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LUFKIN

Annual Report 1974

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LUFKIN INDUSTRIES, INC.
P. O. BOX 849, LUFKIN, TEXAS 75901

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Report to Stockholders

Sales, net income, earnings per share and dividends were all up in 1974 for a record year for Lufkin Industries, Inc.

Consolidated sales increased 30 per cent to a new high of $104.0 million.

Net income improved 91 per cent to $8.8 million or $5.05 per share after a change from FIFO to LIFO inventory valuation.

Dividends of $.82 per share were paid to stockholders in 1974 compared to $.68 in 1973. Lufkin has paid cash dividends for 35 consecutive years since 1939.

The election to switch to the LIFO method of valuing inventories reduced net income for the year by $2.0 million or $1.13 per share. This change was made to more clearly reflect income by matching current costs against current revenue. The switch also improves Lufkin's cash position by substantially reducing the income taxes currently payable.

Capital improvements amounted to $2.1 million. This is a continuation of our planned policy of keeping tools, equipment and facilities up-to-date. The Mill Supplies and Trailer Divisions are new, so the major capital expenditures in 1974 were for the Machinery Division.

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A new multi-million dollar counterweight gray iron foundry is under construction near the old foundry. It should be ready to melt iron by December 1975. The two new 3000 KVA arc furnaces will increase our foundry castings production by 25 per cent.

Other foundry expansions include a complete new castings cleaning department to be completed in 1976. These expansions will be financed from cash flow and short-term borrowing.

The sales of pumping units, gear products, trailers and mill supplies were all good in 1974. Sales were $73.1 million in the Machinery Division, $25.8 million in the Trailer Division and $5.1 million in the Mill Supplies Division.

Although sales in the Machinery and Mill Supplies Divisions are still strong, there was a sharp drop in Trailer Division sales beginning January 1, 1975. Some of our small pumping unit fabrication has been shifted from the Machinery Division to the Trailer Division to prevent a layoff of our employees and better utilize our facilities during this temporary slow down in trailer sales.

Barring any unforeseen circumstances, we are confident that 1975 will be another good year for Lufkin Industries Inc.

The management of Lufkin Industries, Inc. wishes to express our appreciation to our employees for their loyalty and cooperation, and to our stockholders, directors, customers and suppliers for their continued assistance and valued support.



R. L. POLAND
President and Chief Executive Officer



LUFKIN Air-Balanced Pumping Unit works in Canada



LUFKIN Sugar Mill Drive Gears in Thailand



LUFKIN Mark II Pumping Unit in Venezuela

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LUFKIN . . . Your Company



LUFKIN Gear air-freighted from San Francisco to Honolulu, Hawaii

What It Is

Negotiations for the digging of a canal across the Isthmus of Panama were being handled by Teddy Roosevelt, president of the United States, when Lufkin Foundry Machine Company was founded in 1902.

Five Lufkin men organized the Company and issued 300 shares of stock at $100 per share, raising enough money to build the first machine shop at a cost of $21,500 and to hire a handful of employees.

Today the Company's sales exceed $100 million and it employs 2400 people.

For 20 years after its founding, the Company flourished as a saw mill machinery and locomotive repair shop. When the timber industry changed, so did our Company.

W. C. Trout, then president, pursued the idea of pumping oil to the surface with a worm gear unit. When the first enclosed gear unit was sold to Humble Oil & Refining Company and put on a well at Goose Creek, Texas (later renamed Baytown), LUFKIN was launched into the oilwell pumping unit business.

As the years passed and technology progressed, diversification came to the Company. From the worm geared unit, the Company developed the conventional crank-balanced unit that is the workhorse of the oilpatch today. Added to this model are two other highly accepted units—the air-balanced and the Mark II units.

To the pumping unit line, we added the manufacture of industrial and marine gears. In 1939, we purchased the Martin Wagon Company which became the Trailer Division of the parent company. Today, this Division produces heavy-duty truck-trailers with a line of vans, dumps and floats. It is housed today in an automated plant on a 400-acre site some seven miles southeast of Lufkin.

