

Annual Report

1967

LUFKIN

Lufkin Foundry And Machine Company
Lufkin, Texas

Lufkin Foundry And Machine Company
Lufkin, Texas

DIRECTORS

*S. W. HENDERSON, JR.

†*J. H. KURTH, JR.

M. E. KURTH

*L. A. LITTLE

R. L. POLAND

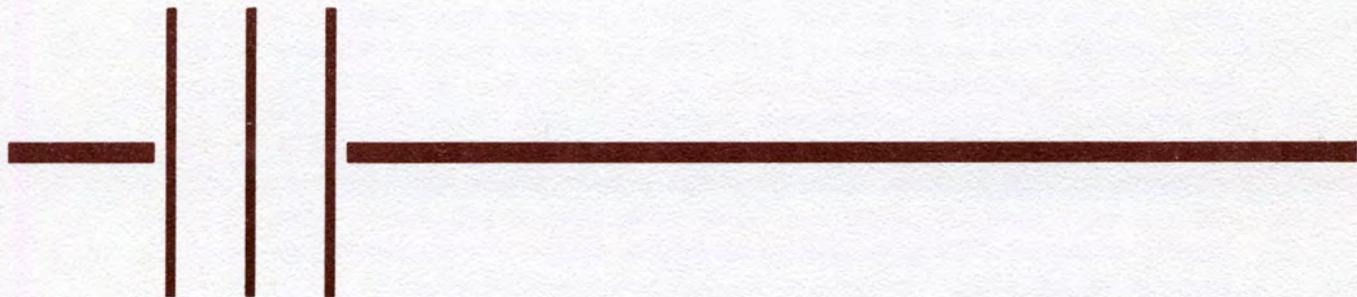
*E. P. TROUT

*W. W. TROUT

*J. L. WIENER

SAMSON WIENER

*Executive Committee



OFFICERS

W. W. TROUT

R. L. POLAND

L. A. LITTLE

E. P. TROUT

†J. H. KURTH, JR.

C. W. ALEXANDER

R. E. BARR

J. B. HOPPER

R. H. LANG

C. D. RICHARDS

C. J. SCHULLER

W. A. KIRKLAND

H. L. DYER

Chairman of the Board

President

Executive Vice-President

Executive Vice-President

Vice-President

Vice-President

Vice-President

Vice-President

Vice-President

Vice-President

Vice-President

Secretary

Treasurer

† Deceased

TO THE STOCKHOLDERS:

Sales of \$41,570,943 during the year 1967 were down a little more than 1% from the total for the previous year of \$42,151,959.

Net earnings for the year were \$2,041,902 compared to earnings of the previous year of \$2,177,486. Earnings were equivalent to \$11.73 per share against \$12.52 per share the previous year. Our book value increased to \$140.43 compared to \$134.15, and dividends of \$5.45 per share were paid during the year, which were the same as paid during 1966. At year-end the ratio of current assets to current liabilities was 6.06 to 1 for 1967 compared with 4.40 to 1 for 1966.

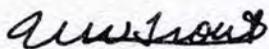
The financial condition of the Company continues strong with working capital increasing \$1,562,093 to a total of \$18,983,971. Your company now has short-term bank indebtedness of \$1,072,402, a reduction of \$761,414 during the year. Long-term indebtedness outstanding is \$1,000,000.

The largest capital program this company has ever undertaken was approved by the Board of Directors on December 1, 1967, and on December 14 a long-term loan agreement was made with an insurance company under which we will issue 6.7% unsecured notes for a total of \$8,500,000. The proceeds from these notes will be used principally to build the new trailer plant, purchase new gear cutting tools and retire short-term bank loans. A draw-down of \$1,000,000 was made against the long-term loan in December and the balance will be taken on or before June 30, 1969. The loan is to be repaid in semi-annual installments beginning in 1972 and ending in 1987.

Construction of the new trailer plant has already begun. Clearing and leveling of the site have been completed and extensive pouring of concrete is underway. This facility is expected to be in production by the middle of 1969 and should materially enhance our competitive position in the trailer business thereafter.

During the year 1967, in line with our constant effort to keep our facilities in good condition, a total of \$1,312,601 was invested in net additions to properties, plant and equipment and most of this was spent in the other divisions of the company. In this respect, our management has every intention of continuing the program of research, modernization and purchase of new tools for these other divisions in order to keep them as up-to-date and competitive as possible.

Concerning the outlook for 1968, our management and sales people are optimistic that the demand for our products will be fairly well maintained and that another year of good sales and profits may be anticipated.



