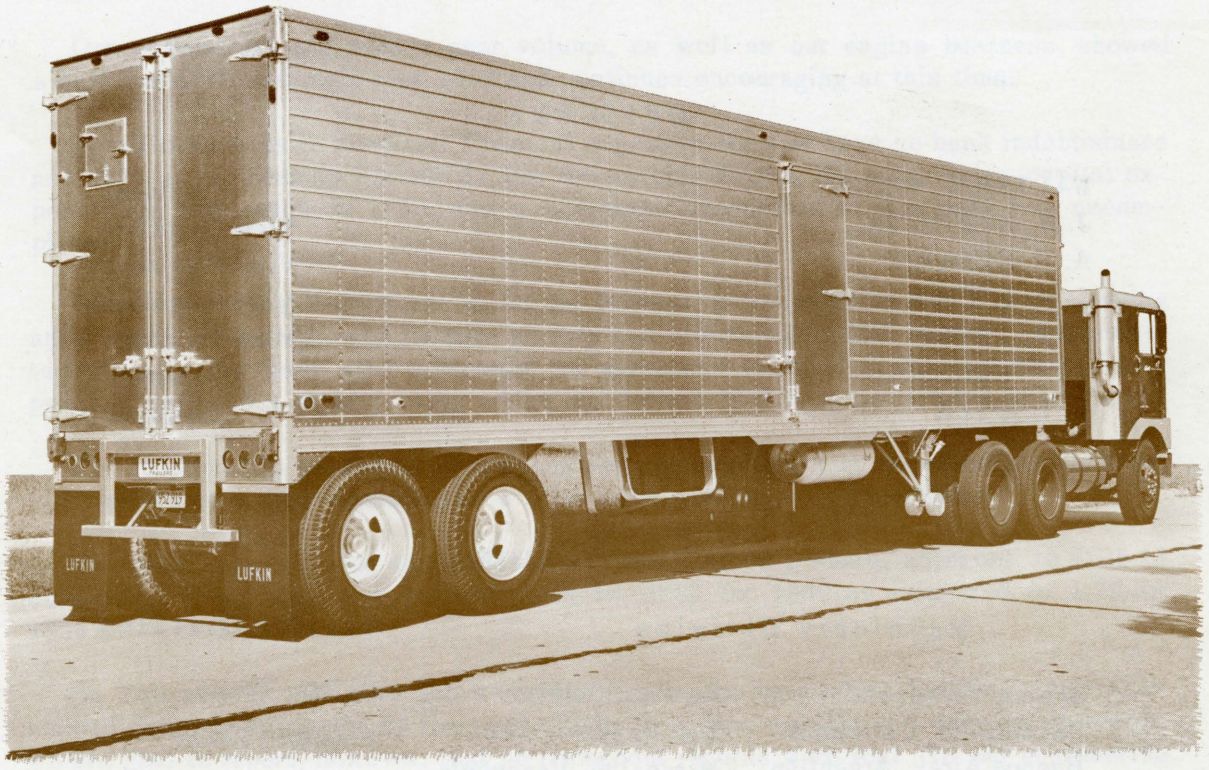
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1960
ANNUAL REPORT



LUFKIN FOUNDRY & MACHINE COMPANY
LUFKIN, TEXAS

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LUFKIN FOUNDRY AND MACHINE COMPANY

DIRECTORS

*A. E. CUDLIPP
*S. W. HENDERSON, JR.
J. H. KURTH, JR.
*E. L. KURTH (Deceased)
*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
Casper, Wyoming
Chicago, Illinois
Cleveland, Ohio
Corpus Christi, Texas
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
Farmington, N. M.
Great Bend, Kansas
Hobbs, New Mexico
Houston, Texas
Kilgore, Texas
Lafayette, Louisiana
La Paz, Bolivia
Los Angeles, Calif.
Maracaibo, Venezuela
Midland, Texas
Natchez, Mississippi
New York, New York
Odessa, Texas
Oklahoma City, Okla.
Regina, Sask., Canada
Rio De Janeiro, Brazil
Shreveport, La.
Sidney, Montana
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

Sales of $22,429,467.00 on a consolidated basis for 1960 were 17.3% below the total sales for the prior year. Earnings totalled $789,173.00 in 1960, or $6.19 per share. Dividends of $3.00 per share (based on the present 127,500 shares) were paid during 1960, compared to $5.33 adjusted for the same number of shares in 1959.