The third Division of the Company is the Automotive & Industrial, which actually is the oldest division of this company. Its beginning was synonymous with the beginning of the com-

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pany. It was called the Mill Supplies then because it stocked parts and supplies needed by the saw mills. Now located in new offices and warehouses, following a disastrous fire in January, 1972, this division has one of the largest inventories of parts and supplies in East Texas and surrounding states.

Diversification necessitated a change in the name of the company. By approval of the stockholders at its annual meeting March 17, 1970, the name was changed to Lufkin Industries, Inc.

LUFKIN's products are marketed worldwide by sales representatives located in offices throughout the United States, in Canada, Mexico, South America, England and Singapore. This sales force for the three divisions number 90.

What It Is Doing– Where It Is Going

While 1974 was an excellent year for LUFKIN, plans for 1975 are exciting and ambitious.

Beginning in January, 1975 production of Model C-114D pumping units was begun in the Trailer Division. This came about after trailer business declined sharply.

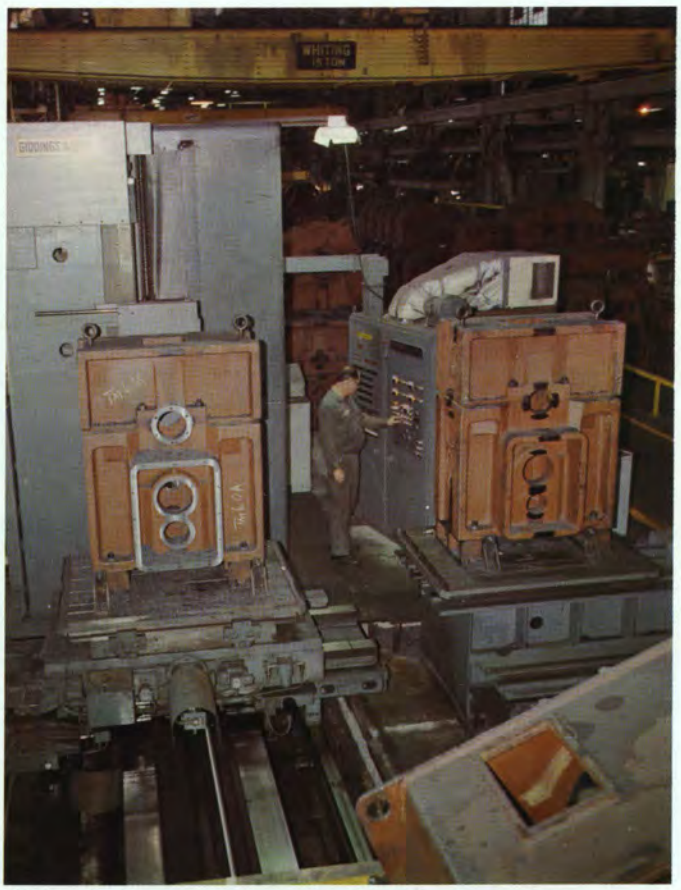
The decline was caused in part by a slump in the economy but also because of a federal government regulation which requires all trailers built after January 1, 1975, to be equipped with an anti-skid device.

As a result of this requirement, the majority of trucking firms ordered most of their trailers to be shipped before January 1, 1975. This device consists of a computerized instrument for each axle that will monitor wheel rotation to prevent skidding when the brakes are applied. It adds approximately 10% to the price of a trailer.

To help offset the sag in trailer business, we worked out a system to utilize some of the space and employees in the Trailer Division to build the smaller model pumping unit. Although it is necessary for the gear box to be manufactured in the Machinery Division as well as other machined parts, much of the fabrication on the unit can be done in the Trailer Division. Trailer employ-



LUFKIN Trailers are a familiar sight on U. S. highways



This is one of many sophisticated machines in our plant

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A LUFKIN Extruder drives a tire retreading machine. A passenger tire can be retreaded in one minute, a truck tire in three minutes



This giant bull gear is now in a cargo ship plying the Pacific Ocean between Hawaii and the U. S.

ees are building bases, walking beams, samson posts and equalizers for the C-114D, as well as smaller structural parts such as ladders, crank guards and side rails for all pumping units.

