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ANNUAL REPORT 1973

LUFKIN

INDUSTRIES, INC.

LUFKIN, TEXAS

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Bakersfield, California



Oklahoma City, Oklahoma



Casper, Wyoming



Odessa, Texas

Recently Completed Modern Oilfield Service Centers

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DIRECTORS

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

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

J.G. KURTH
Vice President
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
Vice President

***R.L. POLAND**
President

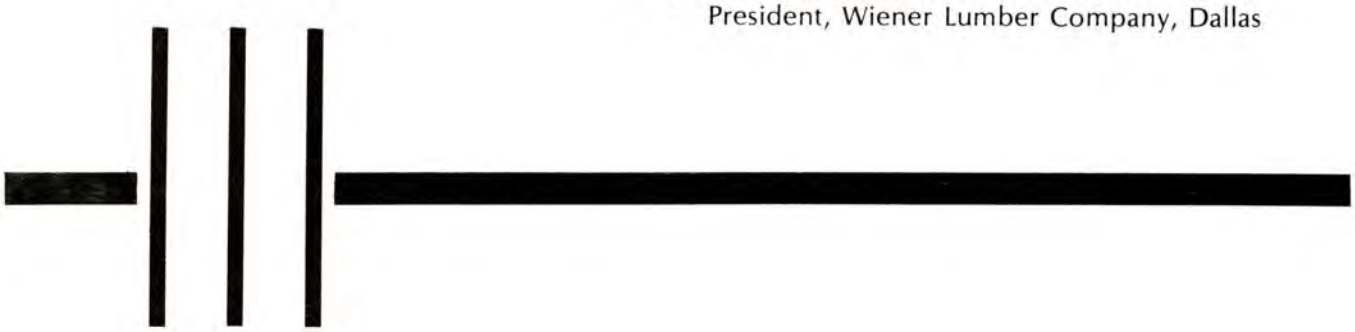
***E.P. TROUT**
Investments; formerly Executive Vice President

W.W. TROUT, JR.
Vice 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
R.E. BARR	Vice President
R.H. LANG	Vice President
W.T. LITTLE	Vice President
W.W. TROUT, JR.	Vice President
W.A. KIRKLAND	Vice President and Secretary
H.L. DYER	Treasurer

*Executive Committee

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President's Message

TO OUR STOCKHOLDERS:

As your company enters the seventy-third year of operation, it is gratifying to report that consolidated sales reached a new high of $80,298,452 during 1973. This is an increase of 15% over the total for the previous year of $69,921,170.

Net earnings for the year were $4,598,893 compared to $3,003,494 for the previous year. Earnings were $2.64 per share, against $1.73 per share the previous year. Dividends of $0.68 per share were paid, as compared to $0.62 per share the year before. Book value increased from $18.30 to $20.27 per share. At year end, the ratio of current assets to current liabilities was 4.41 to 1 for 1973, compared with 4.56 to 1 for 1972. Retained earnings increased from $14,376,906 to $17,792,102. Working capital increased by $2,165,808 and now stands at $28,047,753. The company has paid cash dividends for thirty-four consecutive years since 1939.

During the year 1973, $2,410,000 was reinvested in new tools, buildings and equipment to keep our facilities as modern and efficient as possible. Of this total $2,170,000 was for the Machinery Division, $125,000 for the Mill Supplies Division, and $115,000 for the Trailer Division.

Shortages are developing in numerous critical manufacturing materials and supplies, which could affect the output of our plants in 1974. More extended order lead times in purchasing are required. Many materials are being placed on allocation, and delayed and rescheduled deliveries to us are already being experienced. Consequently, our Purchasing Department is working on an overtime basis placing orders for requirements into 1975, and continuously expediting for current urgently needed materials. These shortages will result in some increased purchases from warehouses at costs up to 25% or more above direct mill costs.

It appears that our most critical area in meeting production requirements during this year will be in our Foundry Department. Design studies and cost estimates are being made for proposed construction at the present plant location of a new cleaning room, and a small foundry for making and pouring counterweights which would increase production by fifty tons a day or about 25%.

