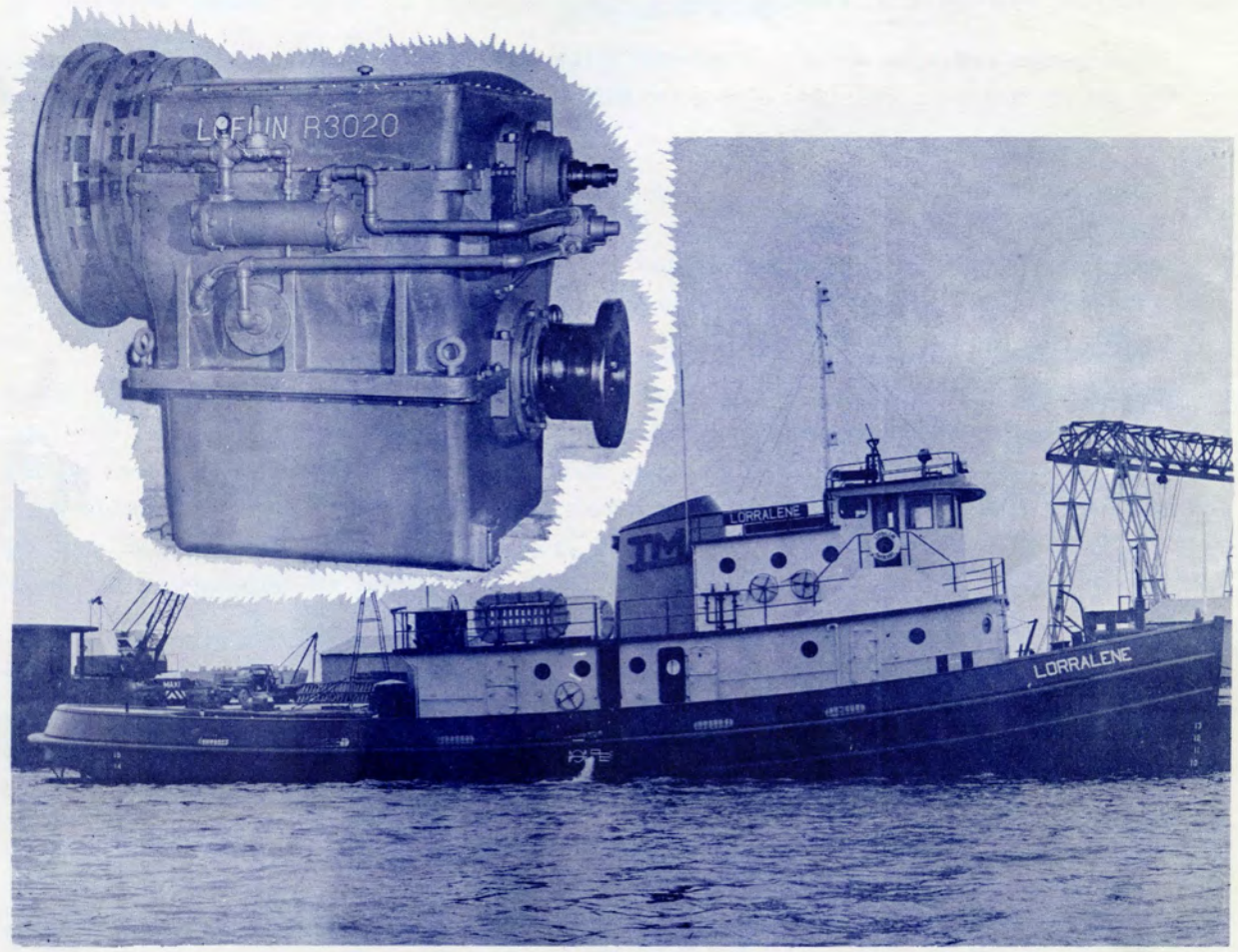
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1959

ANNUAL REPORT



LUFKIN FOUNDRY & MACHINE COMPANY

LUFKIN, TEXAS

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LUFKIN FOUNDRY & MACHINE COMPANY

DIRECTORS

*A. E. CUDLIPP
*S. W. HENDERSON, JR.
J. H. KURTH, JR.
*E. L. KURTH
*L. A. LITTLE
*E. P. TROUT
*W. W. TROUT
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
W. A. KIRKLAND	Secretary
H. L. DYER	Treasurer

SALES OFFICES

Machinery Division

Anaco, Venezuela
Bakersfield, California
Buenos Aires, Argentina
Campbellsville, Ky.
Casper, Wyoming
Chicago, Illinois
Cleveland, Ohio
Corpus Christi, Texas
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
Effingham, Illinois
Farmington, N. M.
Great Bend, Kansas
Hobbs, New Mexico
Houston, Texas
Kilgore, Texas
Lafayette, Louisiana
La Paz, Bolivia
Los Angeles, Calif.
Maracaibo, Venezuela
Mexico D.F., Mexico
Midland, Texas
Natchez, Mississippi
New York, New York
Odessa, Texas
Oklahoma City, Okla.
Pampa, Texas
Regina, Sask., Canada
Ri De Janeiro, Brazil
Shreveport, La.
Sidney, Montana
Sterling, Colorado
Talara, Peru
Tulsa, Oklahoma
Wichita Falls, Texas

Trailer Division

Dallas, Texas
Houston, Texas
Waco, Texas
San Antonio, Texas
Lubbock, Texas
Bossier City, La.
Oklahoma City, Okla.
Birmingham, Alabama
Kansas City, Kansas
Memphis, Tennessee
Jackson, Mississippi
Carthage, Mo.

