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LUFKIN

1975 ANNUAL REPORT

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LUFKIN

Where People Make the Difference . . .

























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Financial Highlights

	1975	1974
Net Sales	**$133.2**	$104.0
Net Income	**22.5**	8.8
Working Capital	**46.9**	34.6
Book Value Per Share	**35.70**	24.50
Net Income Per Share	**12.92**	5.05

(Amounts in millions of dollars except per share data)

Quarterly Dividend Information (per share)

	1975	1974
First Quarter	**$ .22**	$ .17
Second Quarter	**.25**	.20
Third Quarter	**.25**	.20
Fourth Quarter	**1.00**	.25
	$1.72	$ .82

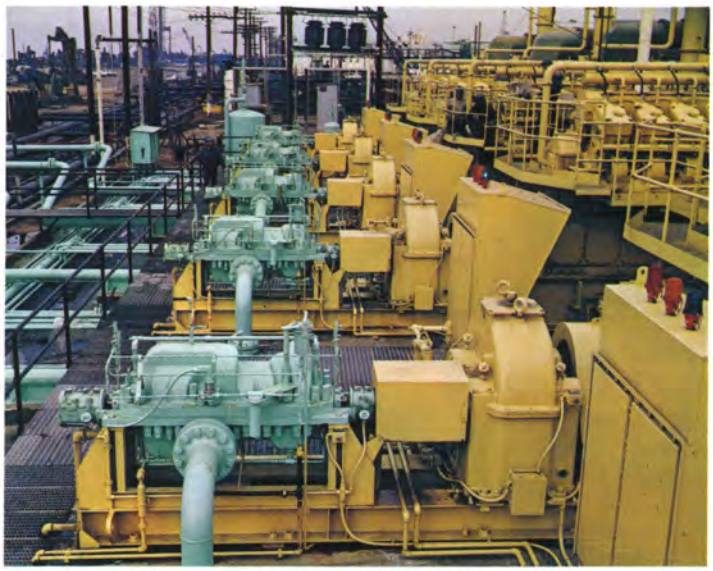
There is no active market in the company's common stock.

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Report to Stockholders:



Crank balanced pumping unit in Alberta, Canada



Row of five LUFKIN gear units on the West Coast



Dump trailer ready to add strength to road construction

During the year 1975, Lufkin Industries, Inc. achieved a remarkable record in production, shipments, sales and earnings.

For the first time in the company's history, sales reached $133,233,000 and earnings totaled $22,485,000. This compares to sales of $104,006,000 and earnings of $8,799,000 in 1974.

Dividends were increased from 82 cents per share in 1974 to $1.72 per share in 1975, an all-time high.

Earnings per share increased from $5.05 in 1974 to $12.92 in 1975. Book value of Lufkin Industries stock as of December 31, 1975 was $35.70 per share.

In the Machinery Division, pumping units and related products represented 74 per cent of 1975 net sales against 55 per cent in 1974. Gears represented 14 per cent of 1975 net sales compared to 15 per cent in 1974.

By far the greater portion of product shipments were pumping units since this segment of our business was increased markedly by the worldwide demand. Shipments of pumping units in 1975 totaled 5122 compared to 3465 in 1974. Gear shipments in 1975 were 928, a slight drop from 1112 in 1974.

Our Trailer Division had an unusual year. Trailer sales were off about 59 per cent. However, this decrease in trailer sales was countered by shifting some of the pumping unit production of the Machinery Division to the Trailer Division. Structures of 1490 pumping units were manufactured by the Trailer Division. This allowed us to keep our Trailer Division work force intact as well as utilizing the facilities of this area to its best advantage.

Our plant operated essentially at 100 per cent capacity in 1975. Our facilities were pushed hard but we did schedule time for maintenance and repair so that we are not entering 1976 with substantial backlogs of deferred maintenance.

You will be interested to know that capital investments in 1975 increased dramatically, which will help the above-mentioned situation.

