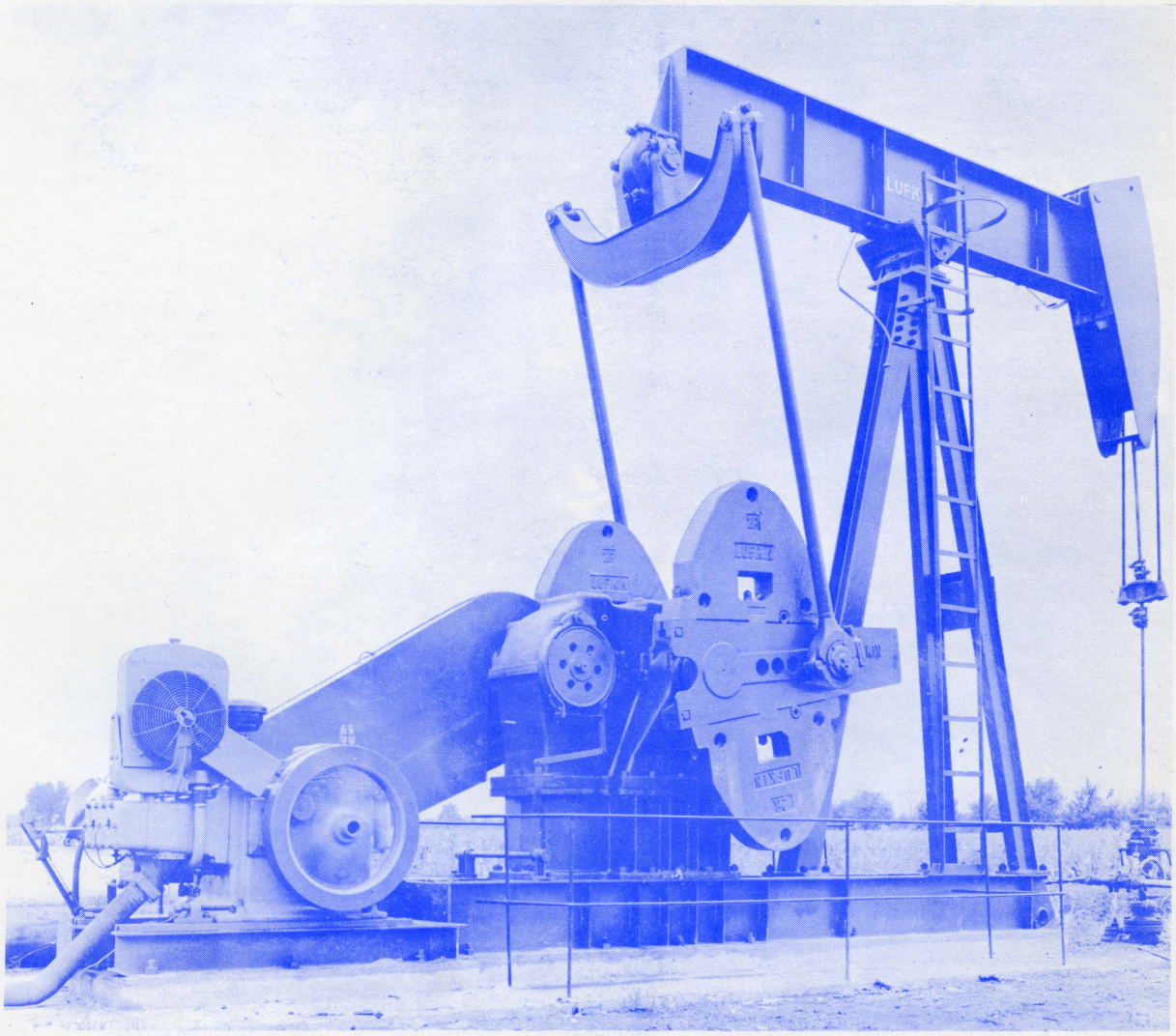
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1958

ANNUAL REPORT



LUFKIN FOUNDRY & MACHINE COMPANY

LUFKIN, TEXAS

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LUFKIN FOUNDRY & MACHINE COMPANY

DIRECTORS

* A. E. CUDLIPP	* L. A. LITTLE
* S. W. HENDERSON, JR.	* E. P. TROUT
J. H. KURTH, JR.	* W. W. TROUT
* E. L. KURTH	JACQUES WIENER
SAMSON WIENER	

* EXECUTIVE COMMITTEE

OFFICERS

WALTER W. TROUT	President
J. H. KURTH, JR.	Vice President
A. E. CUDLIPP	Vice President
L. A. LITTLE	Vice President
E. P. TROUT	Vice President
M. L. WILKINSON	Secretary
W. A. KIRKLAND	Treasurer
H. L. DYER	Assistant Secretary

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TO THE STOCKHOLDERS OF LUFKIN FOUNDRY & MACHINE COMPANY

Down through the years, your company has been audited by local certified public accountants, and we have been well pleased with their audits. Because your company is constantly growing and now has three subsidiary companies: namely, Lufkin Machine Company Limited of Canada, Lufkin Overseas of Venezuela, and Lufkin International, a Western Hemisphere Corporation, your directors felt that a nationwide concern with connections in various foreign countries would be of advantage to the stockholders.