Our volume in trailers and pumping units was off substantially due to the generally depressed condition of the oil industry. Prices of pumping units, which have been softening since 1958, nose-dived the latter part of last year to the point where we believe that all manufacturers were losing money on them. Prices began firming up about December 1, and since the first of 1961 there seems to have been little or no price cutting under published prices. There are many indications of some recovery beginning during 1961 for the domestic oil business, and we hope to at least maintain our last year's volume. If prices continue firm, our profit picture should improve this year.

Our commercial and marine gear volume, as well as our engine business, showed a substantial improvement over 1959 and continues encouraging at this time.

Your Company is in excellent financial condition. We now have no bank indebtedness and have ample cash to operate in the foreseeable future. No appreciable capital expenditures were made in 1960, and a substantial reduction in inventory was accomplished.

Our Engineering Department is in the process of redesigning our line of pumping units which we believe will improve quality and effect substantial savings in manufacturing costs. We have also completed an agreement to build a supplementary line of pumping units on a royalty basis which we believe will help our volume in the future.

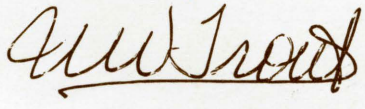
The relationship between the company and its employees is excellent at this time, although we have been operating on a short work week in most departments.

The book value of your stock increased from $121.99 a share, adjusted, to $125.18 during the year, and your current ratio is 10.83 for 1960 as compared to 4.76 for 1959.

On February 5, 1961, we had a serious fire in our main office building. Most of the second floor was destroyed by fire, and all the first floor was heavily damaged by water. We are glad to report, however, that no permanent records were lost. All our engineering drawings and financial records were in fire-proof vaults. This loss is covered by insurance except the first $25,000.00, as we have a deductible policy for this amount for each fire loss.

The death of Mr. E. L. Kurth in November ended his tenure of thirty-eight years on our Board of Directors. He was one of our most interested directors, and his advice and counsel will be missed by the management of this company.

Sincerely yours,



Walter W. Trout
President

February 24, 1961

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LUFKIN FOUNDRY AND MACHINE

CONSOLIDATED BALANCE SHEE

ASSETS

CURRENT ASSETS:		
Cash		$ 1,303,908
Accounts receivable, less reserve for uncollectible accounts of $70,000		2,708,955
Current installments of notes and conditional sales contracts receivable		530,948
Inventories, at lower of average cost or market		6,940,020
Total current assets		$11,483,831
NOTES AND CONDITIONAL SALES CONTRACTS RECEIVABLE, due in installments, net of $175,902 unearned interest and $70,000 reserve for losses	$1,722,824	
Less - Current installments shown above	530,948	1,191,876
PROPERTY, PLANT, AND EQUIPMENT, at cost	$8,333,106	
Less - Reserve for depreciation	4,024,202	4,308,904
OTHER ASSETS		36,012
		$17,020,623

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E COMPANY AND SUBSIDIARIES

ET - DECEMBER 31, 1960

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable and accrued liabilities		$ 643,712
Reserve for income taxes		416,659
Total current liabilities		$ 1,060,371

CONTINGENT LIABILITY, conditional sales contracts sold with recourse, $900,000

CAPITAL STOCK AND EARNED SURPLUS:		
Common stock, par value $100 per share;		
127,500 shares authorized, issued, and outstanding	$12,750,000	
Earned surplus	3,210,252	15,960,252
		$17,020,623

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LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1960

NET SALES		$22,429,467
COST OF GOODS SOLD		17,367,293
Gross income		$ 5,062,174
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES		3,686,887
Operating income		$ 1,375,287
OTHER INCOME (DEDUCTIONS):		
Interest income	$ 161,997	
Interest expense	(70,987)	
Provision for uncollectible accounts and losses	(145,452)	
Other income	98,328	43,886
Net income before taxes on income		$ 1,419,173
PROVISION FOR TAXES ON INCOME		630,000
Net income		$ 789,173
EARNED SURPLUS, beginning of year		7,053,579
		$ 7,842,752
LESS:		
Cash dividends	$ 382,500	
Transferred to capital stock in connection with 1-1/2 for one stock split	4,250,000	4,632,500
EARNED SURPLUS, end of year		$ 3,210,252

(Depreciation included above amounted to $650,986.)

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ARTHUR ANDERSEN & CO.

1700 BANK OF THE SOUTHWEST BUILDING
HOUSTON 2

February 15, 1961

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, 1960, 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, 1960, 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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