The year 1974 was begun with a continuing strong demand for our products and the largest backlog of orders in our history. Barring serious manufacturing delays because of shortages of materials and fuels, the company should have another good year.

We extend our appreciation to our employees for their dedication and hard work this past year in working long hours to serve our customers, and to our stockholders for their continued support.

Respectfully submitted,



R.L. Poland
President

February 13, 1974

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LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings

For the Years Ended December 31, 1973 and 1972

(Note 1)

	1973	1972
Net Sales	$80,298,452	$69,921,170
Cost of Sales	63,462,896	56,706,833
Gross income	$16,835,556	$13,214,337
Selling, General and Administrative Expenses	8,205,293	7,768,413
Operating income	$ 8,630,263	$ 5,445,924
Other Income (Deductions):		
Interest income	253,928	331,152
Interest expense	(586,922)	(556,805)
Other income and expense (net)	217,624	163,223
Net income before income taxes	$ 8,514,893	$ 5.383.494
Provision for Income Taxes:		
Current (Note 4)	$ 3,680,000	$ 2,269,000
Deferred (Note 1)	236,000	111,000
	$ 3,916,000	$ 2,380,000
Net Income (Per Share $2.64 in 1973 and $1.73 in 1972)	$ 4,598,893	$ 3,003,494
Retained Earnings, beginning of year	14,376,906	12,452,665
Cash Dividends (Per Share $0.68 in 1973 and $0.62 in 1972)	(1,183,697)	(1,079,253)
Retained Earnings, end of year (Note 2)	$17,792,102	$14,376,906

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

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LUFKIN INDUSTRIES, INC

Consolidated Ba

December 31, 19

(Note

ASSETS	1973	1972
Current Assets:		
Cash	$ 2,231,158	$ 2,153,676
Temporary investments, at cost, which approximates market	1,550,000	2,750,000
Accounts receivable, less reserve of $125,000	10,377,432	9,142,953
Installment notes and contracts receivable (including $648,289 in 1973 and $244,569 in 1972 due after one year), less reserve for losses of $75,000	999,252	715,288
Inventories, at lower of average cost (on a first-in, first-out basis) or market	21,120,824	18,384,973
Total current assets	$36,278,666	$33,146,890
Property, Plant and Equipment, at cost:		
Land	$ 1,375,765	$ 1,332,938
Buildings	7,315,371	7,216,897
Machinery and equipment	18,669,037	16,751,931
	$27,360,173	$25,301,766
Less - Reserve for depreciation (Note 1)	12,398,825	11,361,831
	$14,961,348	$13,939,935
Other Assets	$ 327,884	$ 363,909
	$51,567,898	$47,450,734

The accompanying notes to consolidated financial sta

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INC. AND SUBSIDIARIES

d Balance Sheet

1, 1973 and 1972

Note 1)

LIABILITIES	1973	1972
Current Liabilities:		
Current portion of long-term debt	$ 500,000	$ 500,000
Accounts payable and accrued liabilities	5,155,121	5,303,569
Reserve for income taxes (Note 4)	2,575,792	1,461,376
Total current liabilities	$ 8,230,913	$ 7,264,945
Long-term Debt, net of current portion (Note 2)	$ 7,000,000	$ 7,500,000
Deferred Federal Income Taxes (Note 1)	$ 1,054,000	$ 818,000
Stockholders' Investment:		
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)	17,792,102	14,376,906
	$35,282,985	$31,867,789
	$51,567,898	$47,450,734

l statements are an integral part of this statement.

