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ANNUAL REPORT 1972

LUFKIN INDUSTRIES, INC.

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.
President, Southland Paper Mills, Inc., Lufkin

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

W. T. LITTLE
Assistant Manager, Trailer Division

*R. L. POLAND
President

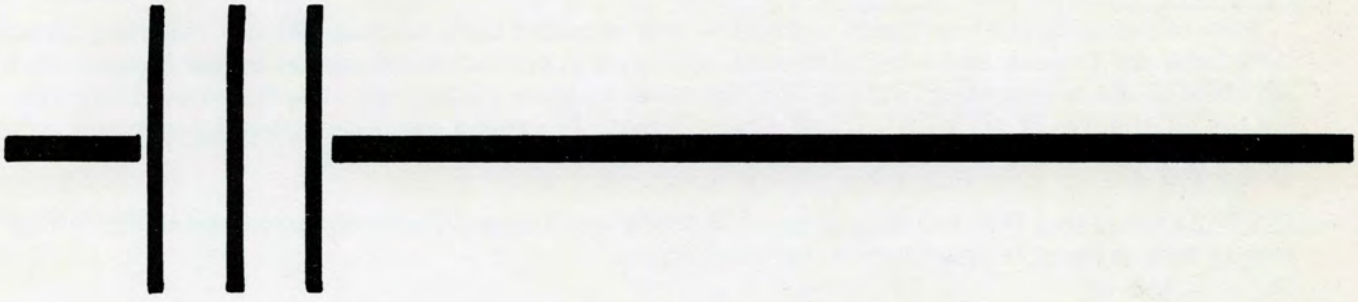
*E. P. TROUT
Investments; formerly Executive Vice-President

W. W. TROUT, JR.
Assistant to the President

*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
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:

As your company enters the seventy-second year of operation, we are pleased to report that consolidated sales reached a new high of $69,921,170 during 1972, an increase of 29% over the total for the previous year of $54,221,499.

Net earnings for the year were $3,003,494 compared to $2,696,771 for the previous year. Earnings were $1.73 per share, against $1.55 per share the previous year as restated to reflect the 10-for-1 stock split approved by the stockholders in March, 1972. Dividends of $0.62 per share were paid as compared to $0.60 per share the year before. Book value increased from $17.20 to $18.30 per share. At year end, the ratio of current assets to current liabilities was 4.56 to 1 for 1972, compared with 6.79 to 1 for 1971. Retained earnings increased from $12,452,665 to $14,376,906, and working capital increased by $354,218 and now stands at $25,881,945.

As reported last year, a fire destroyed the Mill Supplies building and inventory on January 13, 1972, which resulted in damages of $1,500,000. On March 28, 1972, the new Trailer Division plant was struck by a tornado, causing extensive damage to buildings and inventory, exceeding $325,000. Both of these losses were fully covered by insurance and claims have already been settled. Fortunately, we were able to keep both of these divisions operating without serious interruptions, except for about one week in each instance. The new building for the Mill Supplies Division has now been completed and has about twice the floor space of the old building and is the largest and most modern wholesale distribution facility in this section of Texas.

The company is in good financial condition at this time and has paid cash dividends for thirty-three consecutive years since 1939.

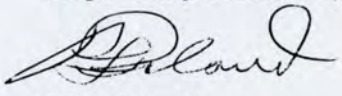
Our first year under the wage and price controls did not materially affect our overall sales growth. These controls, however, did limit the percentage of profit which could be earned, and our selling prices could not be adjusted to go beyond those permitted under the price control regulations.

Sales of pumping units and gears during the year exceeded the maximum efficient operating capacity of the Machinery Division and a big bottleneck developed in production of castings by the foundry. As a consequence of this, a consulting firm has been employed to make a study and offer recommendations concerning the alternatives of whether to build a new foundry or expand our present foundry to supply expected increased future casting requirements.

Also, a consulting firm has been engaged to study our Trailer Division and make recommendations with respect to improving its operations and profitability.

