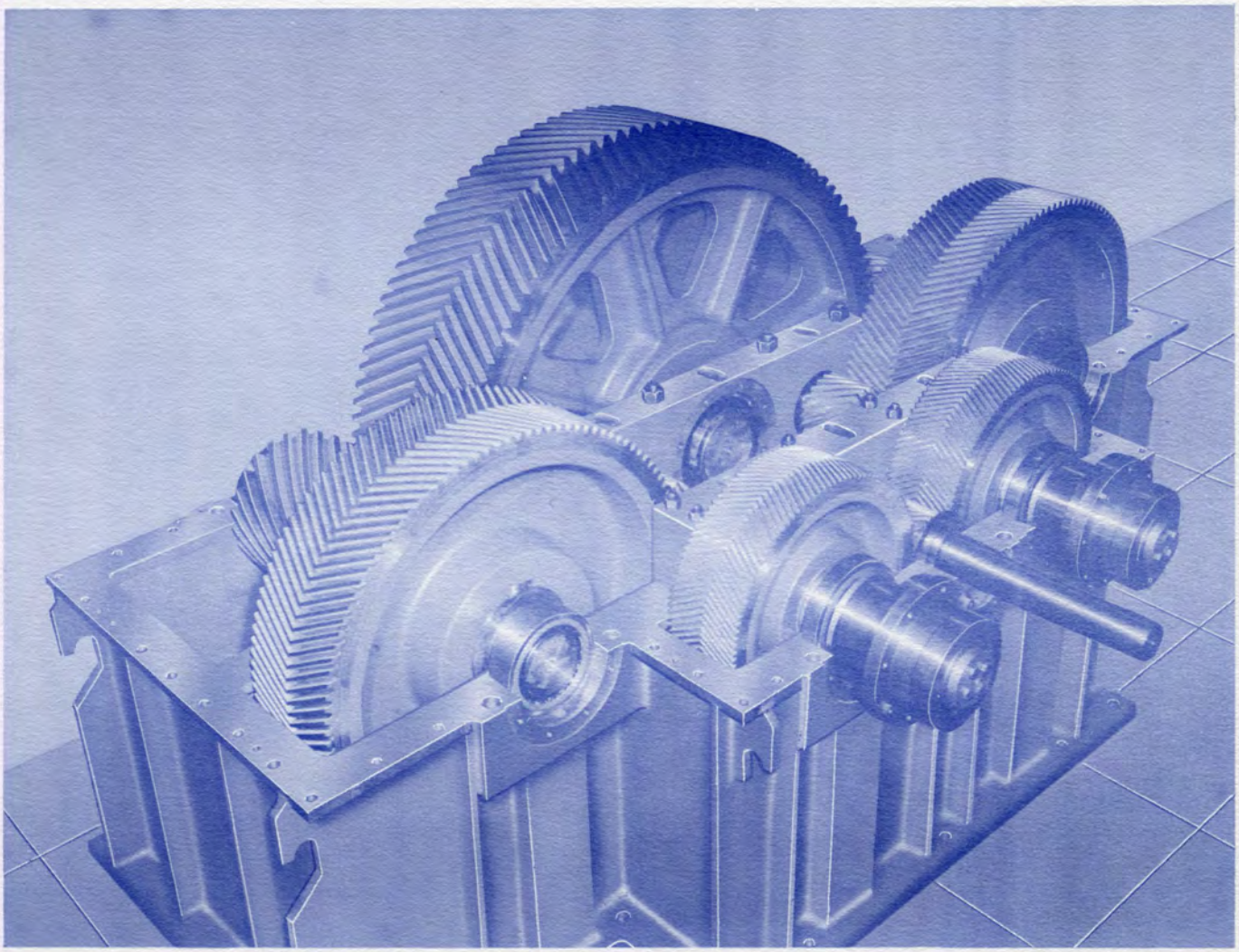
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1965
ANNUAL REPORT



Articulated triple reduction gear for Louisiana Sugar Mill, TC-4421, 508 HP, 114:1 ratio, 6 RPM output, 12 feet long, weighs 50,000 lbs.; one of five in Louisiana and five in Florida.

