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# Annual Report 1971

LUFKIN

Lufkin Industries, Inc.

Lufkin, Texas

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Lufkin, Texas

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## DIRECTORS

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

S. W. HENDERSON, III
President, Quality Automotive Products, Inc., Dallas

J. G. KURTH
Secretary-Treasurer,
Walker-Kurth Lumber Company, Houston

*M. E. KURTH, JR.
Executive Vice-President for Operations
Southland Paper Mills, Inc., Lufkin

*L. A. LITTLE
Investments; formerly Executive Vice-President

W. T. LITTLE
Gear Sales Engineer

*R. L. POLAND
President

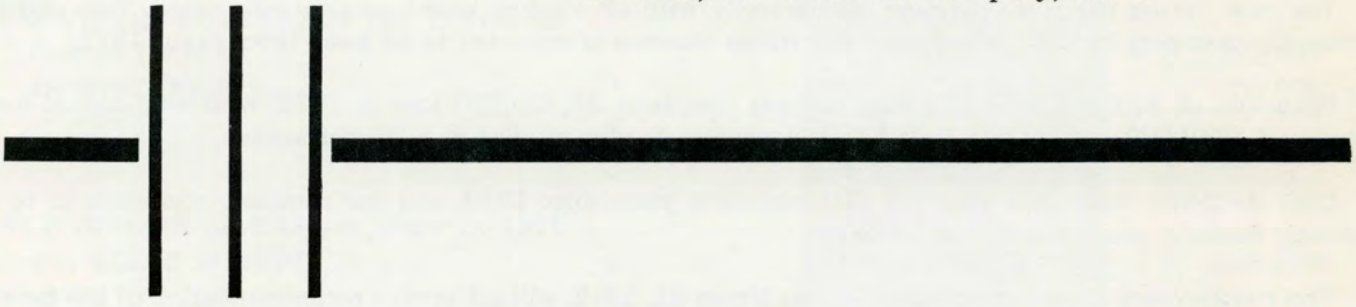
*E. P. TROUT
Investments; formerly Executive Vice-President

W. W. TROUT, JR.
Assistant Sales Manager

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

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

SAMSON WIENER
President, Wiener Lumber Company, Dallas



## OFFICERS

| | |
|---|---|
| R. L. POLAND | President |
| J. B. HOPPER | Executive Vice-President |
| C. W. ALEXANDER | Vice-President |
| R. E. BARR | 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:

Lufkin Industries, Inc. is in its 70th year of operation, and we are pleased to report that consolidated sales again reached a new high of $54,221,499 during 1971, an increase of slightly less than 1% over the total for the previous year of $53,756,185.

Net earnings for the year were $2,696,771 compared to $2,358,069 for the previous year. Earnings were equivalent to $15.49 per share, against $13.55 per share the previous year. Dividends of $6.00 per share were paid as compared to $5.25 per share the year before. Book value - stockholders' equity - increased from $162.53 to $172.02 per share. At year end, the ratio of current assets to current liabilities was 6.79 to 1 for 1971 compared with 7.54 to 1 for 1970. Retained earnings increased from $10,800,332 to $12,452,665, and working capital - the amount by which current assets exceed current liabilities - increased by $1,303,458 and now stands at $25,527,727.

Sales of all products held up well during 1971 even though there was a downward trend in general economic conditions in the first half of the year. There were sales increases in trailers, gears, and mill supplies, but there was a slight reduction in pumping unit sales.

During the year 1971, net capital investments of approximately $1,150,000 were made in all divisions, including $225,000 in the Foundry department mainly on air pollution control equipment, $350,000 in the Machinery division, $200,000 in the Trailer division, and $225,000 in the Mill Supplies division for a new Automotive Supply building. Corrective measures must be continued with respect to air pollution in our Foundry and it is estimated that $250,000 or more will be spent in this area in 1972.

The company experienced the most destructive fire in its history when the old section of the Mill Supply division building and inventory burned on January 13, 1972, with an estimated loss of $2,000,000. The adjoining newly constructed Automotive Supply building was saved with only minor damage, however, smoke and water ruined a considerable portion of the inventory in this building. Plans are already underway to rebuild with a larger and more modern structure on the same location, but with some rearrangement so that adequate parking facilities may be provided. Management believes that substantially all of the loss is covered by insurance.

The new Trailer plant is operating satisfactorily with all start-up problems now eliminated. Two shifts are presently operating in this division, and the trailer business is expected to be good throughout 1972.

Payments of $500,000 annually start on our long-term $8,500,000 loan in 1972, with semi-annual installments of $250,000 coming due May 1 and November 1, plus interest at 6.7% per annum.