The future of our company looks good. The largest backlog of orders is on file that we have ever had at the beginning of any year, and 1973 is predicted to be another good year in sales for Lufkin Industries, Inc.

Respectfully submitted,



R. L. Poland
President

February 8, 1973

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LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

(Note 1)

	1972	1971
NET SALES	$69,921,170	$54,221,499
COST OF SALES	56,706,833	42,223,799
Gross income	$13,214,337	$11,997,700
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,768,413	6,869,750
Operating income	$ 5,445,924	$ 5,127,950
OTHER INCOME (DEDUCTIONS):		
Interest income	331,152	300,327
Interest expense	(556,805)	(571,313)
Other income and expense	163,223	120,807
Net income before income taxes	$ 5,383,494	$ 4,977,771
PROVISION FOR INCOME TAXES:		
Current (Note 6)	$ 2,269,000	$ 2,097,000
Deferred (Note 1)	111,000	184,000
	$ 2,380,000	$ 2,281,000
NET INCOME	$ 3,003,494	$ 2,696,771
NET INCOME PER SHARE	$1.73	$1.55*

*Restated to give effect to a 10-for-1 stock split in 1972 (Note 3).

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

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LUFKIN INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEET -
(Note 1

ASSETS	1972	1971
CURRENT ASSETS:		
Cash	$ 2,153,676	$ 2,578,360
Temporary investments, at cost, which approximates market	2,750,000	2,925,000
Accounts receivable, less reserve of $125,000 in 1972 and $100,000 in 1971	9,142,953	6,380,553
Installment notes and contracts receivable (including $244,569 in 1972 and $719,049 in 1971 due after one year), less reserve for losses of $75,000 in 1972 and $50,000 in 1971	715,288	1,110,808
Inventories, at lower of average cost (on a first-in, first-out basis) or market	18,384,973	16,937,909
Total current assets	$33,146,890	$29,932,630
PROPERTY, PLANT, AND EQUIPMENT, at cost	$25,301,766	$23,237,555
Less - Reserve for depreciation (Note 1)	11,361,831	10,378,935
	$13,939,935	$12,858,620
OTHER ASSETS	$ 363,909	$ 264,201
	$47,450,734	$43,055,451

NOTES TO CONSOLIDATED

(1) Summary of major accounting policies -

Principles of consolidation - The consolidated financial statements include the accounts of the company, and its subsidiaries after the elimination of all significant inter-company accounts and transactions.

Depreciation methods and deferred 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 financial statements for the deferred taxes applicable to the depreciation and other timing differences between financial and tax reporting methods.

Investment tax credits - Investment tax credits of $86,000 in 1972 and $13,000 in 1971 have been used to reduce the respective provisions for income taxes currently payable.

(2) Long-term debt -

The long-term debt at December 31, 1972, is payable $250,000 semiannually 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, 1972, retained earnings of the parent company of approximately $3,600,000 were not restricted as to the payment of dividends under the loan agreement.

(3) Change in capital stock accounts -

On March 21, 1972, the stockholders of the company approved an increase in authorized shares from 175,000 to 2,000,000, and a decrease in the par value per share from $100 to $1. The stockholders also approved a ten-for-one stock split of issued shares. All per share amounts in the accompanying financial statements and 1971 balance sheet amounts have been restated to give effect to the stock split and change in par value.

(4) Retirement plans -

The company and its subsidiaries have retirement plans covering substantially all employees. The total pension expense was $735,000 in 1972 and $630,000 in 1971, including amortization of prior service costs over a period not in excess of 30 years. During 1972 the plans were amended to increase

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T - DECEMBER 31, 1972 AND 1971
e 1)