LUFKIN FOUNDRY & MACHINE COMPANY
LUFKIN, TEXAS

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LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES

Lufkin Foundry and Machine Company International, Maracaibo, Venezuela
Lufkin Machine Company, Ltd., Edmonton, Alberta, Canada
Lufkin Overseas Corporation, S.A., Caracas, Venezuela

DIRECTORS

*S. W. HENDERSON, JR.
*J. H. KURTH, JR.
M. E. KURTH
*L. A. LITTLE
R. L. POLAND
*E. P. TROUT
*W. W. TROUT
*J. L. WIENER
SAMSON WIENER

*Executive Committee

OFFICERS

W. W. TROUT	President
L. A. LITTLE	Executive Vice-President
E. P. TROUT	Executive Vice-President
J. H. KURTH, JR.	Vice-President
C. W. ALEXANDER	Vice-President
J. B. HOPPER	Vice-President
C. D. RICHARDS	Vice-President
C. J. SCHULLER	Vice-President
W. A. KIRKLAND	Secretary
H. L. DYER	Treasurer

SALES OFFICES

Machinery Division

Anaco, Venezuela
Ankara, Turkey
Bakersfield, California
Benghazi, Libya
Bogota, Colombia
Buenos Aires, Argentina
Calgary, Alta., Canada
Casper, Wyoming
Crystal Lake, Illinois
Cleveland, Ohio
Corpus Christi, Texas
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
Estevan, Sask., Canada
Farmington, N. M.
Great Bend, Kansas
Hobbs, New Mexico
Houston, Texas
Kilgore, Texas
Kuwait, Kuwait
Lafayette, Louisiana
La Paz, Bolivia
London, England
Los Angeles, Calif.
Maracaibo, Venezuela
Mexico City, Mexico
Midland, Texas
Natchez, Mississippi
New York, New York
Odessa, Texas
Oklahoma City, Okla.
Pampa, Texas
Pittsburgh, Penn.
Rio De Janeiro, Brazil
San Francisco, California
Shreveport, Louisiana
Sidney, Montana
Talara, Peru
Trinidad, West Indies
Tripoli, Libya
Tulsa, Oklahoma
Wichita Falls, Texas

Trailer Division

Atlanta, Georgia
Birmingham, Alabama
Dallas, Texas
Houston, Texas
Jackson, Mississippi
Lubbock, Texas
Memphis, Tennessee
Oklahoma City, Okla.
San Antonio, Texas
Shreveport, La.

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STATEMENT TO THE STOCKHOLDERS

Sales of $41,280,871 during the past year established an all-time record for the company. Sales for 1965 exceeded 1964 by 9.9%.

Net earnings for 1965 were $2,163,085 compared to previous year's earnings of $2,404,723. After adjusting for the stock split in May, 1965, increasing the number of outstanding shares from 127,500 to 170,000, other comparisons on a per share basis are as follows: Earnings were equivalent to $12.72 per share as against $14.15 the previous year; our book value increased to $127.16 per share compared to $119.86; and dividends of $5.425 per share were paid in 1965 compared to $5.25 in 1964.

The financial condition of the company continued strong with working capital increasing $717,549 to $16,164,708 compared to $15,447,159, as adjusted, for the previous year. Our current ratio dropped to 3.96 compared to 5.10, as adjusted, for the previous year. You will note that working capital and current ratio this year have been adjusted to include the total of installment receivables, whereas heretofore, the portion of these receivables due after one year has not been shown in these figures. This change was made on the recommendation of our auditors inasmuch as these notes are not only salable but we do regularly sell them from time to time as cash is needed. Your company now has a short term bank indebtedness of $2,159,000.

During the year we added a number of machine tools which are already helping production and cutting costs. Our total capital expenditures for the year amounted to $1,248,924. Three additional machine tools and a sixty-ton crane have been installed at an additional expenditure of over $256,000 since January 1.

We should normally expect an increase in profits with an increase in volume. This was not the case in 1965, due largely to soft prices on oilfield equipment and on trailers. We also had a substantial loss on one large contract for equipment that was entirely new to us. The experience gained, however, was valuable, and we expect to continue this type work on a good profitable basis in the future.

The union struck our plant on January 28, and as this is written the strike is completing its fourth week. A good number of people in the bargaining unit promptly returned to work, and a few additional people are returning day by day. We have so far hired well over one hundred new employees. Office people, sales and service personnel, and supervisors have all volunteered to work in the plant, and most of them are now actually on production. Approximately seven hundred people are now working on jobs normally done by the bargaining unit.

We have no estimate on the possible length of the strike but can only make plans for a long one. We are operating at least fifty per cent normal and showing improvement every day.

We have had no orders of any consequence cancelled, but our incoming new orders have been curtailed somewhat because most of our sales force is working in the plant.

Any strike is bad, but this one is not all bad. We have found that relatively inexperienced but dedicated people have been able to cut manufacturing hours under what we previously have been able to obtain in a number of areas. Our engineers, who are now building what they had previously designed on a drawing board, are constantly making notes of new ideas for improving the product and cutting manufacturing costs. You may be sure that we expect to take advantage of these experiences when the strike is settled.