This was done primarily to keep the majority of Trailer Division employees on the payroll and to prevent a major layoff. It is hoped that the trailer business will revitalize and the trailer plant can revert to fulltime trailer manufacturing sometime during 1975.

A new foundry for production of counterweights for pumping units is under construction. Completion is scheduled for late 1975, and it is planned to pour the first metal in the new foundry in early 1976.

There will be two 3000 KVA electric arc furnaces, a new no-bake molding system throughout and a completely new cleaning department with all related equipment.

The new furnaces will enable us to melt the metal shavings from the machine shop. In the past, we have shipped about 20 tons of shavings each day to Houston because we could not melt them in our cupola. This will increase our foundry capacity by 25 percent, bringing the total melting capability to 250 tons per day.

However, much of the cost of the new foundry is for safety and air pollution control equipment required by regulations of the federal government under the Office of Safety and Health Administration. These do not necessarily improve the efficiency of our operations.

To increase efficiency in our production process, some machine tools were moved from the machine shop to the shipping department. This will eliminate the trucking of heavy, massive castings from the foundry department across Raguet Street for machining, then moving the finished parts back across Raguet to the Assembly and Shipping department.

Now these castings are moved only one time a short distance from the foundry to the assembly and shipping department for machining, assembling and shipping from one location.

This resulted also in releasing sorely needed space in the machine

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shop for further expansion and production capacity.

New machines purchased in 1974 are increasing production capacity in 1975. These include two Sykes gear generators, three lathes, a precision hobbing machine, a grinder, a milling machine, a tape controlled drill press and an automatic chucking machine.

There were no capital improvements in 1974 for the Automotive & Industrial Division because that division's facilities are relatively new. During the past year and continuing in 1975, operation of this Division as efficiently and profitably as possible has been and will continue to be management's goal.

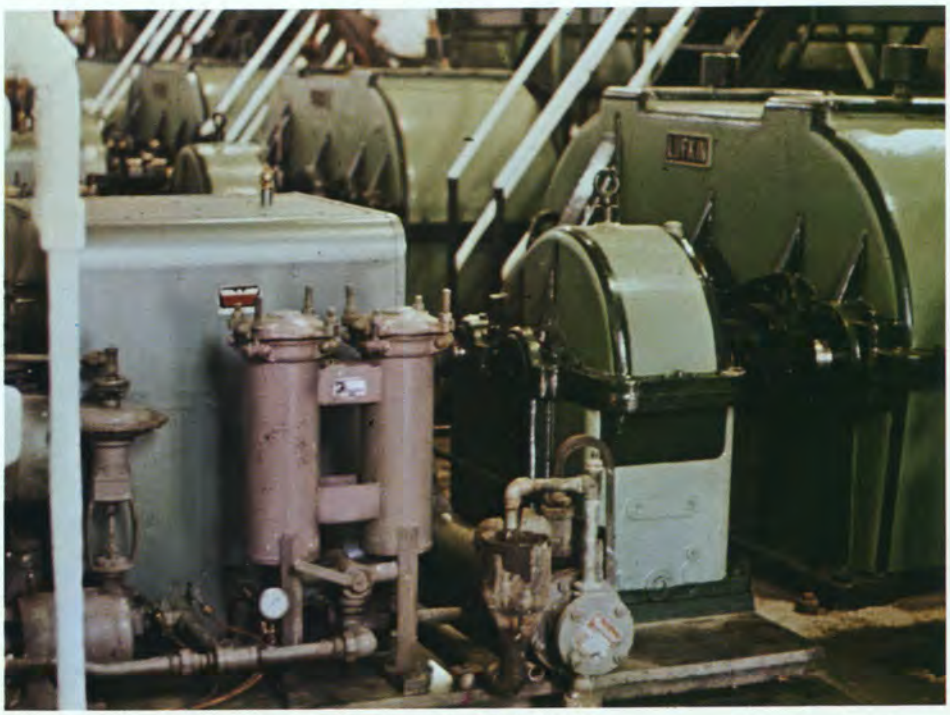
During 1974, we acquired a new computer on which has been placed our payroll and all general accounting. It is hoped that inventory and production scheduling can be placed on the computer in the future.

