANSFER AGENT
1775 BROADWAY
NEW YORK, N. Y.
On December 7, 1941, North America's three plants in California, Kansas, and Texas were in full production on three types of military planes—a combat trainer of proven qualities, a single-engine fighter as yet untested in battle, and a twin-engine bomber already conceded to be among the best of its type.

In the succeeding months each type faced the hardest test of all—wartime operation under all conditions—and each type emerged on December 7, 1942, as the acknowledged world leader in its category.

The combat trainer was alone in its field. Used as the AT-6 by the Army Air Forces and as the SNJ by the U.S. Navy, it also served 23 other Allied nations as standard combat trainer and occasionally even as reconnaissance and bombardment craft. One North American trainer, serving as a light bomber with the Mexican Air Force, actually sank an enemy submarine off the coast of Mexico on July 5. One fleet of North American trainers at an Air Forces training field completed 23,000,000 miles of flying without a single accident attributable to mechanical failure. But the big story was never told in the headlines, the story of thousands of fighting pilots training in North American planes—Americans, Englishmen, Canadians, Australians, Chinese, Netherlanders—keen-nerved boys of almost every nation working toward eventual destruction of Axis power.

B-25 Mitchell bombers performed thousands of destructive missions during the year over enemy objectives throughout the South Pacific. B-25's pounded Rommel's African supply lines on land and water and contributed greatly to American successes in North-west Africa. B-25's in the service of the Russian Air Force dropped tons of explosives on German positions in Europe during the critical weeks when United Nations destiny seemed to hang in the balance over the Russian lines. Literally, North American B-25's were everywhere that the war was fought, and displayed such outstanding performance that the Office of War Information, in its report to the American people on October 19, declared, "No airplane of the same class in friendly or enemy air forces is known to equal it."

When Brig. Gen. Jimmy Doolittle and his brave airmen struck at the heart of Japan's industrial empire on April 18, they flew in North American B-25's. That exploit was the most dramatic single event in the combat record of an airplane which has, perhaps more than any other single item of United Nations equipment, heralded the beginning of an ultimately invincible United Nations offensive.

North American P-51 Mustang fighters were first announced as being in service with the British Army Cooperation Command in July. A month later the little-known North American fighter, powered with an Allison engine, took part in the great Dieppe raid, during which it met for the first time and shot down the newest Nazi fighter, the Focke-Wulf 190. On October 21 a squadron of Mustangs flown by RAF pilots made air history by attacking enemy objectives inside the German border—the first time single-engine aircraft based in Britain had penetrated Germany. The Mustangs returned without a loss.

Meanwhile great developments were being made at home with the P-51 Mustang, fitting the plane for special tactical functions. Among these developments was the installation of a Rolls Royce Merlin engine for high altitude fighting.

The Mustang being delivered to the Army Air Forces and the RAF at the end of 1942 was so markedly superior to its competition that a War Department spokesman who had just returned from England after a study of fighter planes already in action and in the process of development made this statement: "Current opinion in England among both American and English flyers is that the P-51 with the Merlin engine will be the best fighter plane for 1943."
North American B-25 Mitchells have already done yeoman service in all parts of the world.

There are SNJ combat instructors of the U.S. Navy. They are sister ships of the Air Force AT-6 and the RAF Harvard.

North America’s great P-51 Mustang fighter has been hailed as “the best fighter plane for 1943” by competent observers.
B-25's are shown nearing completion on a final assembly line at the expanded Inglewood plant.

Above—P-51 Mustang fuselages in Inglewood.

Below—Trainers on a conveyor line in Dallas.

Engines for B-25 bombers on a Kansas City assembly line.
Growth of the aircraft manufacturing industry to its wartime proportions has been ably characterized as an explosion rather than an expansion.

Through additions to present plants, erection of new plants, and almost simultaneous duplication of new plants before the roofs were weather stained through the skyrocketing of personnel employed, made possible by industrial training on an unprecedented scale—through these and many other organizational achievements North American Aviation increased its production steadily during the first year of the war.

Although little can be revealed concerning the actual volume of production of specific types, or the extent of expansion of personnel and facilities, it can be noted that total airplane units delivered during the fiscal year 1942, including all types, represented 263% of the total airplane units produced during the preceding twelve-month period.