Walter W. Trout
President

February 23, 1966

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LUFKIN FOUNDRY AND MACHIN

CONSOLIDATED BALANCE SHEET

ASSETS	1965	1964
CURRENT ASSETS:		
Cash	$ 1,860,313	$ 1,848,848
Temporary investments (treasury bills and certificate of deposit)	500,000	500,000
Accounts receivable, less reserve of $75,000 in 1965 and 1964	3,988,061	3,683,953
Installment notes and conditional sales contracts receivable (including $928,486 in 1965 and $1,550,236 in 1964 due after one year), less reserve for losses of $125,000 in 1965 and 1964 and unearned interest	1,905,252	2,600,147
Inventories, at lower of average cost or market	13,369,731	10,581,862
Total current assets	$21,623,357	$19,214,810
PROPERTY, PLANT, AND EQUIPMENT, at cost	$11,902,906	$10,701,402
Less - Reserve for depreciation	6,612,176	5,960,612
	$ 5,290,730	$ 4,740,790
OTHER ASSETS AND DEFERRED CHARGES	$ 161,848	$ 188,502
	$27,075,935	$24,144,102

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COMPANY AND SUBSIDIARIES

– DECEMBER 31, 1965 AND 1964

LIABILITIES	1965	1964
CURRENT LIABILITIES:		
Notes payable to banks	$ 2,159,000	$ ——
Accounts payable and accrued liabilities	2,034,769	2,005,596
Reserve for income taxes	1,264,880	1,762,055
Total current liabilities	$ 5,458,649	$ 3,767,651
CONTINGENT LIABILITY, notes and conditional sales contracts sold with recourse, $1,560,000 in 1965 and $925,000 in 1964		
CAPITAL STOCK AND EARNED SURPLUS:		
Common stock, par value $100 per share; 175,000 shares authorized, 170,000 shares outstanding, and 5,000 shares reserved for key employees in 1965; 127,500 shares authorized and outstanding in 1964	$17,000,000	$12,750,000
Earned surplus	4,617,286	7,626,451
	$21,617,286	$20,376,451
	$27,075,935	$24,144,102

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LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
NET SALES	$41,280,871	$37,561,753
COST OF GOODS SOLD	32,420,358	28,371,307
Gross income	$ 8,860,513	$ 9,190,446
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	5,215,734	4,618,220
Operating income	$ 3,644,779	$ 4,572,226
OTHER INCOME (DEDUCTIONS):		
Interest income	283,446	213,437
Interest expense	(28,564)	(37,394)
Other income	163,424	131,454
Net income before taxes on income	$ 4,063,085	$ 4,879,723
PROVISION FOR TAXES ON INCOME	1,900,000	2,475,000
Net income	$ 2,163,085	$ 2,404,723
EARNED SURPLUS, beginning of year	7,626,451	6,114,228
	$ 9,789,536	$ 8,518,951
LESS:		
Cash dividends	(922,250)	(892,500)
Transferred to capital stock in connection with four for three stock split	(4,250,000)	———
EARNED SURPLUS, end of year	$ 4,617,286	$ 7,626,451

(Depreciation included above amounted to $698,984 in 1965 and $623,133 in 1964.)

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LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
FUNDS PROVIDED BY:		
Operations -		
Net income	$ 2,163,085	$ 2,404,723
Depreciation, not requiring withdrawal of funds	698,984	623,133
	$ 2,862,069	$ 3,027,856
DISPOSITION:		
Property, plant, and equipment--net additions (net of investment tax credit of $63,787 in 1965 and $26,724 in 1964)	$ 1,248,924	$ 913,997
Dividends	922,250	892,500
Increase (decrease) in other assets and deferred charges	(26,654)	1,775
	$ 2,144,520	$ 1,808,272
INCREASE IN WORKING CAPITAL	$ 717,549	$ 1,219,584
WORKING CAPITAL, beginning of year	15,447,159	14,227,575
WORKING CAPITAL, end of year	$16,164,708	$15,447,159

OPINION OF INDEPENDENT ACCOUNTANTS

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, 1965, and the related consolidated statements of income and earned surplus and source and disposition of working capital 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 financial statements present fairly the financial position of Lufkin Foundry and Machine Company and subsidiaries as of December 31, 1965, and the results of their operations and the source and disposition of working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