LIABILITIES	1972	1971
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 500,000	$ 500,000
Accounts payable and accrued liabilities	5,303,569	2,318,659
Reserve for income taxes (Note 6)	1,461,376	1,586,244
Total current liabilities	$ 7,264,945	$ 4,404,903
LONG-TERM DEBT, net of current portion (Note 2)	$ 7,500,000	$ 8,000,000
DEFERRED FEDERAL INCOME TAXES (Note 1)	$ 818,000	$ 707,000
CONTINGENT LIABILITY, notes and conditional sales contracts sold with recourse, $950,000 in 1972 and $900,000 in 1971		
STOCKHOLDERS' INVESTMENT (Note 3):		
Common stock, par $1 per share; 2,000,000 shares authorized; 1,740,730 shares outstanding; 9,270 shares reserved for sale to key employees	$ 1,740,730	$ 1,740,730
Capital in excess of par	15,750,153	15,750,153
Retained earnings (Note 2)	14,376,906	12,452,665
	$31,867,789	$29,943,548
	$47,450,734	$43,055,451

ED FINANCIAL STATEMENTS

benefits to participants. This change was responsible for a portion of the increase in the 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, 1972, is estimated to be $1,925,000; however, the actuary's report indicated that the assets of the trust funds exceeded the actuarially computed value of vested benefits.

(5) Trailer division -

The undepreciated cost of plant and equipment of the trailer division amounted to approximately $5,000,000 at year-end. The operations of this division were marginal in 1972--on sales of $23,000,000 the division sustained a net loss of $300,000 before allocation of interest and corporate general and administrative expenses, but after deducting non-cash depreciation charge of $440,000. This represented an improvement over 1971, and as noted in the President's letter a consulting firm is currently studying this division with respect to improving its operations and profitability.

(6) 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. The Appeals Court remanded the case back to the Tax Court for retrial with respect to certain issues where the matter is now 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 inter-company pricing policies with its wholly owned subsidiaries. The company has continued the challenged practice in calculating its income tax for the years 1963 through 1972.

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.

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LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

(Note 1)

	1972	1971
FUNDS WERE PROVIDED BY:		
Net income	$ 3,003,494	$ 2,696,771
Expenses not requiring outlay of working capital -		
Depreciation (straight-line method)	1,181,973	1,060,157
Deferred Federal income taxes (Note 1)	111,000	184,000
Decrease in other assets	--	58,928
Total funds provided	$ 4,296,467	$ 3,999,856
FUNDS WERE USED FOR:		
Net additions to property, plant and equipment	$ 2,263,288	$ 1,151,960
Increase in other assets	99,708	--
Dividends	1,079,253	1,044,438
Reduction in long-term debt	500,000	500,000
Total funds used	$ 3,942,249	$ 2,696,398
INCREASE IN WORKING CAPITAL	$ 354,218	$ 1,303,458
WORKING CAPITAL, beginning of year	25,527,727	24,224,269
WORKING CAPITAL, end of year	$25,881,945	$25,527,727
WORKING CAPITAL INCREASE (DECREASE) RESULTED FROM CHANGES IN:		
Cash	$ (424,684)	$ 81,046
Temporary investments	(175,000)	2,925,000
Accounts receivable	2,762,400	(466,507)
Installment notes and contracts receivable	(395,520)	(317,887)
Inventories	1,447,064	(215,051)
Current portion of long-term debt	--	(500,000)
Accounts payable and accrued liabilities	(2,984,910)	112,895
Reserve for income taxes	124,868	(316,038)
INCREASE IN WORKING CAPITAL	$ 354,218	$ 1,303,458

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

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LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' INVESTMENT
FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971
(Note 1)