The main plant in Inglewood, California, produced P-51 Mustang fighters and B-25 Mitchell bombers. In the Kansas City plant B-25 bombers were produced exclusively, with many sub-assemblies supplied by units of the Fisher Body Division of General Motors. North American's manufacturing unit in Dallas, Texas, was engaged primarily in production of combat trainers during 1942, although at the end of the fiscal year preliminary arrangements were being made for the production of heavy bombers and P-51 Mustang fighters in the Dallas plant.

Official recognition of North American's outstanding production achievements was made on September 5 when the Undersecretary of War announced that the two oldest North American organizations, those in California and Texas, had been awarded the joint Army-Navy "E" for excellence in production. North American Aviation thus became one of the first aircraft manufacturing firms in the nation to fly the coveted "E" flag over two plants.

Industrial problems multiplied during the year out of all proportion to the actual production increase. Among the major problems were inadequate material allocation, labor turnover caused by military separations and other factors, and adjustment of available factory space and machine facilities to increased manufacturing requirements. In all North American plants women were employed in all manufacturing departments during the year, and indications were that women would comprise more than 30% of all employees by December, 1942. Extensive use of physically handicapped persons was made during the year as another phase of North American's solution to the manpower problem. Many new employee services were introduced during the year in order that employees could put full time on their jobs without interruptions to conduct personal affairs.

Despite the many and varied problems encountered, North American maintained during the year its usual high standards of quality in workmanship—evidenced by splendid service reports from all points in the global war where North American products were utilized.
Numerous electrical and radio research projects are conducted in the North American laboratories.

This is one section of the main drafting room in North American's Inglewood plant.

A Mustang scale model is shown in the thrust of North America's new wind tunnel.

Structural engineers load structure wings to verify strength factors.

A test tube is used under high altitude conditions to test the oxygen.
Engineering and research activities were expanded constantly to keep America ahead of the enemy in technological developments. Although each of the three major airplane types delivered during the year was in production at the start of the year, the engineering staff was increased rather than decreased during the year, partially to perfect new designs which may see action in 1943 or 1944, but principally to effect improvements in current production types based on the latest information from the battle fronts and the latest results of company and governmental research. As a result, fighters and bombers leaving the assembly line week by week were superior to their predecessors in major or minor details of performance, armament, crew protection, combat utility, or serviceability.

Among new research facilities developed during the year were a wind tunnel adjoining the California plant, capable of developing a maximum wind velocity of 327 miles per hour; a new advance production unit in California housing structural testing laboratories, experimental manufacturing projects, and a large cold chamber for testing equipment at temperatures as low as 98° (F.) below zero; and new or enlarged production and experimental research laboratories.

In order to provide the fighting forces with trained representatives in the field, an extensive field service department was developed as an adjunct of the engineering department. In addition to a competent staff of company specialists stationed throughout the world, this department organized and maintained a large service school for Army Air Forces personnel at the Inglewood plant, operated on a 24-hour schedule to turn out more than 500 graduates each course thoroughly conversant with maintenance techniques on the B-25 and P-51 airplanes.

In the final analysis any evaluation of engineering and research activities during wartime must point to present or future performance in the theater of war. The results obtained by the United Nations to date with North American Aviation equipment bespeak a technical organization which will continue to do more than its share of "engineering for victory."
B-25 bombers have been on Atlantic convoy patrol since the war began.

An American pilot gives Russian airmen a few tips on operation of B-25's “somewhere in Russia.”


A squadron of B-25’s in route to bomb Marshal Erwin Rommel’s Afrika Korps in the Western Desert. B-25’s were in constant action during the great Allied drive.

On the wide Atlantic highway an RAF B-25 being ferried across passes a United Nations vessel.
A squadron of Mustangs of the RAF Army Cooperation Command on route to an objective on the continent.

A group of natives in Egypt hear an American pilot explain how the propellers of this B-25 drive the bomber forward.

A Mustang got this photo of Dieppe during the raid.

An RAF Mustang skimmed Dieppe rooftops to get this closeup.
TO OUR STOCKHOLDERS: January 21, 1943

Your company has completed the most active year of its existence, a year whose events dramatically focused the attention of the world upon engineering and production achievements that have been quietly prepared for during previous years of expansion and development.

The corporation in which you are an investor became a fighting weapon of America and the United Nations during the first year of war. America knows that it was unprepared for total war when the unexpected blow was struck at Pearl Harbor. The products of your company helped delay the crushing defeats of the first months, and are now in the vanguard of a vengeful air army which will, with cooperating land and sea units, constitute the greatest offensive force the world has yet seen.