W. W. Trout
Chairman of the Board



R. L. Poland
President

February 20, 1968

LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	<u>1967</u>	<u>1966</u>
NET SALES	\$41,570,943	\$42,151,959
COST OF SALES	<u>32,146,967</u>	<u>32,837,889</u>
Gross income	\$ 9,423,976	\$ 9,314,070
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	<u>5,787,258</u>	<u>5,423,596</u>
Operating income	\$ 3,636,718	\$ 3,890,474
OTHER INCOME (DEDUCTIONS):		
Interest income	125,822	183,522
Interest expense	(116,548)	(117,853)
Other income	<u>220,910</u>	<u>171,343</u>
Net income before taxes on income	\$ 3,866,902	\$ 4,127,486
PROVISION FOR TAXES ON INCOME	<u>1,825,000</u>	<u>1,950,000</u>
NET INCOME (\$11.73 per share in 1967 and \$12.52 in 1966)	\$ 2,041,902	\$ 2,177,486
RETAINED EARNINGS, beginning of year	<u>5,860,426</u>	<u>4,617,286</u>
	\$ 7,902,328	\$ 6,794,772
LESS: Cash dividends (\$5.45 per share each year)	<u>948,046</u>	<u>934,346</u>
RETAINED EARNINGS, end of year (Note 1)	<u><u>\$ 6,954,282</u></u>	<u><u>\$ 5,860,426</u></u>

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

LUFKIN FOUNDRY AND MACHIN
CONSOLIDATED BALANCE SHEET

ASSETS	<u>1967</u>	<u>1966</u>
CURRENT ASSETS:		
Cash	\$ 2,812,912	\$ 2,048,321
Accounts receivable, less reserve of \$75,000	4,391,654	5,018,044
Installment notes and contracts receivable (including \$756,144 in 1967 and \$724,300 in 1966 due after one year), less reserve for losses of \$125,000 and unearned interest	1,022,559	1,044,382
Inventories, at lower of average cost (on a first-in, first-out basis) or market	<u>14,507,170</u>	<u>14,429,381</u>
Total current assets	<u>\$22,734,295</u>	<u>\$22,540,128</u>
 PROPERTY, PLANT, AND EQUIPMENT, at cost		
(Note 1)	\$14,060,502	\$12,869,505
Less- Reserve for depreciation	<u>7,811,576</u>	<u>7,178,263</u>
	<u>\$ 6,248,926</u>	<u>\$ 5,691,242</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>\$ 212,268</u>	<u>\$ 218,066</u>
	<u><u>\$29,195,489</u></u>	<u><u>\$28,449,436</u></u>

NOTES TO FINANCIAL STATEMENTS

(1) New construction and financing -

The company has begun construction of a new trailer plant estimated to cost \$5,250,000 for which substantial commitments have been made.

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.

COMPANY AND SUBSIDIARIES

-- DECEMBER 31, 1967 AND 1966

LIABILITIES	<u>1967</u>	<u>1966</u>
CURRENT LIABILITIES:		
Notes payable to banks	\$ 1,072,402	\$ 1,833,816
Accounts payable and accrued liabilities	2,142,662	2,036,692
Reserve for income taxes	535,260	1,247,742
	<u> </u>	<u> </u>
Total current liabilities	\$ 3,750,324	\$ 5,118,250
	<u> </u>	<u> </u>
LONG-TERM DEBT (Note 1)	\$ 1,000,000	\$ —
	<u> </u>	<u> </u>
CONTINGENT LIABILITY, notes and conditional sales contracts sold with recourse, \$1,600,000 in 1967 and \$2,000,000 in 1966		
CAPITAL STOCK AND RETAINED EARNINGS:		
Common stock, par \$100 per share; 175,000 shares authorized; 174,073 shares outstanding in 1967, and 173,923 shares in 1966; 927 shares reserved for key employees in 1967	\$17,407,300	\$17,392,300
Amounts received in excess of par on sale of common stock	83,583	78,460
Retained earnings (Note 1)	6,954,282	5,860,426
	<u> </u>	<u> </u>
	\$24,445,165	\$23,331,186
	<u> </u>	<u> </u>
	<u>\$29,195,489</u>	<u>\$28,449,436</u>

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, 1967, consolidated retained earnings of approximately \$1,400,000 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 \$393,000 in 1966 and was \$497,000 in 1967 including amortization of prior service costs over a period of approximately 30 years. The amount provided for pension expense is paid into pension trust funds. The pension fund assets exceeded the actuarially computed value of vested benefits at December 31, 1967.