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LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1973 and 1972

(Note 1)

	1973	1972
Funds were provided by:		
Net income	$ 4,598,893	$ 3,003,494
Expenses not requiring outlay of working capital-		
Depreciation	1,384,997	1,181,973
Deferred Federal income taxes (Note 1)	236,000	111,000
Decrease in other assets	36,024	-
Total funds provided	$ 6,255,914	$ 4,296,467
Funds were used for:		
Net additions to property, plant and equipment	$ 2,406,409	$ 2,263,288
Increase in other assets	-	99,708
Dividends	1,183,697	1,079,253
Reduction in long-term debt	500,000	500,000
Total funds used	$ 4,090,106	$ 3,942,249
Increase in working capital	$ 2,165,808	$ 354,218
Working capital, beginning of year	25,881,945	25,527,727
Working capital, end of year	$28,047,753	25,881,945
Working capital increase Resulted from changes in:		
Cash	$ 77,482	$ (424,684)
Temporary investments	(1,200,000)	(175,000)
Accounts receivable	1,234,479	2,762,400
Installment notes and contracts receivable	283,964	(395,520)
Inventories	2,735,851	1,447,064
Accounts payable and accrued liabilities	148,448	(2,984,910)
Reserve for income taxes	(1,114,416)	124,868
Increase in working capital	$ 2,165,808	$ 354,218

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

Notes to Consolidated Financial Statements December 31, 1973 and 1972

(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.

(2) Long-term debt -

The long-term debt at December 31, 1973, is payable $250,000 semi-annually 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, 1973, retained earnings of the parent company of approximately $5,800,000 were not restricted as to the payment of dividends under the loan agreement.

(3) Retirement plans -

The company and its subsidiaries have retirement plans covering substantially all employees. The total pension expense was $784,000 in 1973 and $735,000 in 1972, including amortization of prior service costs over a period not in excess of 30 years. The amount provided each year for pension expense is paid into pension trust funds. The total unfunded prior service cost at December 31, 1973, is estimated to be $3,273,-000; however, the actuary's report indicated that the assets of the trust funds exceeded the actuarially computed value of vested benefits.

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(4) Federal income taxes -

In the following table, is a reconciliation of the provision for income taxes included in consolidated net income and the amount computed by applying the Federal statutory rate to net income before income taxes:

	1973	1972
Taxes computed at statutory rate of 48 percent	$4,087,000	$2,584,000
Reductions resulting from:		
Investment tax credits	99,000	86,000
Benefits from Western Hemisphere Trade Corporation	72,000	118,000
Actual provision for income taxes	$3,916,000	$2,380,000

Also, 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.

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. Audits of taxable years 1963 through 1969, using the same theories, resulted in further net proposed deficiencies of $850,000.

Discussions of these proposed deficiencies have been under way and a tentative basis of settlement was reached, resulting in cancellation by the Tax Court on January 4, 1974 of the retrial set for January 8, 1974, and the directing of the parties to file final settlement documents in the cases on or before April 8, 1974.

The company now estimates that if the tentative agreement carries through the aggregate deficiencies will approximate $100,000. Also, the company does not believe that any material adjustment to its financial statements will be necessary since the company's policy has been to provide for United States taxes that may ultimately be payable on all foreign earnings.

Auditors' Report

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, 1973, 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, 1973, 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 13, 1974

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SALES OFFICES

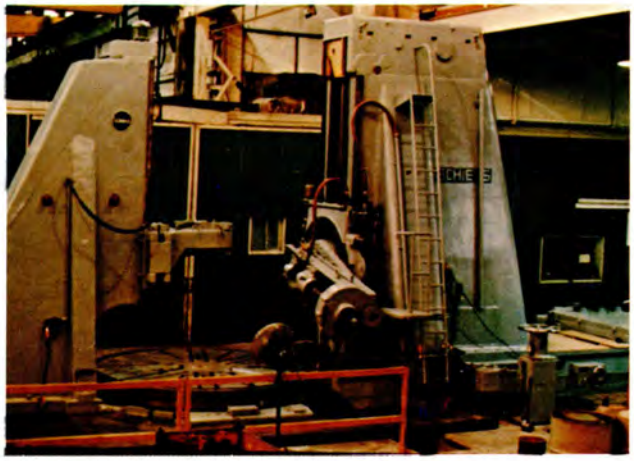
Machinery Division

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
Charlotte, Vermont
Chicago, Illinois
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
Edmonton, Alta., Canada
Hamburg, Germany
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
Pittsburgh, Pennsylvania
Quito, Ecuador
Rio de Janeiro, Brazil
San Fernando, Trinidad
San Francisco, California
Seattle, Washington
Singapore
Talara, Peru
Tripoli, Libya
Tucson, Arizona
Tulsa, Oklahoma

