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Annual Report 1968

LUFKIN

Lufkin Foundry And Machine Company

Lufkin, Texas

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Lufkin Foundry And Machine Company

Lufkin, Texas

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DIRECTORS

*S. W. HENDERSON, JR.
Investments, Lufkin

M. E. KURTH
Partner, Andrews, Kurth, Campbell & Jones, Houston

M. E. KURTH, JR.
Senior Vice-President-Manufacturing, Southland Paper Mills, Inc., Lufkin

*L. A. LITTLE
Former Executive Vice-President

W. T. LITTLE
Gear Sales Engineer

*R. L. POLAND
President and Chief Executive

*E. P. TROUT
Former Executive Vice-President

*W. W. TROUT
Chairman of the Board

W. W. TROUT, JR.
Assistant Sales Manager

*J. L. WIENER
Partner, Wiener, Weiss & Wiener, Shreveport

SAMSON WIENER
President, Wiener Lumber Company, Dallas

OFFICERS

W. W. TROUT	Chairman of the Board
R. L. POLAND	President and Chief Executive
C. W. ALEXANDER	Vice-President
R. E. BARR	Vice-President
J. B. HOPPER	Vice-President
R. H. LANG	Vice-President
C. D. RICHARDS	Vice-President
C. J. SCHULLER	Vice-President
W. A. KIRKLAND	Secretary
H. L. DYER	Treasurer

*Executive Committee

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TO OUR STOCKHOLDERS:

As your Company enters the sixty-eighth year of operations, we are glad to report that consolidated sales reached a new high of $45,575,855 during 1968, an increase of 9.6% over the total for the previous year of $41,570,943.

Net earnings for the year were $2,037,045 compared to $2,041,902 for the previous year. Earnings were equivalent to $11.70 per share against $11.73 for the previous year, and dividends of $5.00 per share were paid compared to $5.45 for 1967. Book value increased from $140.43 to $147.13. At year-end the ratio of current assets to current liabilities was 4.88 to 1 for 1968 compared with 5.91 to 1 for 1967.

Retained earnings increased $1,166,680 to $8,120,962, and working capital of the Company now stands at $19,173,975. Short-term debt at year-end was $1,060,988, long-term debt was $1,000,000 and interim financing debt outstanding for the new trailer plant construction was $2,500,000.

In 1968, the Company changed its accounting for financial reporting purposes with respect to depreciation and investment tax credit to the methods followed by a majority of other companies. Descriptions of the changes are set forth in Notes 3 and 4 to the financial statements.

During the year, costs of manufacturing were affected by price increases in many materials, including such major items as mill steel about 5%, finished materials 8-10%, aluminum 3-5%, and bearings 5-7%. Freight rates were increased 3-6%. Our wage rates including fringes went up 5%. The city tax rate in Lufkin took a rise of 71%. Prime interest rate on our short-term borrowings went from 6% to 7%, and the effective rate of federal income tax was increased 10% by the surtax.

In an attempt to counteract these cost increases, prices of our own products were raised 3-7% in September, even while all markets in which we sell were highly competitive. It is believed these increases will hold fairly well and our profits should improve.

Construction of the new trailer plant is nearing completion. The departments to manufacture dump trailers and flat bed trailers are ready to start some production next week, and van trailer production is expected to be started in the summer.

In addition to the new trailer plant construction, over $700,000 was invested in 1968 in new tools and equipment for the other divisions of our Company and we pledge our determination to continue the long-range program of keeping facilities as up-to-date and competitive as possible.

An attitude of flexibility is being maintained in trying to meet the demands of the present in tightening controls over costs and expenses and in trying to bring about more efficient and profitable operations.

The new gear cutters, grinders, and checking equipment purchased recently have opened new fields of gearing, and we are now furnishing equipment in areas where we previously have not been able to quote. Diversity in our product lines provides stability, and we are constantly in search for new product possibilities.

We are optimistic about our sales and believe that we will have a good year in 1969.

R. L. Poland
President

W. W. Trout
Chairman of the Board

February 17, 1969

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LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
NET SALES	$45,575,855	$41,570,943
COST OF SALES	35,531,475	32,203,967
Gross income	$10,044,380	$ 9,366,976
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,998,313	5,787,258
Operating income	$ 4,046,067	$ 3,579,718
OTHER INCOME (DEDUCTIONS):		
Interest income	137,351	125,822
Interest expense	(195,308)	(116,548)
Other income	90,935	220,910
Net income before taxes on income	$ 4,079,045	$ 3,809,902
PROVISION FOR TAXES ON INCOME:		
Current (net of investment tax credit of $50,000 in 1968 and $57,000 in 1967- (Note 4)	$ 1,970,000	$ 1,768,000
Deferred (Note 3)	72,000	-
	$ 2,042,000	$ 1,768,000
NET INCOME ($11.70 per share in 1968 and $11.73 in 1967)	$ 2,037,045	$ 2,041,902
RETAINED EARNINGS, beginning of year	6,954,282	5,860,426
	$ 8,991,327	$ 7,902,328
LESS- Cash dividends ($5.00 per share in 1968 and $5.45 in 1967)	870,365	948,046
RETAINED EARNINGS, end of year (Note 1)	$ 8,120,962	$ 6,954,282

(The accompanying notes to financial statements are an integral part of this statement.)