LUFKIN FOUNDRY AND MACHINE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION
OF WORKING CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	<u>1967</u>	<u>1966</u>
FUNDS PROVIDED BY:		
Operations -		
Net income	\$ 2,041,902	\$ 2,177,486
Depreciation, not requiring withdrawal of funds	754,918	726,179
	<u>\$ 2,796,820</u>	<u>\$ 2,903,665</u>
Sale of capital stock	20,123	470,760
Proceeds from long-term debt	1,000,000	-
	<u>\$ 3,816,943</u>	<u>\$ 3,374,425</u>
DISPOSITION:		
Net additions to property, plant, and equipment (less minor amounts of deferred investment tax credits)	\$ 1,312,602	\$ 1,126,691
Dividends	948,046	934,346
Increase (decrease) in other assets and deferred charges	(5,798)	56,218
	<u>\$ 2,254,850</u>	<u>\$ 2,117,255</u>
INCREASE IN WORKING CAPITAL	<u>\$ 1,562,093</u>	<u>\$ 1,257,170</u>
WORKING CAPITAL, beginning of year	<u>17,421,878</u>	<u>16,164,708</u>
WORKING CAPITAL, end of year	<u>\$18,983,971</u>	<u>\$17,421,878</u>

(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, 1967, 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, 1967, 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.

Houston, Texas
February 2, 1968

ARTHUR ANDERSEN & CO.

BRANCH OFFICES

Machinery Division

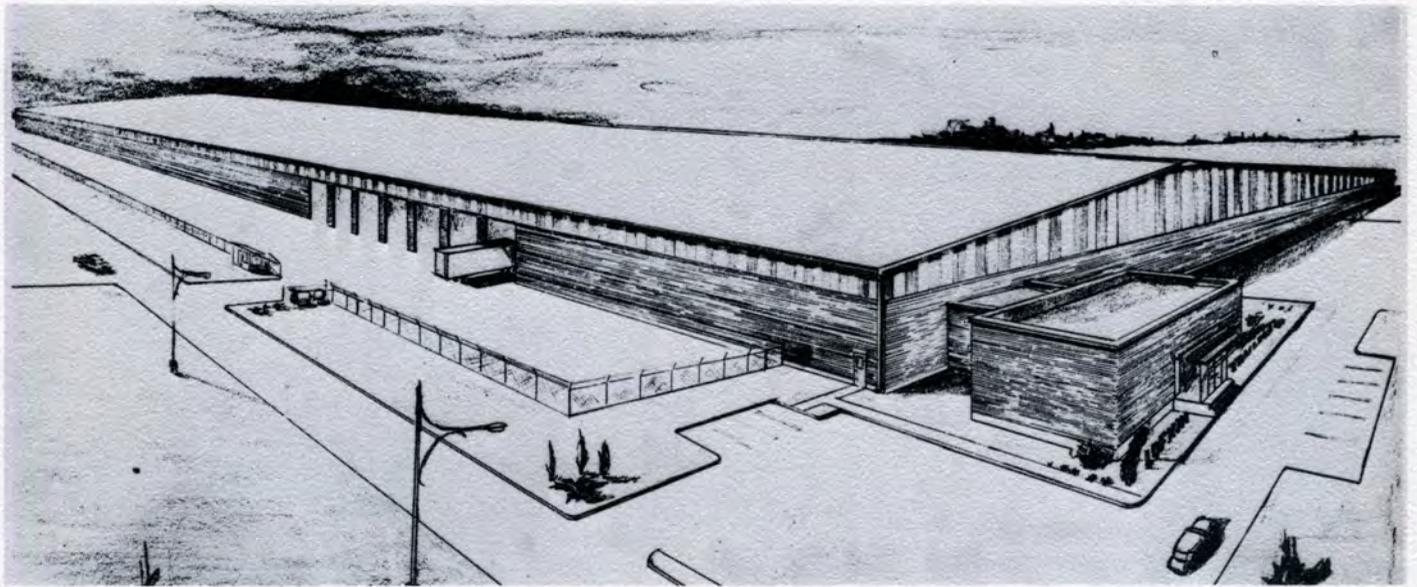
Anaco, Venezuela
Ankara, Turkey
Atlanta, Georgia
Bakersfield, California
Benghazi, Libya
Bogota, Colombia
Brisbane, Australia
Buenos Aires, Argentina
Calgary, Alta., Canada
Casper, Wyoming
Chicago, Illinois
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
Estevan, Sask., Canada
Great Bend, Kansas
Hobbs, New Mexico
Houston, Texas
Kilgore, Texas
Lafayette, Louisiana