Cash dividends have been paid for 32 consecutive years since 1939, and our company continues to be in a healthy financial condition at this time.

The stockholders at our annual meeting on March 21, 1972, will act upon a recommendation of the Board of Directors to split our stock 10 for 1 and to change the par value to $1.00 per share.

Other than the possible temporary reduction in Mill Supply division business due to the fire, we anticipate that 1972 will be another good year in sales of all products of our company. With a fine team of dedicated people, modern production facilities and quality products, we believe that we are in a strong position to meet the market demands of the coming year and look to the future optimistically.

It is with deep sorrow that we report to our stockholders the death on July 19, 1971, of Chairman of the Board and Director Walter W. Trout. His wise counsel in helping to guide the affairs of this company will be greatly missed.

Respectfully submitted,

R. L. Poland
President

February 10, 1972

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# LUFKIN INDUSTRIES, INC. AND SUBSIDARIES

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

## FOR THE YEARS ENDED DECEMBER 31, 1971 AND 1970

| | 1971 | 1970 |
|---|---|---|
| NET SALES | $54,221,499 | $53,756,185 |
| COST OF SALES | 42,223,799 | 41,723,809 |
| Gross income | $11,997,700 | $12,032,376 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 6,869,750 | 7,014,859 |
| Operating income | $ 5,127,950 | $ 5,017,517 |
| OTHER INCOME (DEDUCTIONS): | | |
| Interest income | 300,327 | 235,114 |
| Interest expense | (571,313) | (585,989) |
| Other income and expense | 120,807 | (85,573) |
| Net income before taxes on income | $ 4,977,771 | $ 4,581,069 |
| PROVISION FOR TAXES ON INCOME: | | |
| Current (Note 5) | $ 2,097,000 | $ 2,020,000 |
| Deferred (Note 2) | 184,000 | 203,000 |
| | $ 2,281,000 | $ 2,223,000 |
| NET INCOME ($15.49 per share in 1971 and $13.55 in 1970) | $ 2,696,771 | $ 2,358,069 |
| RETAINED EARNINGS, beginning of year | 10,800,332 | 9,356,146 |
| | $13,497,103 | $11,714,215 |
| LESS - Cash dividends ($6.00 per share in 1971 and $5.25 per share in 1970) | 1,044,438 | 913,883 |
| RETAINED EARNINGS, end of year (Note 1) | $12,452,665 | $10,800,332 |

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

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| ASSETS | 1971 | 1970 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 2,578,360 | $ 2,497,314 |
| Temporary investments, at cost, which approximates market | 2,925,000 | |
| Accounts receivable, less reserve of $100,000 in 1971 and 1970 | 6,380,553 | 6,847,060 |
| Installment notes and contracts receivable (including $719,049 in 1971 and $950,803 in 1970 due after one year), less reserve for losses of $50,000 in 1971 and 1970 | 1,110,808 | 1,428,695 |
| Inventories, at lower of average cost (on a first-in, first-out basis) or market | 16,937,909 | 17,152,960 |
| Total current assets | $29,932,630 | $27,926,029 |
| PROPERTY, PLANT, AND EQUIPMENT, at cost | $23,237,555 | $22,317,791 |
| Less - Reserve for depreciation | 10,378,935 | 9,550,974 |
| | $12,858,620 | $12,766,817 |
| OTHER ASSETS | $ 264,201 | $ 323,129 |
| | $43,055,451 | $41,015,975 |

## NOTES TO FINANCIAL STATEMENTS

(1) Long-term debt -

The long-term debt at December 31, 1971, is payable $250,000 semiannually beginning in 1972 and bears interest at 6.7 percent. The related loan agreement 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 $14,000,000. At December 31, 1971, retained earnings of the parent company of approximately $2,600,000 were not restricted as to the payment of dividends under the loan agreement.

(2) Deferred Federal income taxes -

The company uses the straight-line depreciation method for financial reporting and an accelerated method for tax purposes. Provision has been made in the accompanying statements for the deferred taxes applicable to the depreciation and other timing differences between financial and tax reporting methods.

(3) Retirement plans -

The company and its subsidiaries have retirement plans covering substantially all employees. The total pension expense was $630,000 in 1971 and $583,000 in 1970, including amortization of prior service costs over a period not in excess of 30 years. During 1970 the plans were amended to increase benefits to participants and increase the interest rate used in the actuarial calculations. These changes did not, however, result in any significant change in retirement costs. The amount provided each year for pension expense is paid into pension trust funds. The total unfunded prior service cost at December 31, 1971, is estimated to be $1,590,000; however, the assets of the trust funds exceed the actuarially computed value of vested benefits.