Although news reports from the war zones have adequately described the splendid performance of North American products over enemy territory, we regret that military necessity dictates many omissions from this report insofar as present production and development are concerned. In this connection it is interesting to note that North American planes participated in six of the eight top news stories of the year, as listed by United Press, in which airplanes were utilized.

During the year covered by this report Ernest R. Breech resigned as chairman of the board of directors in order to devote full time to his new position as president of Bendix Aviation Corporation. We are pleased to notify you, however, that Mr. Breech will remain as a director and that his experience will still be utilized.

North American Aviation is devoting its full resources to the prosecution of the war, and will continue to do so until victory has been won. By the very nature of the technological battle we are fighting on drafting board and production line, and by virtue of the varied types of military aircraft we are designing and manufacturing, your organization is developing each day a greater fund of technical knowledge and practical experience—the "know-how" which translates into industrial success in war or in peace.

The consolidated net income of the company and its subsidiaries for the fiscal year ended September 30, 1942, after all charges, including provision for Federal taxes, depreciation and amortization, contingencies, etc., amounted to $10,436,413, which is equivalent to $3.04 a share on the 3,435,033 shares of capital stock of North American Aviation, Inc., outstanding. This may be compared with the net income of $6,075,954, or $1.77 a share, reported for the fiscal period ended September 30, 1941, which, however, consisted of nine months only.

In considering these figures, however, there should be borne in mind the remarks hereinafter concerning contract renegotiation and certain other matters, which may have a material effect on the amounts stated for 1942.

Cash dividends paid during the year amounted to $1.25 a share paid on December 24, 1941, representing a distribution of $4,293,791. An additional dividend of $1.00 a share has been paid since the close of the year, on November 23, 1942.

With expanding volume and rising tax rates, the corporate tax bill is increasing. Taxes for the year under report were $37,612,662 as compared with $12,915,894 for the fiscal period of nine months in 1941 and $3,867,851 for the calendar year of 1940. In relation to net income before charging such taxes but after providing for contingencies, these amounts are 78%, 68%, and 35% respectively.

In pursuance of the policy of prior years, a portion of the net income of the companies has been set aside again this year to provide for future contingencies. The amount of $1,681,594 was charged to income during the year and added to the contingency reserve, bringing the balance in the reserve to $2,602,713 at September 30, 1942. In addition,
provision of $3,506,594 was made by charges to cost of sales in order to create reserves for inventory losses and adjustments, etc.: of this amount, approximately one-third has been earmarked to cover the loss which is expected to be sustained on two contracts and the remainder is available for any presently unforeseen losses or adjustments which may arise in connection with inventories. As to depreciation and amortization, the practice of the preceding year, which is explained in a footnote to the statement of consolidated income and earned surplus, was continued for 1941-42.

Because of the pressure of war production the companies departed from the established practice of taking complete physical inventories once each year and omitted the customary stock-taking in 1942 except for a portion of the total plant. Consequently, the inventories at September 30, 1942, as reported in the accompanying financial statements are based upon book records. However, it is believed there is adequate control over inventories to assure that the amounts shown on the balance sheet are conservatively stated. As explained previously, reserves have been provided meanwhile for inventory losses or adjustments in the event such are found to exist.

One of the subsidiaries, North American Aviation, Inc., of Texas, was dissolved as of December 31, 1941. Operations at Dallas have been taken over by North American Aviation, Inc.

Substantial reductions have been made in contract prices covering airplanes and parts to be supplied to the Army Air Forces as a result of efficiency and saving in cost which your company has been able to accomplish during the year. Many of the contracts which the company has are subject to renegotiation pursuant to the Act which was adopted in the spring of 1942. The renegotiation of your company’s contracts has been assigned to the Price Adjustment Board of the Army Air Forces. The company has supplied to the Price Adjustment Board detailed figures setting forth the results of operations in the form requested by the Board. Consequently the figures which appear in this annual report may or may not be final figures, depending upon the agreement to be reached by the Price Adjustment Board and your company on this matter.

In July, 1942, the War Labor Board called a wage stabilization hearing for the major aircraft manufacturers of the West Coast. These hearings continued intermittently until October, 1942. The War Labor Board representative has recommended to the Board wage increases for the employees of the West Coast aircraft manufacturers, retroactive from the date of commencement of the hearings. Should the War Labor Board order these increases for our California operations they will have a marked effect upon our 1942 earnings.