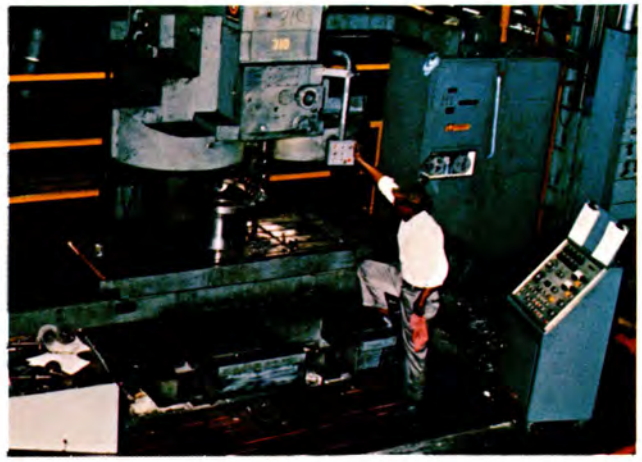
Trailer Division

Atlanta, Georgia
Baton Rouge, Louisiana
Birmingham, Alabama
Charlotte, North Carolina
Dallas, Texas
El Paso, Texas
Houston, Texas
Jackson, Mississippi
Lubbock, Texas
Memphis, Tennessee
Minneapolis, Minnesota
New Orleans, Louisiana
Oklahoma City, Oklahoma
Phoenix, Arizona
San Antonio, Texas
Shreveport, Louisiana
Springfield, Missouri
Tucson, Arizona

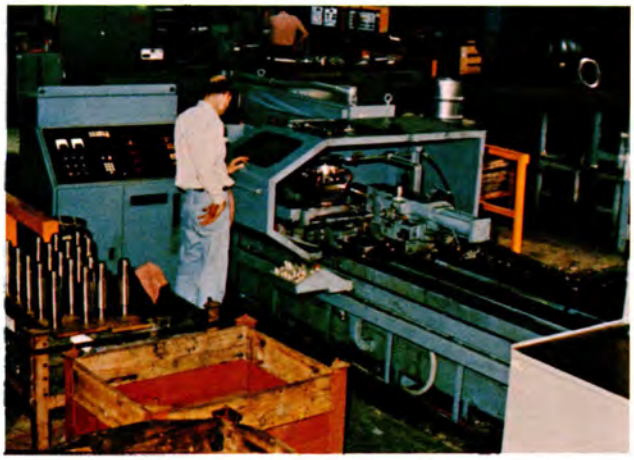
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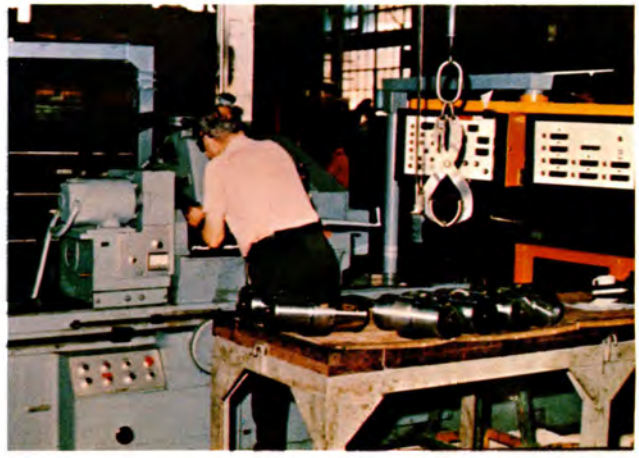
Schiess Gear Hobbing Machine



G & L Tape Controlled Drilling, Boring and Milling Machine



American Tape Controlled Lathe



Cincinnati Numerically Controlled Precision Grinder

Some of the Machine Tools Installed in 1973

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