We invested some $8,757,000 in capital expansions in 1975 compared to $2,080,000 in 1974. This figure was allocated as follows: land and buildings, $2,055,000; machine tools and equip-



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ment, $1,676,000; foundry equipment, $3,682,000. This totals $7,413,000 for the Machinery Division.

We invested another $1,344,000 in transportation equipment for all divisions. There were no significant capital expenditures in 1975 for the Trailer Division nor Automotive & Industrial Supplies Division.

The majority of our 1975 capital investments was in the foundry department because this was the area of greatest need. Construction of our new gray iron foundry which will produce principally counterweights for our pumping units was completed in 1975 and put into production in December at a cost of approximately $3.7 million.

This foundry has two 3000 KVA arc furnaces for melting as opposed to our cupola in the old foundry. This new foundry will increase our foundry production by an estimated 25 per cent with its current one-shift operation.

Scheduled for completion in 1976 is a new castings cleaning department at an estimated cost of $3 million. Funding for these expansions is with internally generated funds.

Your company is cognizant of its responsibilities concerning natural resources and the quality of the environment in our areas of operations. A substantial portion of the cost of the new counterweight foundry and the castings cleaning department now under construction is for environmental systems and equipment.

The labor contract between Lufkin Industries and AFL-CIO will expire on April 20, 1976. Negotiations on a new contract begin in March. An 11 per cent wage increase was granted to the union April 20, 1975 on a wage reopener.

Lufkin Industries employs more than 2600 people of whom approximately 2100 are hourly paid.

Although we have seen a softening of new pumping unit and gear orders, we are optimistic that 1976 will be another good year for Lufkin Industries.

One of the most rewarding aspects of our 1975 year was the highly creditable performance of the men and women in our plants and offices. Under difficult and trying conditions at various times, they just kept plugging away. Although our sales reached an all-time high, this was achieved with only slightly increased labor and overhead costs. This could not have been accomplished without their dedication and loyalty to this company.

To the men and women in all areas of employment in Lufkin Industries, and to our officers and directors, I extend my sincere appreciation and gratitude for a job well done in 1975.

We shall strive to do as well, or better, in 1976.



R. L. Poland
President and Chief Executive Officer



Offshore rig being towed by LUFKIN gear-equipped tug



Four air balanced pumping units on offshore site



Mark unitorque pumping unit in Smithsonian Institution

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First counterweights poured in new foundry



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Machinery Division

The Machinery Division designs, manufactures, sells and services various types of oil field pumping units and related products and marine propulsion and industrial gears. Most of the component parts used in these products are manufactured by the company.

LUFKIN manufactures four basic types of oil field pumping units: an air balanced unit; a beam balanced unit; a crank balanced unit; and a Mark II Unitorque unit. The basic differences between the four types relate to the counterbalancing systems. The depth of a well and the desired fluid production determine the type of counterbalancing configuration which is needed in the pumping unit utilized on a well.

Gears (speed increasers and reducers) manufactured by LUFKIN are designed, manufactured and sold primarily for use in marine propulsion units and for use in heavy industries such as steel, rubber, paper, sugar, plastics and refining mills.

Oil field pumping units and related products are the company's primary products sold in export. Export sales are made principally through five wholly owned subsidiaries: Lufkin Industries International, Inc.; Lufkin Overseas Corporation, S.A.; Lufkin Machine Company, Limited; Lufkin Industries Sales Corporation; and Lufkin Industries (U. K.) Limited. During 1975, foreign sales accounted for approximately 18 per cent of the company's total net sales.

