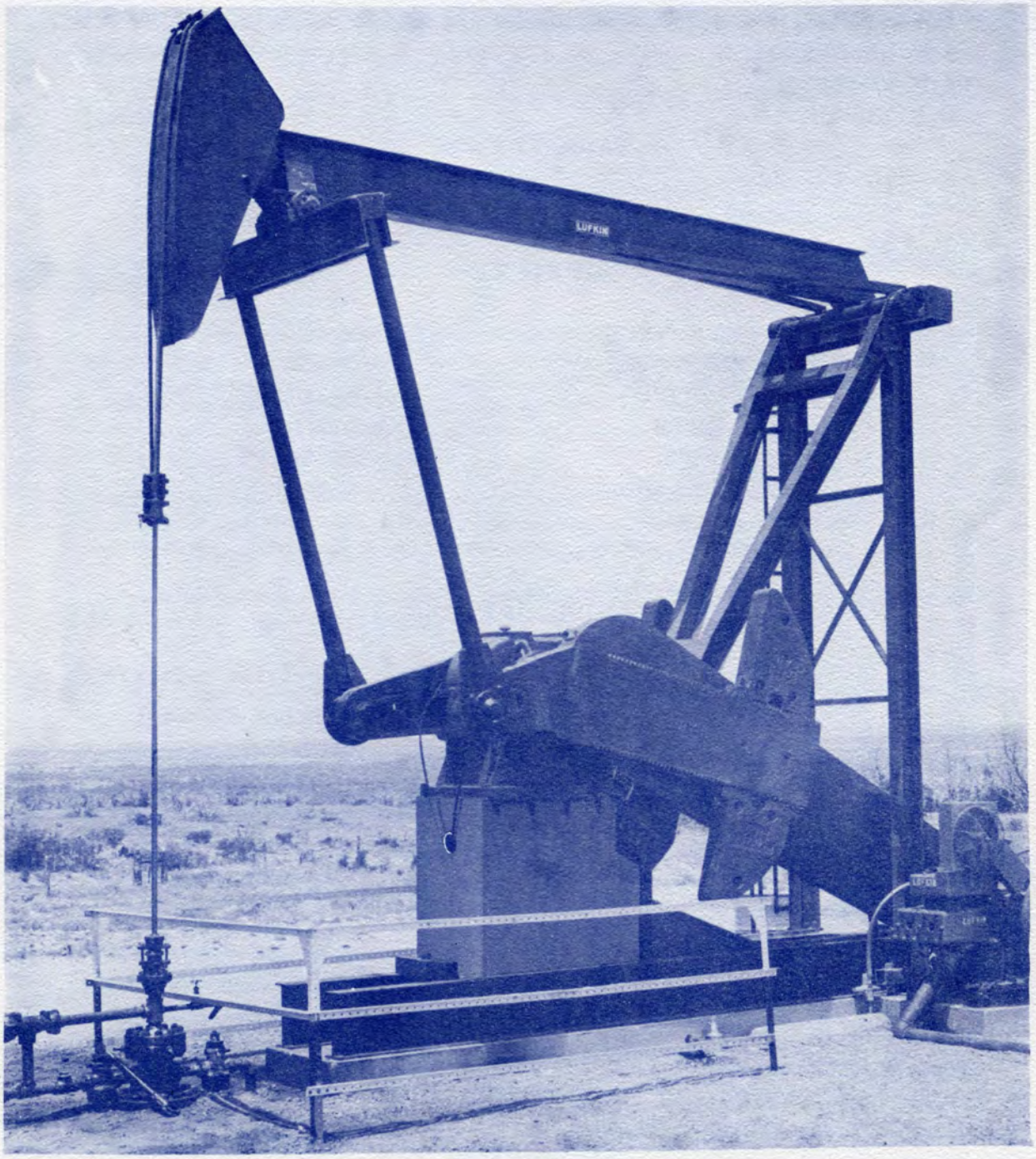
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1961

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.
M. E. 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
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, Louisiana
Sidney, Montana
Talara, Peru
Tulsa, Oklahoma
Wichita Falls, Texas

Trailer Division

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

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STATEMENT TO THE STOCKHOLDERS

After the poorest first quarter volume in more than twenty years, we ended the year with slightly more sales than 1960. Sales for 1961 of $21,847,079.00 were slightly above the previous year after reclassification of manufacturer's excise taxes and repossessions were deducted from the 1960 figures to make the two years comparable.

Net earnings of $7.10 per share were an improvement over $6.20 the previous year. A dividend of $3.25 per share was paid.

Our book value is $129.02 per share compared to $125.18 the previous year. The current ratio is 5.31.

We had some unusually heavy expense during the year, resulting from the loss of our main office by fire on February 5, and the extra expense involved in the installation of an I.B.M. accounting system. Both resulted in a lot of overtime and considerable disorganization.

Our only major addition to capital investment was the erection of a new trailer division office building.