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INC. AND SUBSIDIARIES
ET - DECEMBER 31, 1971 AND 1970

| LIABILITIES | 1971 | 1970 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 500,000 | $ - |
| Accounts payable and accrued liabilities | 2,318,659 | 2,431,554 |
| Reserve for income taxes (Note 5) | 1,586,244 | 1,270,206 |
| Total current liabilities | $ 4,404,903 | $ 3,701,760 |
| LONG-TERM DEBT, net of current portion (Note 1) | $ 8,000,000 | $ 8,500,000 |
| DEFERRED FEDERAL INCOME TAXES (Note 2) | $ 707,000 | $ 523,000 |
| CONTINGENT LIABILITY, notes and conditional sales contracts sold with recourse, $900,000 in 1971 and $1,400,000 in 1970 | | |
| 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) | 12,452,665 | 10,800,332 |
| | $29,943,548 | $28,291,215 |
| (The accompanying notes to financial statements are an integral part of this statement.) | $43,055,451 | $41,015,975 |

(4) Litigation -

The company is involved in certain matters of litigation; however, in the opinion of management, uninsured losses arising from these matters would not be significant.

(5) Federal income taxes -

The company and one of its subsidiaries have been involved in a Federal income tax suit filed in the United States Tax Court. The suit was heard in 1970, and the decision rendered in 1971 upheld the position of the company on all issues. This decision was appealed by the Commissioner of Internal Revenue to the Fifth Circuit Court of Appeals, which appeal is now there pending.

The Federal government had claimed a deficiency for the years 1961 and 1962 in the amount of $250,000, a significant portion of which relates to allegations by the Internal Revenue Service challenging the propriety of the company's long standing intercompany pricing policies with its wholly owned subsidiaries. The company has continued the challenged practice in calculating its income tax for the years 1963 through 1971.

Since the company's policy has been to provide for United States taxes that may ultimately be payable on all foreign earnings, the company does not believe that any material adjustment to its financial statements will be necessary as a result of the controversies with the Internal Revenue Service.

(6) Subsequent event -

In January, 1972, a fire destroyed a major portion of the company's Mill Supply facilities and inventory. In the opinion of management, the losses will be substantially recoverable from insurance proceeds.

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## LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 1971 AND 1970

| | 1971 | 1970 |
|---|---|---|
| FUNDS WERE PROVIDED BY: | | |
| Net income from operations | $ 2,696,771 | $ 2,358,069 |
| Expenses not requiring outlay of working capital - | | |
| Depreciation (straight-line method) | 1,060,157 | 1,006,541 |
| Deferred Federal income taxes (Note 2) | 184,000 | 203,000 |
| Decrease in other assets | 58,928 | - |
| Total funds provided | $ 3,999,856 | $ 3,567,610 |
| FUNDS WERE USED FOR: | | |
| Net additions to property, plant and equipment | $ 1,151,960 | $ 1,516,233 |
| Increase in other assets | - | 6,863 |
| Dividends | 1,044,438 | 913,883 |
| Current portion of long-term debt | 500,000 | - |
| Total funds used | $ 2,696,398 | $ 2,436,979 |
| INCREASE IN WORKING CAPITAL | $ 1,303,458 | $ 1,130,631 |
| WORKING CAPITAL, beginning of year | 24,224,269 | 23,093,638 |
| WORKING CAPITAL, end of year | $25,527,727 | $24,224,269 |
| WORKING CAPITAL INCREASE (DECREASE) RESULTED FROM CHANGES IN: | | |
| Cash | $ 81,046 | $ 604,211 |
| Temporary investments | 2,925,000 | (2,750,000) |
| Accounts receivable | (466,507) | 679,735 |
| Installment notes and contracts receivable | (317,887) | 1,073,107 |
| Inventories | (215,051) | 1,474,519 |
| Current portion of long-term debt | (500,000) | - |
| Accounts payable and accrued liabilities | 112,895 | 575,628 |
| Reserve for income taxes | (316,038) | (526,569) |
| INCREASE IN WORKING CAPITAL | $ 1,303,458 | $ 1,130,631 |

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

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders,

Lufkin Industries, Inc.:

We have examined the consolidated balance sheet of Lufkin Industries, Inc. (a Texas corporation) and subsidiaries as of December 31, 1971, and the related consolidated statements of income and retained earnings and changes in financial position 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 Industries, Inc., and subsidiaries as of December 31, 1971, and the results of their operations and the changes in financial position 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 10, 1972