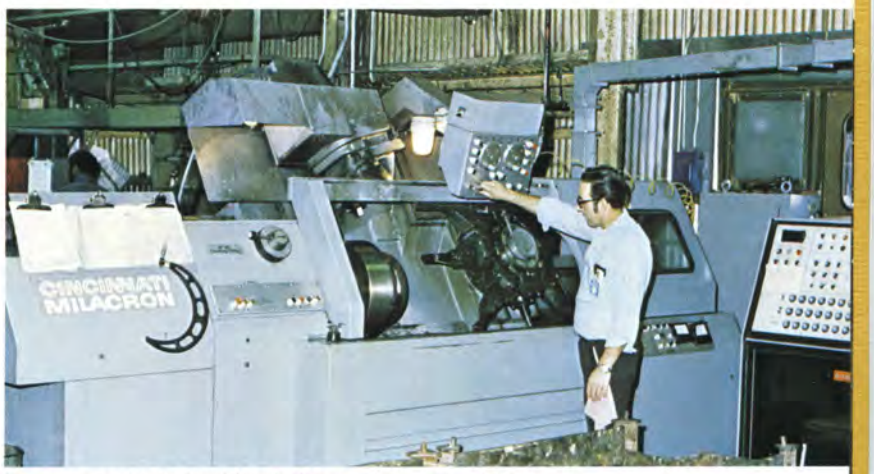
Manufacturing areas in the Machinery Division have been operating at or above the maximum efficient operating capacity during most of 1972 through 1975. Additions and new buildings have been constructed to alleviate crowded conditions and to increase production to meet the accelerated demand for LUFKIN's products.

The largest addition to the plant—space and dollar-wise—is the new gray iron foundry in which counterweights for pumping units are manufactured. Begun in 1974, this new foundry began production in December, 1975. Incorporating a completely different method of melting from the other foundry, this new foundry has two electric arc furnaces which can produce approximately 50 tons of castings per eight-hour shift. Using electricity in its melting process, these furnaces consume 5000 kwh in an eight-hour operation which is about the equivalent to the electric power required to supply 1250 average-sized homes in Lufkin.

Other than increasing the foundry production by about 25 per cent, the new foundry furnaces recycle the scrap steel which comes from the welding shop and the cast iron and steel turnings and borings which are by-products of the manufacturing processes of the machine shop.



Electric arc furnaces recycle scrap iron and steel



Tape-controlled chucking lathe produces precision parts



Record 5122 pumping units shipped in 1975

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Previously, these scrap iron and steel shavings were trucked to Houston for sale.

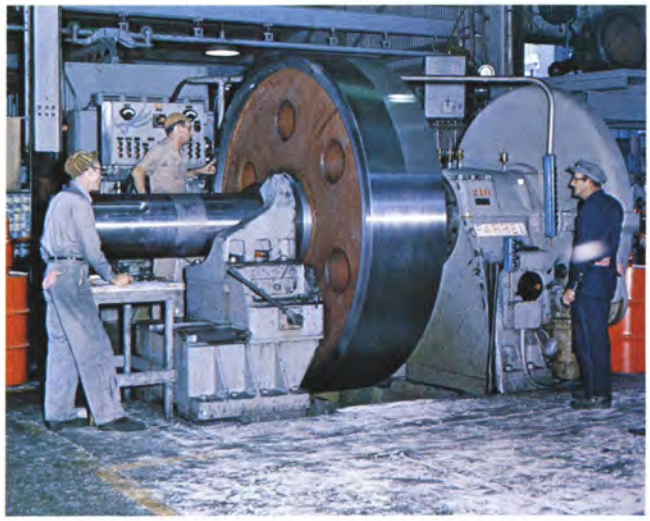
Molds, made with chemically bonded sand known as "no-bake," are being produced now on a mechanized in-line conveyor system. This drastically reduces the amount of natural gas used in this foundry as well as affording other benefits. The sand used in the molding process is recycled through a reclaimer system and is used over and over again. Also this system is a much cleaner operation.

In fact, in this new foundry there are pollution control devices costing more than $1 million. The dust collectors process in a special blender the by-products of the production processes and the end material is used as fill around the plant grounds as well as for projects throughout the Lufkin community.

Other additions to the Machinery Division include extension of the main bay of the old foundry and installation of a new giant dust collector. Also two new bays were added to the welding shop in which belt covers and air tanks are manufactured and which increase the area where pumping unit beams and bases are built.

In the company's continuing practice of keeping the manufacturing facilities up-to date, considerable monies were spent for new machine tools and utilizing manufacturing space to its best advantage.