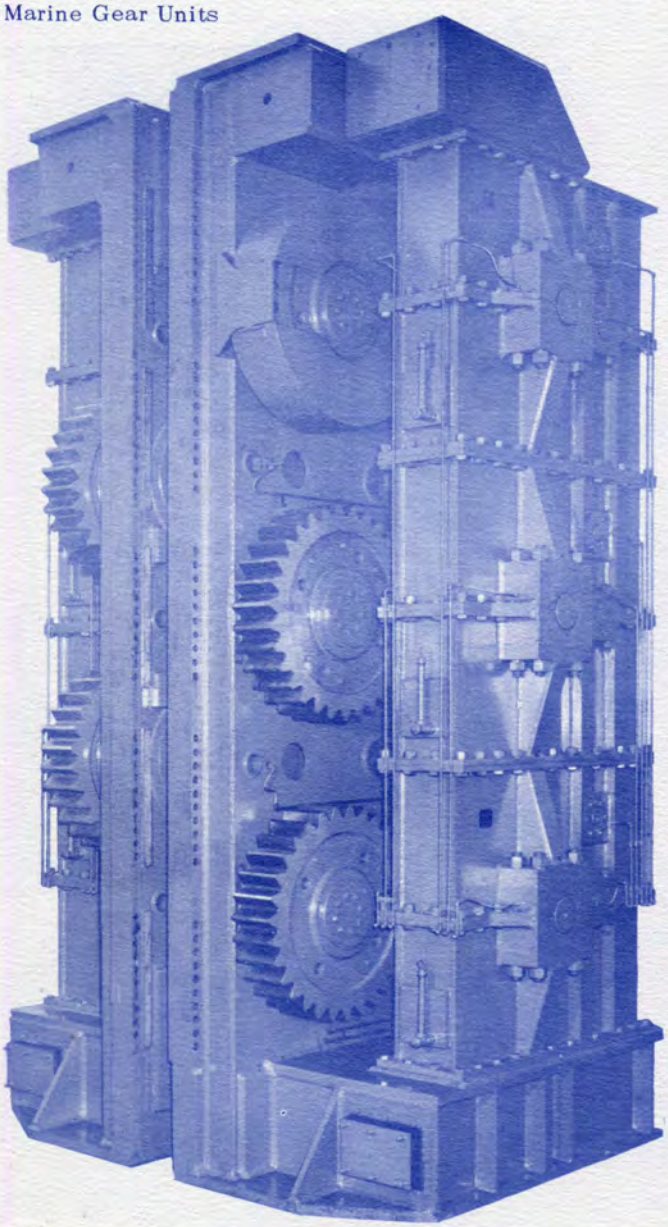
Houston, Texas
February 7, 1966

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Two wells with three units each. Two triple completions, pumping from three separate formations with three rod strings in each well using wedge horseheads with single wire line hangers.

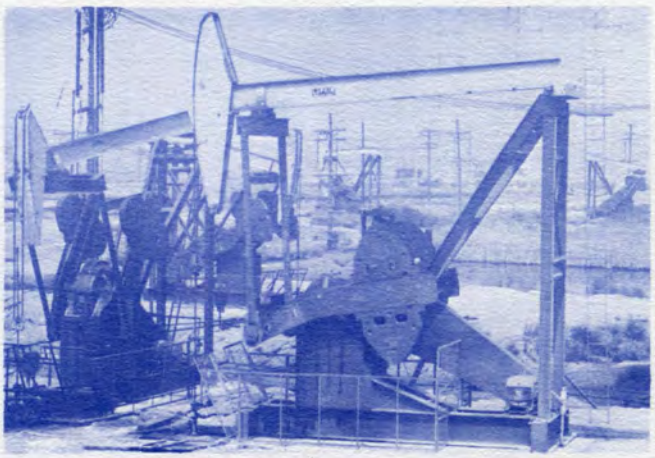
CENTER SPREAD: Typical Forward and Reverse Reduction Gear Train with air clutches for Model RS Marine Gear Units



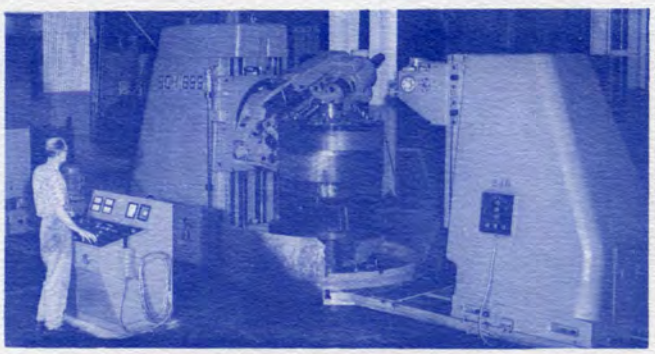
Pinion Stand for elevating Transocean No. 2 Drilling Barge. Weighs 152,000 lbs., 18'-7" high, one of six; for North Sea exploration.



New Lufkin "Doubles".



Five large Mark II Units, Wilmington, California.



Scheiss Hobbing Machine capable of cutting gears 16'-5" diameter and 47" face.