On August 13, 1942, the board of directors of the corporation authorized certain salary increases, effective September 1, 1942. By action of the board of directors on October 22, 1942, the North American Incentive Compensation Plan was made inoperative with respect to the fiscal year of the corporation and its subsidiaries ended September 30, 1942, so that no awards were made under the plan for such year.

Proxies for the annual meeting are being solicited by the management in a later communication and it is expected that a formal notice of annual meeting, proxy statement and form of proxy will be mailed to stockholders on or about February 1, 1943.

HENRY M. HOGAN,
Chairman of the Board.

J. H. KINDELBERGER,
President.
CONSOLIDATED BALANCE SHEET

NORTH AMERICAN AVIATION, INC. (INCORPORATED)
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1942

ASSETS

CURRENT ASSETS:
Cash (including time deposits, $605,000.00) .......... $43,138,851.85
Marketable short-term notes, at amortized values (face value, $4,800,000.00) ..................... 4,792,963.54
United States Treasury Notes, Tax Series, at cost plus accrued interest ..................... 702,520.00
Accounts receivable:
United States Government departments ................ 44,409,921.57
Other trade accounts .................................. 2,372,181.83
Sundry accounts and accrued items, etc .............. 585,559.00
Inventories, at cost, less reserves for inventory losses and adjustments, $3,506,594.02—Contracts and work in progress (less cost of partial deliveries) and materials and supplies ...................... 42,235,073.03
Deposits on purchase contracts ................. 459,012.26
Total current assets .................... $138,696,083.08

AMOUNT TO BE RECEIVED FOR POST-WAR REFUND OF FEDERAL EXCESS-PROFITS TAXES ...................... 257,500.00

INVESTMENTS (including municipal bonds deposited as surety for performance of obligations, $35,829.02) .................. 36,831.02

PROPERTY, PLANT, AND EQUIPMENT:
Buildings, improvements, machinery, and equipment, at cost ................................ $ 3,864,334.97
Less reserves for depreciation and amortization .... 1,463,287.29
Remainder—Net book value .................. 2,401,047.68

DEFERRED CHARGES—Taxes, insurance, etc. .................. 2,543,359.47

TOTAL .......... $143,934,821.25

NOTES:
1. The companies have substantial contracts for war materials, renegotiation of which pursuant to existing Federal law is under discussion with the Government but has not yet been concluded. Costs incurred by the companies and billed to the Government under cost-plus-a-fixed-fee contracts are subject to review as to admissibility and have not yet been finally passed upon by the Government. There has been excluded from the sales for the year ended September 30, 1942, and the accounts receivable at that date, the amount of $4,300,000 representing the approximate billing price of work done for the Government under change orders, because agreements covering such work had not been signed by the Government at the time the books were closed as of September 30, 1942. The extent, if any, to which the foregoing matters may involve retroactive reduction or other adjustment in sales prices or fees is not presently known.

2. Following hearings held under authority of the War Labor Board during the summer of 1942 relative to stabilization of wages in the aircraft industry on the Pacific Coast, the Labor Board's representative has recommended certain retroactive wage increases. These increases, if effected, would result in a material increase in the company's costs for the year ended September 30, 1942.
CONSOLIDATED BALANCE SHEET

DELAWARE) AND SUBSIDIARY COMPANIES

BALANCE SHEET

M, 1942

LIABILITIES

CURRENT LIABILITIES:

Accounts payable ........................................... $25,564,112.75
Amount payable to the United States Government on account of contract price adjustments ................. 17,900,000.00
Taxes payable and accrued:
  Federal income and excess-profits taxes .................. 33,003,830.74
  Other taxes .............................................. 5,572,377.25
Salaries and wages payable ................................ 3,080,282.23
Other accrued liabilities .................................. 3,080,282.23
Deposits and progress billings on sales contracts ......... 33,987,181.09

Total current liabilities ................................. $119,323,215.72

RESERVE FOR CONTINGENCIES ............................. 2,602,713.47

CAPITAL STOCK AND SURPLUS:

Capital stock (authorized, 6,000,000 shares of $1.00 each; issued and outstanding, 3,435,033 shares) .......... $ 3,435,033.00
Capital surplus ............................................ 3,109,938.01
Earned surplus (since December 31, 1934) ................. 15,463,921.05

Total capital stock and surplus ......................... 22,008,892.06

TOTAL ................................. $143,934,821.25

NOTES: 3. Title to or a lien upon a substantial portion of the inventories is held by the United States Government, which has made progress payments pursuant to the terms of sales contracts. The inventories shown above do not include work being performed for the Government under cost-plus-a-fixed-fee contracts; expenditures for account of the Government under these contracts are charged to accounts receivable as they are incurred, and concurrently are taken up as sales, together with the accrued fees thereon, and cost of sales.