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CONSOLIDATED BALANCE SHEET

ASSETS	1968	1967
CURRENT ASSETS:		
Cash	$ 3,119,267	$ 2,812,912
Accounts receivable, less reserve of $75,000	5,311,197	4,667,110
Installment notes and contracts receivable (including $495,429 in 1968 and $756,144 in 1967 due after one year), less reserve for losses of $125,000 and unearned interest	894,243	1,022,559
Inventories, at lower of average cost (on a first-in, first-out basis) which is not in excess of market	14,784,707	14,507,170
Total current assets	$24,109,414	$23,009,751
PROPERTY, PLANT, AND EQUIPMENT, at cost (Note 1)	$17,850,261	$13,785,046
Less- Reserve for depreciation (Note 3)	8,034,715	7,666,682
	$ 9,815,546	$ 6,118,364
OTHER ASSETS	$ 194,324	$ 212,268
	$34,119,284	$29,340,383

NOTES TO FINANCIAL STATEMENTS

(1) New construction and financing-

The company has a new trailer plant under construction at an estimated total cost of $5,250,000. Through December 31, 1968, $3,857,000 had been expended and substantial commitments had been made for the remaining estimated cost.

Long-term loans of $8,500,000 have been arranged for construction and for additional working capital funds to be evidenced by 6.7 percent notes payable $250,000 semiannually beginning in 1972 and maturing in 1987. The first note of $1,000,000 was issued in 1967 and a second note for the balance is to be issued in 1969. Arrangements have also been made for up to $5,250,000 of interim financing during the construction period to be evidenced by short-term notes bearing interest at prime rates. At December 31, 1968, $2,500,000 of interim financing notes had been issued which are included in long-term debt in the accompanying balance sheet.

The loan agreement covering the long-term debt contains various restrictive covenants including restrictions as to the payment of dividends and a requirement that working capital, as defined, must be maintained at not less than $7,500,000 until the second note is issued and $14,000,000 thereafter. At December 31, 1968, retained earnings of the parent company of approximately $1,700,000 were not restricted as to the payment of dividends under the loan agreement.

(2) Pension plan-

The company and its subsidiaries have pension plans covering substantially all employees. The total pension expense was $546,000 in 1968 and $497,000 in 1967, including amortization of prior service costs over a period of approximately 30 years. The amount provided for pension expense is

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E COMPANY AND SUBSIDIARIES

-- DECEMBER 31, 1968 AND 1967

LIABILITIES	1968	1967
CURRENT LIABILITIES:		
Notes payable to banks	$ 1,060,988	$ 1,072,402
Accounts payable and accrued liabilities	2,672,448	2,142,662
Reserve for income taxes	1,202,003	680,154
Total current liabilities	$ 4,935,439	$ 3,895,218
LONG-TERM DEBT (Note 1)	$ 3,500,000	$ 1,000,000
DEFERRED FEDERAL INCOME TAXES (Note 3)	$ 72,000	$ -
CONTINGENT LIABILITY, notes and conditional sales contracts sold with recourse, $1,400,000 in 1968 and $1,600,000 in 1967		
CAPITAL STOCK AND RETAINED EARNINGS:		
Common stock, par $100 per share; 175,000 shares authorized; 174,073 shares outstanding; 927 shares reserved for sale to key employees	$17,407,300	$17,407,300
Amounts received in excess of par on sales of common stock	83,583	83,583
Retained earnings (Note 1)	8,120,962	6,954,282
	$25,611,845	$24,445,165
(The accompanying notes to financial statements are an integral part of this statement.)	$34,119,284	$29,340,383

paid into pension trust funds. The total unfunded prior service cost at December 31, 1968, was estimated to be $2,414,000; however, the assets of the trust funds exceeded the actuarially computed value of vested benefits.

(3) Change in depreciation method-

Effective January 1, 1968, for financial reporting purposes, the company adopted the more widely followed straight-line method of depreciation for all assets. The effect of this change on net income for 1968 was not significant. Provision has been made for the taxes deferred as a result of continuing accelerated depreciation methods for tax purposes.

(4) Change in accounting for the investment tax credit-

Effective January 1, 1968, the company began using the more widely followed flow-through method of accounting for the investment tax credit. Under this method the credit is taken into income in the year in which it is utilized. Previously, the company followed the policy of deferring the investment tax credit and amortizing it over the life of the assets. The effect of this change on net income for 1968 was not significant.