La Paz, Bolivia
Los Angeles, California
Maracaibo, Venezuela
Mexico City, Mexico
Midland, Texas
Natchez, Mississippi
New York, New York
Odessa, Texas
Oklahoma City, Oklahoma
Pampa, Texas
Paramaribo, Surinam
Pittsburgh, Pennsylvania
Rio De Janeiro, Brazil
San Francisco, California
Shreveport, Louisiana
Sidney, Montana
Talara, Peru
Trinidad, West Indies
Tripoli, Libya
Tulsa, Oklahoma
Wichita Falls, Texas

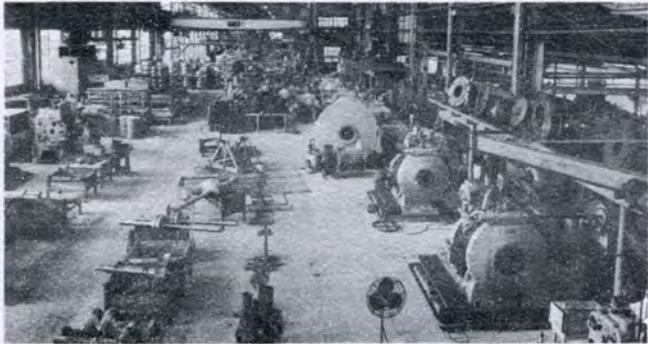
Trailer Division

Atlanta, Georgia
Birmingham, Alabama
Charlotte, North Carolina
Dallas, Texas
Denver, Colorado
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



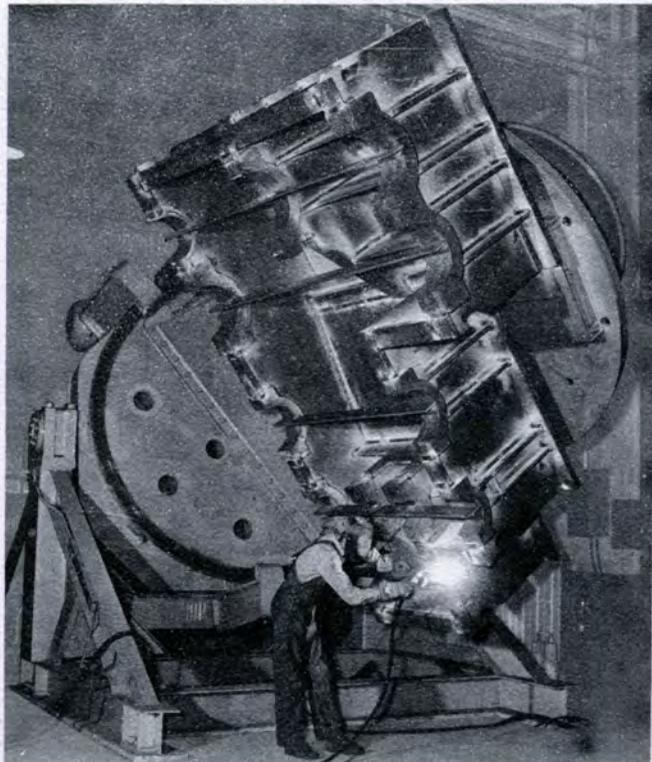
Architect's rendering of new Trailer Plant.



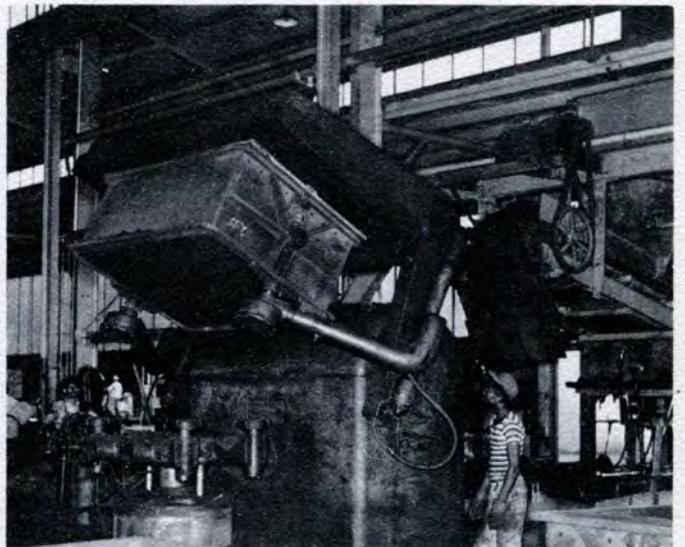
View of main bay of Machine Shop looking south from hobbing machine.



Cutting 135" diameter gear on Schiess gear hobber. Maximum capacity 16 ft. diameter



600,000 lb. welding positioner built by Lufkin. Large gear housing being welded.



Large moulding machine. Capacity 12,000 pounds.

Quality Equipment Since 1902



LUFKIN