4. Title to certain plant facilities used by the companies is held by the United States Government. The accounts of the companies do not include the cost of such facilities or provision for depreciation thereof.

5. There are various claims and suits pending against the companies, none of which in the opinion of their counsel will result in any substantial loss.
STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS
FOR THE YEAR ENDED SEPTEMBER 30, 1942

SALES OF AIRPLANES, PARTS, ETC. ......................... $242,595,085.61
COST OF SALES ............................................. 195,417,973.01

GROSS PROFIT ON SALES ..................................... $ 47,177,112.60

DEDUCT:
  Federal capital-stock and State franchise taxes ................ $ 2,279,438.13
  General administrative and service expenses .................. 1,425,984.42

  Total ...................................................... 3,705,422.55

PROFIT FROM OPERATIONS .................................... $ 43,471,689.05

INCOME CREDITS:
  Royalty and license agreements ................................ $ 217,500.00
  Interest and discounts ..................................... 488,713.27
  Scrap sales, etc. (net) .................................... 682,554.16

  Total ...................................................... 1,388,767.43

GROSS INCOME ................................................ $ 44,860,456.48

INCOME CHARGE— Provision for contingencies ................ 1,681,594.02

NET INCOME BEFORE PROVISION FOR FEDERAL INCOME AND
EXCESS-PROFITS TAXES ........................................ $ 43,178,862.46

PROVISION FOR FEDERAL INCOME AND EXCESS-
PROFITS TAXES:
  Normal income and surtaxes ................................ $ 6,810,000.00
  Excess-profits taxes (less post-war refund, $257,500.00) .... 25,932,500.00

  Total ...................................................... 32,742,500.00

NET INCOME .................................................... $ 10,436,362.46

EARNED SURPLUS, OCTOBER 1, 1941 ............................ 9,321,298.84

GROSS EARNED SURPLUS ........................................ $ 19,757,712.30
LESS DIVIDEND PAID ($1.25 a share) .......................... 4,293,791.25

EARNED SURPLUS, SEPTEMBER 30, 1942 (since December 31, 1934) $ 15,463,921.05

NOTES:
1. The notes appearing on the balance sheet are to be considered also in relation to the
statement of income and earned surplus.
2. The provision for depreciation and amortization charged to costs and expenses for the
year amounted to $533,722.34. This includes amortization, based upon a five-year period,
amounting to $135,536.28 applicable to the cost of emergency plant facilities acquired
since June 10, 1940, and $209,950.97 (in addition to normal depreciation) applicable
to buildings and leasehold improvements acquired prior to that date.
North American Aviation, Inc.:

We have examined the consolidated balance sheet of North American Aviation, Inc., and subsidiary companies as of September 30, 1942, and the related statement of consolidated income and earned surplus for the year ended that date, have reviewed the accounting procedures of the companies, and have examined their accounting records and other evidence in support of such financial statements. Except as to the omission of physical tests of inventories, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all accepted auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control.

Our examination of the inventories did not include physical tests of quantities, as in prior years, because in the interest of continued war production the plants were not shut down to permit the taking of physical inventories. The inventory amounts shown in the accompanying consolidated balance sheet represent opening inventories, plus materials (at cost), direct labor and expense, and plant overhead, less deliveries of airplanes, parts, etc. (at standard cost for materials and accumulated costs for other items). We have reviewed the systems of physical and accounting control over inventories and have also reviewed the records relating to the aforementioned costs on which the ending inventories and the cost of sales are based. It is our opinion that the accounting records and controls are adequate, and, in so far as it could be determined without taking physical inventories, the inventories at September 30, 1942, appear to be fairly stated.

In our opinion, subject to the remarks in the preceding paragraph, the accompanying consolidated balance sheet and statement of consolidated income and earned surplus fairly present, in the light of the explanation in Notes 1 and 2 to the balance sheet, the financial condition of the companies at September 30, 1942, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

January 15, 1943