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# SALES OFFICES

## Machinery Division

Anaco, Venezuela
Ankara, Turkey
Atlanta, Georgia
Bakersfield, California
Baltimore, Maryland
Bogota, Colombia
Brisbane, Australia
Buenos Aires, Argentina
Calgary, Alta., Canada
Casper, Wyoming
Chicago, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
Great Bend, Kansas
Hobbs, New Mexico
Houston, Texas
Kansas City, Kansas
Kilgore, Texas
Kuwait, Arabian Gulf
La Paz, Bolivia
Lima, Peru
London, England
Los Angeles, California
Maracaibo, Venezuela
Mexico City, Mexico
Natchez, Mississippi
New Orleans, Louisiana
New York, New York
Odessa, Texas
Oklahoma City, Oklahoma
Pampa, Texas
Paris, France
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Rio de Janeiro, Brazil
San Fernando, Trinidad
San Francisco, California
Seattle, Washington
Singapore
Talara, Peru
Tripoli, Libya
Tucson, Arizona
Tulsa, Oklahoma

## Trailer Division

Atlanta, Georgia

Birmingham, Alabama

Dallas, Texas

Houston, Texas

Jackson, Mississippi

Kansas City, Kansas

Lubbock, Texas

Memphis, Tennessee

Nashville, Tennessee

New Orleans, Louisiana

Oklahoma City, Oklahoma

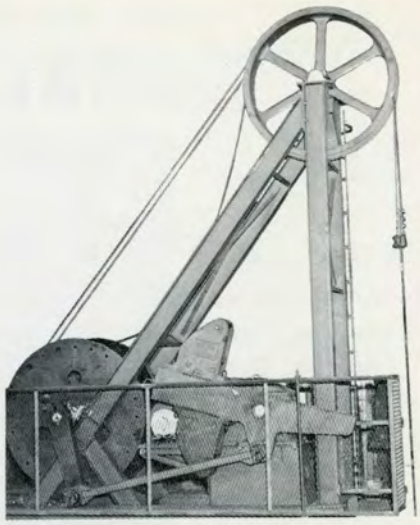
San Antonio, Texas

Shreveport, Louisiana

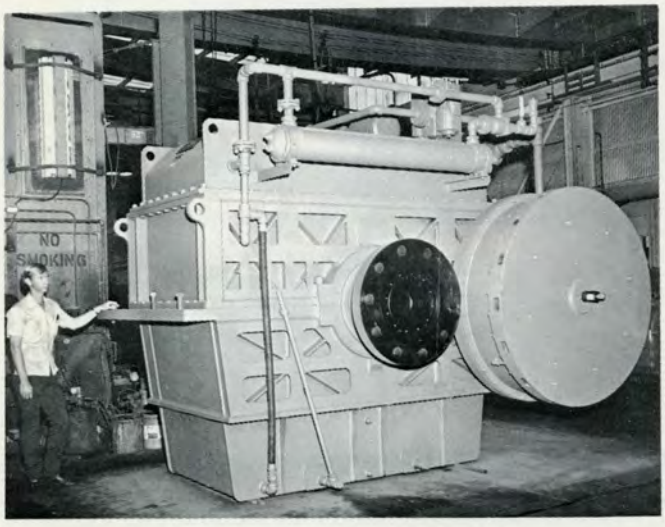
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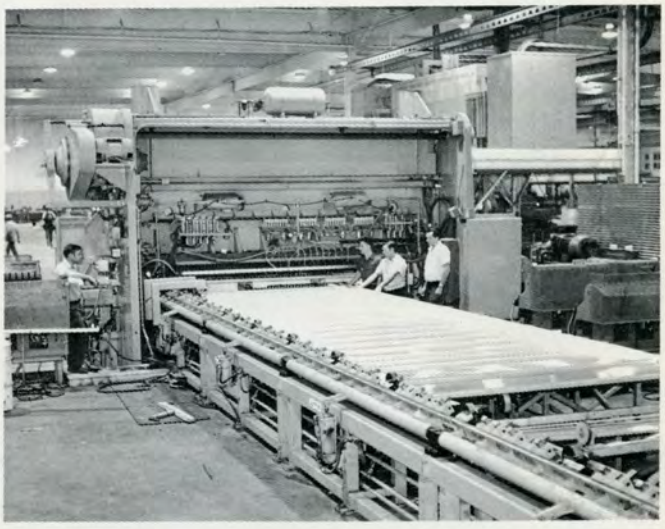
Lufkin A-1824D-240-47 unit installed on the de-watering hole for the "Cannikin" nuclear underground test on Amchitka Island, Alaska.



Newly developed type CR combination well servicing and pumping unit -- another Lufkin "first".




HS5636S Marine Gear



Pierce-Rivet Machine showing section of a trailer side passing through the machine.



Lufkin's 100,000th pumping unit shipped to Gainesville, Texas August 27, 1971.

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