(5) Reclassifications-

The 1967 financial statements included herein reflect certain reclassifications to conform to the presentation adopted in 1968.

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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, 1968 and 1967

	1968	1967
SOURCE:		
Funds provided by operations-		
Net income	$ 2,037,045	$ 2,041,902
Depreciation (Note 3)	640,486	754,918
Deferred Federal income taxes (Note 3)	72,000	-
	$ 2,749,531	$ 2,796,820
Sale of capital stock	-	20,123
Proceeds from long-term debt or interim construction financing (Note 1)	2,500,000	1,000,000
Decrease in other assets	17,944	5,798
	$ 5,267,475	$ 3,822,741
DISPOSITION:		
Net additions to property, plant, and equipment-		
New trailer plant	$ 3,628,141	$ 229,090
Other	709,527	808,056
Dividends	870,365	948,046
	$ 5,208,033	$ 1,985,192
INCREASE IN WORKING CAPITAL	$ 59,442	$ 1,837,549
WORKING CAPITAL, beginning of year	19,114,533	17,276,984
WORKING CAPITAL, end of year	$19,173,975	$19,114,533

(The accompanying notes to financial statements are an integral part of this statement.)

OPINION OF INDEPENDENT ACCOUNTANTS

To the Stockholders,

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, 1968, and the related consolidated statements of income and retained earnings 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. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying financial statements present fairly the financial position of Lufkin Foundry and Machine Company and subsidiaries as of December 31, 1968, 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 which, other than for the changes in methods of depreciation and accounting for the investment tax credit described in Notes 3 and 4 to the financial statements, were applied on a basis consistent with that of the preceding year.

Houston, Texas
February 3, 1969

ARTHUR ANDERSEN & CO.

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BRANCH OFFICES

Machinery Division

Anaco, Venezuela
Ankara, Turkey
Atlanta, Georgia
Bakersfield, California
Baltimore, Maryland
Benghazi, Libya
Bogota, Colombia
Brisbane, Australia
Buenos Aires, Argentina
Calgary, Alta., Canada
Casper, Wyoming
Chicago, Illinois
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
Estevan, Sask., Canada
Great Bend, Kansas
Hobbs, New Mexico
Houston, Texas
Kilgore, Texas
Kuwait, Arabian Gulf
Lafayette, Louisiana
La Paz, Bolivia
Los Angeles, California
Maracaibo, Venezuela
Mexico City, Mexico
Natchez, Mississippi
New York, New York
Odessa, Texas
Oklahoma City, Oklahoma
Pampa, Texas
Paramaribo, Surinam
Pittsburgh, Pennsylvania
Rio De Janeiro, Brazil
San Fernando, Trinidad
San Francisco, California
Talara, Peru
Trinidad, West Indies
Tripoli, Libya
Tulsa, Oklahoma
Wichita Falls, Texas
Williston, North Dakota