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TO THE STOCKHOLDERS

The year 1959 was in many ways an excellent one for your company. In total sales, this was our record year. While our statements indicate that our sales were slightly below our peak year of 1956, this is only because of a change in accounting methods, recommended by our auditors, in which the two years were figured on a slightly different basis.

Our commercial and marine gear volume was the best in our history, as was our engine and trailer business.

Our Trailer Division volume showed an increase of approximately 24% over the previous year. We are now opening a new trailer branch in Memphis and expect to open a new branch shortly in Birmingham. We are highly optimistic for a continuing growth, not only in the trailer industry but of our ability to obtain a greater share of the available business.

Our pumping unit volume was substantially increased over the previous year, but the prices on this commodity continue to be soft with continual price-cutting within the industry.

The oil industry forecast for 1960 calls for a drilling program almost identical to that of 1959 which would indicate another good year for our pumping units. We have always had a good export volume, and it is our belief that we will be increasingly dependent on foreign business over the coming years. We are expanding our efforts in this direction.

Your company last year made substantial capital expenditures for a number of new, large tools which will enable us to get into the large gear reducer business. We are now equipped to cut 10' diameter gears, whereas we formerly were limited to only 5'. We are putting more effort into industrial and marine gear sales and expect this department to show substantial growth. It will take time, however, to develop volume in large gears and get the full usage of our new large tools. Your company spent approximately $590,000 more than depreciation for capital equipment.

You will be glad to know that ductile iron is getting wider acceptance as a gear material. The American Petroleum Institute has tentatively approved it as being equal to steel for this purpose, and we believe it is even better. It costs less than steel, and there is the added advantage of our making these gear blanks in our own foundry instead of having to purchase steel from outside sources.

Your company has a continuing program of research and development. This last year we added a new engine considerably larger than anything we have offered in the past. Improvement in design and materials used in our trailers and pumping units, as well as methods of manufacture, we believe, are insuring the continued growth of your company.

In October a two-year contract was negotiated with our union. Wages were adjusted to maintain the general level prevailing in our area. The relationship between the company and its employees is excellent.

The book value of your stock increased from $172.65 to $183.00 per share, and your current ratio is 4.76. Earnings per share in 1959 were $18.34 compared to $16.31 the previous year. We have no long term indebtedness.

Sincerely yours,

W. W. Trout
President

February 22, 1960

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LUFKIN FOUNDRY & MACHINE CO

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:		
Cash		$ 1,267,788
Accounts receivable, less reserve for uncollectible accounts of $70,000		2,735,594
Current installments of conditional sales contracts receivable		1,433,376
Inventories, at lower of average cost or market		7,776,834
Total current assets		$13,213,592
CONDITIONAL SALES CONTRACTS RECEIVABLE, due in installments, net of $201,376 unearned interest and $70,000 reserve for losses	$1,765,371	
Less - Current installments shown above	1,433,376	331,995
PROPERTY, PLANT, AND EQUIPMENT, at cost	$8,224,721	
Less - Reserve for depreciation	3,473,553	4,751,168
OTHER ASSETS		34,231
		$18,330,986

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COMPANY AND SUBSIDIARIES

HEET - DECEMBER 31, 1959

LIABILITIES

CURRENT LIABILITIES:		
5% notes payable to banks		$ 840,000
Accounts payable and accrued liabilities		1,082,397
Reserve for income taxes		855,010
Total current liabilities		$ 2,777,407

CONTINGENT LIABILITY, conditional sales contracts sold with recourse $1,850,000

CAPITAL STOCK AND EARNED SURPLUS:		
Common stock, par value $100 per share; 85,000 shares authorized, issued, and outstanding	$8,500,000	
Earned surplus	7,053,579	15,553,579
		$18,330,986

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LUFKIN FOUNDRY & MACHINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1959

NET SALES	$27,132,261
COST OF GOODS SOLD	20,454,903
Gross income	$ 6,677,358
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	3,676,566
Operating income	$ 3,000,792
OTHER INCOME (DEDUCTIONS):	
Interest income	$ 164,916
Interest expense	(29,787)
Provision for uncollectible accounts and losses	(170,280)
Other income	150,811
	$ 115,660
Net income before taxes on income	$ 3,116,452
PROVISION FOR TAXES ON INCOME	1,557,862
Net income	$ 1,558,590
EARNED SURPLUS, beginning of year	6,174,989
	$ 7,733,579
LESS - Cash dividends - $8 per share	680,000
EARNED SURPLUS, end of year	$ 7,053,579

(Depreciation included in consolidated statement of income amounted to $620,331.)

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ARTHUR ANDERSEN & CO.

1700 BANK OF THE SOUTHWEST BUILDING
HOUSTON 2

February 10, 1960

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, 1959, and the related consolidated statement of 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 consolidated statement of income and earned surplus present fairly the financial position of Lufkin Foundry and Machine Company and subsidiaries as of December 31, 1959, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

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