Some of the less spectacular achievements of 1974 which will be continued and broadened in 1975 are the changes in benefits and implementing new programs which affect our employees and enhance our position in the community in which our home offices and plant are located.

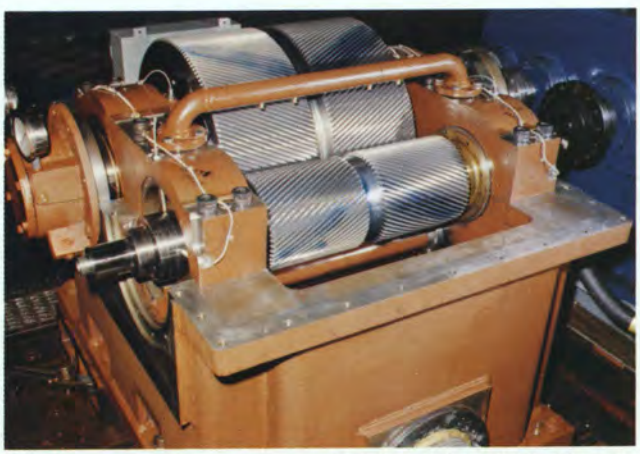
There were changes made in the retirement plans for both hourly and non-hourly employees resulting in better benefits. In-training schools, safety programs, paving existing as well as creating additional parking facilities were implemented for our employees. New programs in these areas are being studied for the future.

A beautification plan for the grounds around the plant is being prepared. We want to cooperate with the City of Lufkin in its effort to clean-up and beautify for the Bi-Centennial Celebration in 1976. LUFKIN has an abiding commitment to be a corporate good citizen.

Your Company is not an impersonal corporation. It is alive with vibrant, skilled, dedicated, loyal employees. The future of Lufkin Industries, Inc. will be molded by employees and stockholders working hand in hand. The greatest natural resource of LUFKIN is its people.



LUFKIN mill drive gears help produce sugar in Philippines



This Speed Increaser transmits 30,000 HP (LUFKIN's biggest so far) in a NASA installation in Cleveland, Ohio

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Directors

* S. W. Henderson, Jr.
  Manager, Own Investments, Lufkin

S. W. Henderson, III
Manager, Own Investments, Dallas

J. G. Kurth
Vice President, Walker-Kurth Lumber Company, Houston

* M. E. Kurth, Jr.
  President, Southland Paper Mills, Inc., Lufkin

* L. A. Little
  Retired; formerly Executive Vice President

W. T. Little
Vice President

* R. L. Poland
  President and Chief Executive Officer

* E. P. Trout
  Retired; formerly Executive Vice President

W. W. Trout, Jr.
Vice President

* J. L. Wiener
  Partner, Wiener, Weiss & Wiener (Law Firm), Shreveport

J. L. Wiener, Jr.
Partner, Wiener, Weiss & Wiener, Shreveport

Samson Wiener
President, Wiener Lumber Company, Dallas

* Member Executive Committee

Officers

R. L. Poland	*President and Chief Executive Officer*
R. E. Barr	*Vice President*
F. D. Griffin	*Vice President*
R. H. Lang	*Vice President*
W. T. Little	*Vice President*
J. C. McKay	*Vice President*
B. M. Queen	*Vice President*
W. W. Trout, Jr.	*Vice President*
C. J. Haley, Jr.	*Secretary*
H. L. Dyer	*Treasurer*

Additional Information

This Report is presented for the general information of the stockholders and not in connection with the sale or offer to sell or solicitation of any offer to buy any securities, nor is it intended as a representation by the Company of the value of any of its securities.

Additional copies of the Report are available upon request to The Secretary, Lufkin Industries, Inc., P. O. Box 849, Lufkin, Texas 75901. Also upon written request from any stockholder, the Company will furnish without charge a copy of its Form 10-K filed with the Securities and Exchange Commission for 1974.

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