Trailer Division

Atlanta, Georgia

Birmingham, Alabama

Dallas, Texas

Houston, Texas

Jackson, Mississippi

Kansas City, Kansas

Lubbock, Texas

Memphis, Tennessee

New Orleans, Louisiana

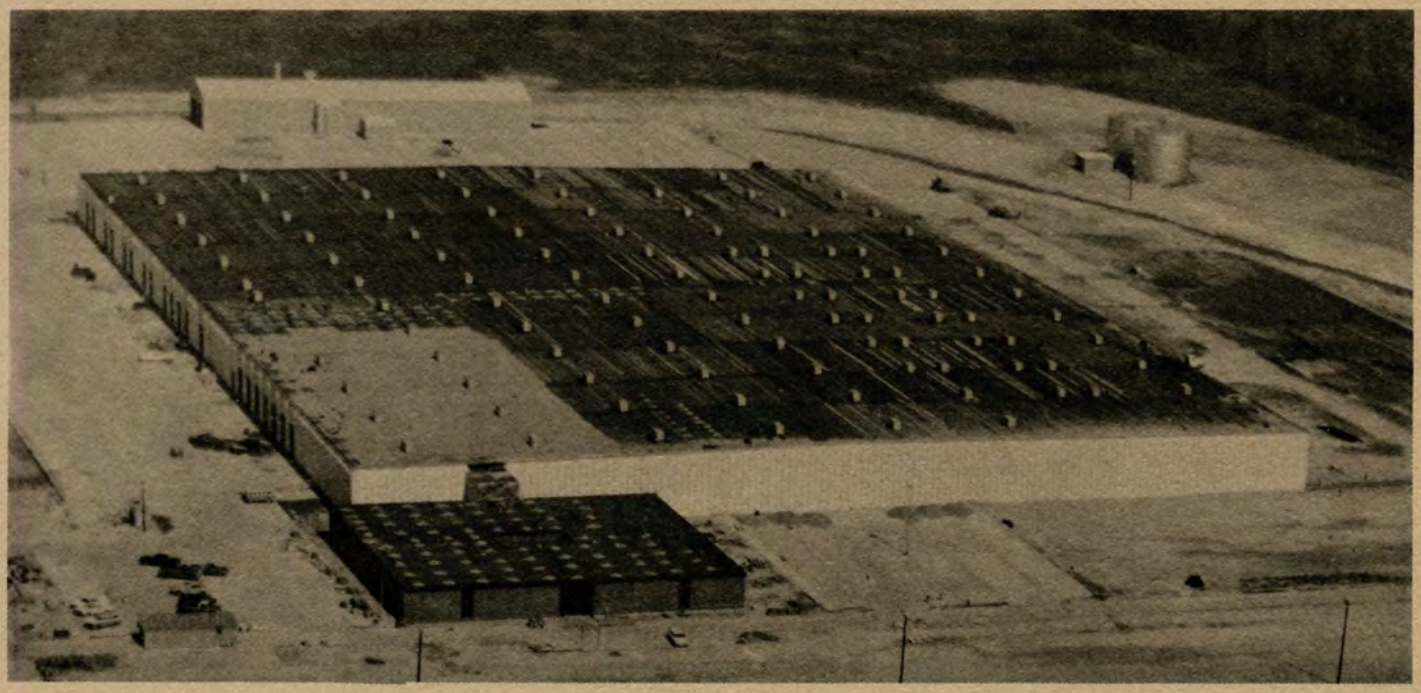
Oklahoma City, Oklahoma

San Antonio, Texas

Shreveport, Louisiana

St. Louis, Missouri

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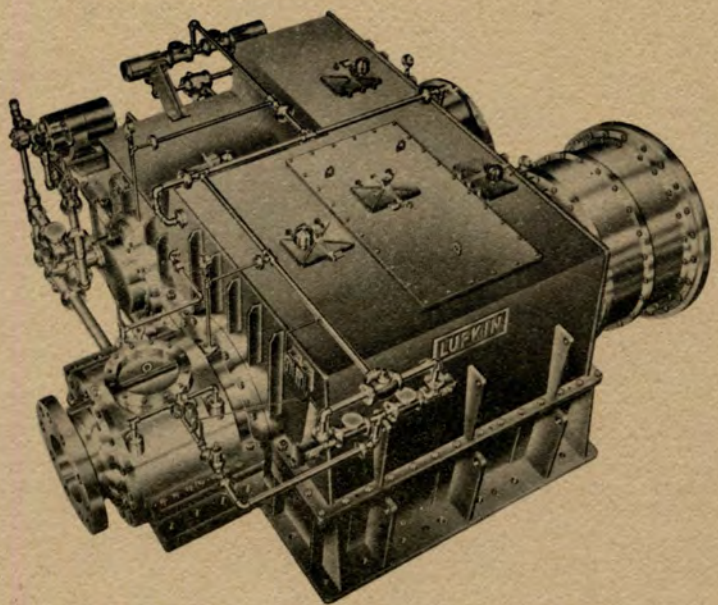
Lufkin's new automated Trailer Plant. About 8-1/2 acres under one roof.



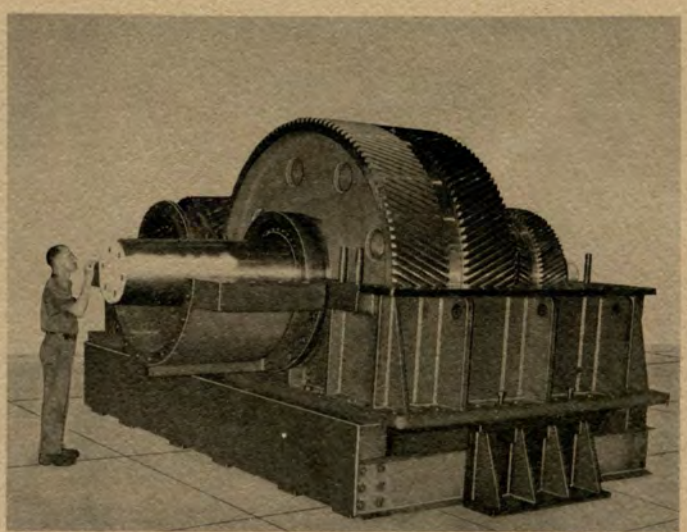
Three Lufkin H-2165-B 2 cylinder engines, 160 maximum horsepower each.



Lufkin C-228D-212-86 Unit driven by Lufkin HT-333 Engine.



Lufkin HDL6640 propulsion gear for 34,000 ton oil tanker. 15,000 horsepower.



HDL6640 gear shown at left being assembled. Main gear has 46'' wide face.

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