	Common Stock			Capital In Excess Of Par	Retained Earnings (Note 2)
	Shares Authorized	Shares Outstanding	Amount		
BALANCE, December 31, 1970	175,000 ($100 Par)	174,073	$17,407,300	$ 83,583	$10,800,332
Net income for 1971	----------	----------	----------	----------	2,696,771
Cash dividends ($.60* per share)	----------	----------	----------	----------	(1,044,438)
BALANCE, December 31, 1971, as previously reported	175,000 ($100 Par)	174,073	$17,407,300	$ 83,583	$12,452,665
Change in capital stock accounts and 10-for-1 stock split (Note 3)	1,825,000 ($1 Par)	1,566,657	(15,666,570)	15,666,570	----------
BALANCE, December 31, 1971, as restated	2,000,000 ($1 Par)	1,740,730	$ 1,740,730	$15,750,153	$12,452,665
Net income for 1972	----------	----------	----------	----------	3,003,494
Cash dividends ($.62 per share)	----------	----------	----------	----------	(1,079,253)
BALANCE, December 31, 1972	2,000,000 ($1 Par)	1,740,730	$ 1,740,730	$15,750,153	$14,376,906

*Restated to give effect to a 10-for-1 stock split in 1972 (Note 3).

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

To the Stockholders of

Lufkin Industries, Inc.:

We have examined the consolidated balance sheet of Lufkin Industries, Inc. (a Texas corporation), and subsidiaries as of December 31, 1972, and the related consolidated statements of income, stockholders' investment 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, 1972, and the results of their operations and changes in their 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 8, 1973

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SALES OFFICES

Machinery Division

Anaco, Venezuela
Ankara, Turkey
Atlanta, Georgia
Bakersfield, California
Bagdad, Iraq
Baltimore, Maryland
Bogota, Colombia
Bombay, India
Brisbane, Australia
Buenos Aires, Argentina
Calgary, Alta., Canada
Caracas, Venezuela
Casper, Wyoming
Chicago, Illinois
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
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
Miami, Florida
Natchez, Mississippi
New Orleans, Louisiana
New York, New York
Odessa, Texas
Oklahoma City, Oklahoma
Pampa, Texas
Pittsburgh, Pennsylvania
San Fernando, Trinidad
San Francisco, California
Seattle, Washington
Singapore
Talara, Peru
Tripoli, Libya
Tucson, Arizona
Tulsa, Oklahoma

Trailer Division

Atlanta, Georgia

Birmingham, Alabama

Charlotte, North Carolina

Dallas, Texas

Houston, Texas

Jackson, Mississippi

Lubbock, Texas

Memphis, Tennessee

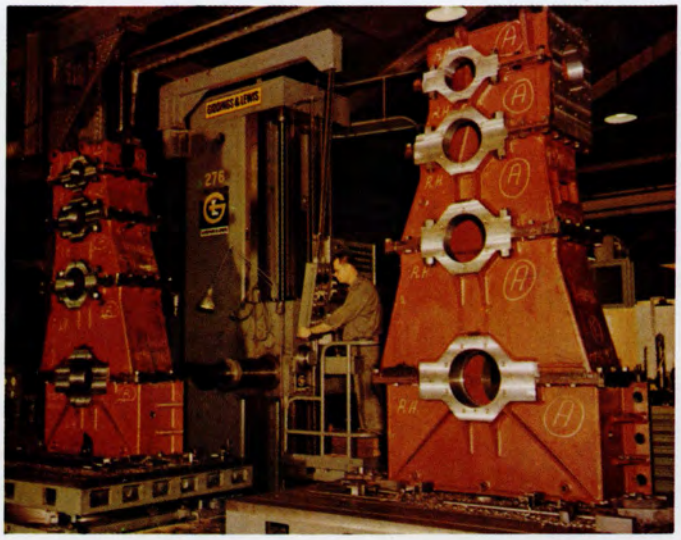
New Orleans, Louisiana

Oklahoma City, Oklahoma

San Antonio, Texas

Shreveport, Louisiana

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Machining Peel Extend Drive For Open Hearth Rapid Charger For U. S. Steel On Giddings & Lewis Horizontal Boring Mill.



20 Ft. Stroke LUFKIN Air Balanced Pumping Unit.



Front Entrance Of New Automotive & Industrial Division Building.



42 Ft. Exterior Post Type General Freight Van



Tug "PARAGON" with LUFKIN Model RS2S3624 Two Speed Forward Reverse Reduction Unit.

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