On December 28, we executed an agreement with Bethlehem Steel Company to build all their pumping units and general purpose pumps here in Lufkin. We have purchased all their inventory and some machine tools which will be required to do this work. The note obligations on the statement was a result of this new acquisition. Bethlehem has closed down their Tulsa manufacturing plant but has retained their oilfield supply stores and sales organization and will continue to sell their equipment as before.

It is no small job to handle and absorb an estimated 300 trailer loads of material and equipment into our plant and get into full scale manufacturing of Bethlehem products. We have made an immediate start, but it will require several months to get into full production.

Bethlehem has been a major factor in the pumping unit field. This additional volume will be handled without a proportionate increase in our overhead.

Early in the year, we started the design and manufacture of a special pumping unit known as the Mark II on a royalty basis. The acceptance of this new unit has exceeded our expectations and has helped us acquire some new customers that we were never able to sell before.

We pointed out last year that we were in the process of redesigning our pumping units to not only improve quality but to cut manufacturing costs. This job is virtually complete, and we are already convinced that we have accomplished what we set out to do.

Our trailer volume was lower than the previous year. Competition was very keen and prices were soft. A good increase in volume is indicated by the industry in 1962, and this should insure a firming up of selling prices.

In October, we negotiated a two-year contract with the union. Our labor relations have been excellent during the past year.

The year 1962 is starting out fairly strong, and present indications are that we will have increased volume in 1962 in every major line that we manufacture.

Sincerely yours,

Walter W. Trout
President

February 26, 1962

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LUFKIN FOUNDRY AND MACHINE C

CONSOLIDATED BALANCE SHEET --

ASSETS	1961	1960
CURRENT ASSETS:		
Cash	$ 1,367,180	$ 1,303,908
Accounts receivable, less reserve of $75,000 in 1961 and $70,000 in 1960	2,410,406	2,408,955
Current installments on notes and conditional sales contracts receivable	1,263,931	830,948
Inventories, at lower of average cost or market	8,885,175	6,940,020
Total current assets	$13,926,692	$11,483,831
INSTALLMENT NOTES AND CONDITIONAL SALES CONTRACTS RECEIVABLES, net of unearned interest of $126,451 in 1961 and $175,902 in 1960 and reserve for losses of $125,000 in 1961 and $70,000 in 1960	$ 2,423,928	$ 2,022,824
Less – Current installments shown above	1,263,931	830,948
	$ 1,159,997	$ 1,191,876
PROPERTY, PLANT, AND EQUIPMENT, at cost	$ 8,751,652	$ 8,333,106
Less – Reserve for depreciation	4,508,677	4,024,202
	$ 4,242,975	$ 4,308,904
OTHER ASSETS AND DEFERRED CHARGES	$ 72,852	$ 36,012
	$19,402,516	$17,020,623

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NE COMPANY AND SUBSIDIARIES

ET -- DECEMBER 31, 1961 AND 1960

LIABILITIES	1961	1960
CURRENT LIABILITIES:		
Current installments on notes payable	$ 400,000	$ –
Accounts payable and accrued liabilities	1,518,951	643,712
Reserve for income taxes	703,045	416,659
Total current liabilities	$ 2,621,996	$ 1,060,371
4% NOTES PAYABLE, due $100,000 quarterly, less current installments shown above	$ 330,000	$ –
CONTINGENT LIABILITY, notes and conditional sales contracts sold with recourse, $760,000		
CAPITAL STOCK AND EARNED SURPLUS:		
Common stock, par value $100 per share; 127,500 shares authorized, issued, and outstanding	$12,750,000	$12,750,000
Earned surplus	3,700,520	3,210,252
	$16,450,520	$15,960,252
	$19,402,516	$17,020,623

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LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

FOR THE YEARS ENDED DECEMBER 31, 1961 AND 1960

	1961	1960
NET SALES	$21,847,079	$21,693,336
COST OF GOODS SOLD	16,329,778	16,631,162
Gross income	$ 5,517,301	$ 5,062,174
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	3,764,911	3,686,887
Operating income	$ 1,752,390	$ 1,375,287
OTHER INCOME (DEDUCTIONS):		
Interest income	168,128	161,997
Interest expense	–	(70,987)
Provision for uncollectible accounts and losses	(256,811)	(145,452)
Other income	110,936	98,328
Net income before taxes on income	$ 1,774,643	$ 1,419,173
PROVISION FOR TAXES ON INCOME	870,000	630,000
Net income	$ 904,643	$ 789,173
EARNED SURPLUS, beginning of year	3,210,252	$ 7,053,579
	$ 4,114,895	$ 7,842,752
LESS:		
Cash dividends	(414,375)	(382,500)
Transferred to capital stock in connection with 1–1/2 for one stock split	–	(4,250,000)
EARNED SURPLUS, end of year	$ 3,700,520	$ 3,210,252

(Depreciation included above amounted to $576,473 in 1961, and $650,986 in 1960.)

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ARTHUR ANDERSEN & CO.

1700 BANK OF THE SOUTHWEST BUILDING
HOUSTON 2

February 8, 1962

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, 1961, 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, 1961, 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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