If at some future date it was deemed advisable to create a broader market for Lufkin Foundry stock, the Securities and Exchange Commission would require several annual audits by some nationally known concern.

The year 1958 was the nineteenth continuous year that a cash dividend has been paid. Since 1924 a cash dividend was paid every year except 1932, 1933, and 1939. Your dividend during the past year was $7.00 per share.

Your earnings last year were $16.31 per share, compared to an average per share earnings over the past five years, based on current number of shares, of $16.18. The recession affected the oil business more sharply than most other lines, and competition was very keen for the available business. This competition caused a softening in the price of pumping units and had a definite affect on our earnings.

The book value of your stock is $172.65 compared to $163.76 a year ago. As in the recent past, your company has no long-term indebtedness and during the year retired completely our Notes Payable Account of $1,230,000.00.

The current ratio is 5.87 compared to 3.92 the previous year.

Capital expenditures for the past year consisted of the completion of our Machinery Assembly and Shipping Building, and the purchase of only a few relatively small machine tools.

During 1958, our Trailer volume increased approximately 5% over the previous year, while our oilfield machinery business was off substantially. Industrial and marine gears showed a substantial gain. Our Mill Supply business showed a slight increase as did our engine business.

In our letter to you last year, we estimated that our volume in 1958 would be about 15% less than the previous year, and this is almost exactly what happened.

The outlook for 1959, in our opinion, is very encouraging. Additional trailer branches were opened last year in Lubbock and Oklahoma City and are beginning to show good results. Our new San Antonio and Shreveport branches were opened in 1957, and last year was the first full year of operation. Our Trailer organization is young and aggressive.

The oil companies are forecasting an increase in drilling, and we expect our pumping unit volume to show a reasonable increase, and we hope at better prices. Additional effort is being made in our Industrial and Marine Gear Department, and we expect a substantial increase in this line of equipment. Long range, we expect this department to become a major part of our business.

Your company has a continuing program of research on new materials for possible use in our equipment, as well as improved design. We are constantly devoting effort towards finding new products to add to our line. Your management believes that proper diversification will insure the continued future growth of your company.

Sincerely yours,

W. W. Trout

W. W. Trout
President

March 3, 1959

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LUFKIN FOUNDRY & MACHINE C

CONSOLIDATED BALANCE SHE

ASSETS

CURRENT ASSETS:		
Cash		$ 1,240,813
Accounts receivable, less reserve for uncollectible accounts of $57,116		1,604,183
Current installments of conditional sales contracts receivable		1,480,000
Inventories, at lower of average cost or market		6,982,546
Total current assets		$11,307,542
CONDITIONAL SALES CONTRACTS RECEIVABLE, due in installments, net of $210,623 unearned interest and $50,000 reserve for losses	$2,580,775	
Less -- Current installments shown above	1,480,000	1,100,775
PROPERTY, PLANT, AND EQUIPMENT, at cost	$7,073,659	
Less - Reserve for depreciation	2,911,733	4,161,926
OTHER ASSETS		30,463
		$16,600,706

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COMPANY AND SUBSIDIARIES

EET -- DECEMBER 31, 1958

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	$ 711,440
Reserve for income taxes	1,214,277
Total current liabilities	$ 1,925,717

CONTINGENT LIABILITY, conditional sales contracts sold to banks with recourse $457,905

CAPITAL STOCK AND SURPLUS:

Common stock, par value $100 per share; 85,000 shares authorized, issued, and outstanding	$8,500,000	
Earned surplus	6,174,989	$14,674,989
		$16,600,706

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LUFKIN FOUNDRY & MACHINE COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1958

NET SALES	$22,822,830
COST OF GOODS SOLD	16,206,043
Gross income	$ 6,616,787
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,525,960
Operating income	$ 3,090,827
OTHER INCOME (DEDUCTIONS):	
Interest income	$ 92,752
Interest expense	(32,375)
Provision for uncollectible accounts and losses	(107,116)
Other income	109,688
	62,949
Net income before taxes on income	$ 3,153,776
PROVISION FOR TAXES ON INCOME	1,767,678
Net income	$ 1,386,098
EARNED SURPLUS, beginning of year	5,383,891
	$ 6,769,989
LESS - Cash dividends -- $7 per share	595,000
EARNED SURPLUS, end of year	$ 6,174,989

(Depreciation included in statement of consolidated income amounted to $519,342)

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ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

1700 BANK OF THE SOUTHWEST BUILDING
HOUSTON 2

February 6, 1959

To the Board of Directors,
Lufkin Foundry and Machine Company:

We have examined the consolidated balance sheet of Lufkin Foundry and Machine Company (a Texas corporation) and subsidiaries as of December 31, 1958, and the related statement of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and earned surplus present fairly the financial position of Lufkin Foundry and Machine Company and subsidiaries as of December 31, 1958, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

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