A rather unique installation in the machine shop was completed in 1975. The area in which high speed, precision-cut gears are manufactured was temperature-controlled by year-round air conditioning. Heat and humidity are the enemies of precision gear cutting. To overcome these ever-present elements of East Texas, installation of insulation, duct work, compressors and evaporating coils was completed last year, and the time-tested quality of LUFKIN products was insured.



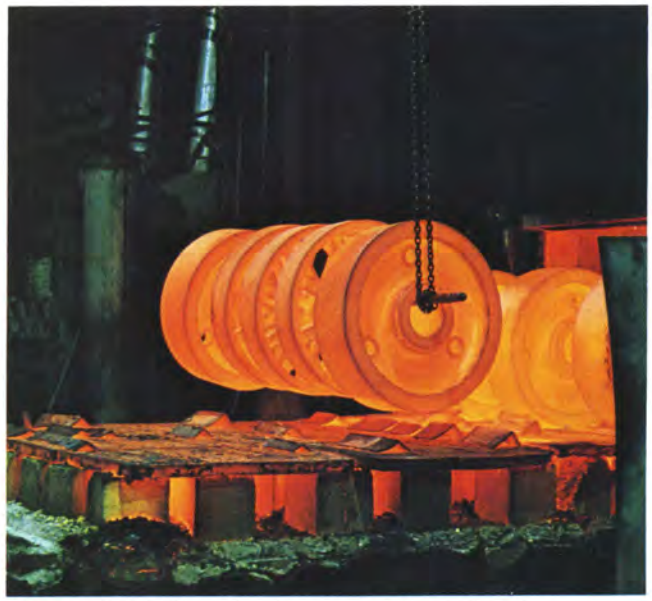
A 10-foot Sykes generator cuts teeth for gear reducer



Gear rim fabricated by a LUFKIN-pioneered process



Machine shop is equipped with finest machine tools



Heat treating a ductile iron gear made in old foundry

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Trailer Division

The Trailer Division designs, manufactures, sells and services a variety of van, flatbed and dump trailers. The manufacturing facilities are located on a 60-acre portion of a 400-acre tract of land owned by the company and consist of one large building with a floor area of approximately eight acres. Operations are highly automated and consist principally of fabrication, welding and assembly activities.

It became apparent that orders for new truck-trailers in 1975 would be decidedly less than in 1974 due to the economy of the country but more so because of a federal government regulation which requires all trailers built after January 1, 1975, to be equipped with an anti-skid device.

To counter this loss of trailer business, a portion of the pumping unit production of the Machinery Division was shifted to the Trailer Division. The facilities and employees of the Trailer Division were utilized efficiently in the manufacture of pumping unit structures.

As a matter of fact, all crank guards, ladders and side rails were built in this Division. Also walking beams, samson posts and equalizers for certain sizes of pumping units were manufactured by Trailer Division employees.



Trailer Division produced 1490 pumping unit structures in 1975



Trailer axles, brakes and hubs are produced in this area



Area where sides are assembled for LUFKIN trailers



Trailer Division builds all crank guards for pumping units



View of department where tires are mounted for trailers

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Automotive & Industrial Supplies Division

The Automotive & Industrial Supplies Division is essentially a wholesale supplier of automotive spare parts, heavy hardware items, plumbing fixtures, pole line hardware and miscellaneous industrial items.

The facilities of this Division include 2097 feet of display area, approximately 121,500 square feet of warehouse space and about 5200 square feet of administrative operations. Also there is a pipe storage yard covering approximately 27,100 square feet.

This is the oldest Division of Lufkin Industries, having had its beginning as a supplier of sawmill parts and equipment during the founding years of the company. However, today its facilities are modern and expansive, having been built in 1972 following a fire that destroyed its old quarters.



Modern systems are utilized to fill orders quickly and shorten delivery time to the customer



A portion of the 121,500-square-foot warehouse which covers an entire city block

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LUFKIN

Industries, Inc.
1975 FINANCIAL REVIEW

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Lufkin Industries, Inc. and Subsidiaries
Consolidated Summary of Operations

Years Ended December 31

(In Thousands of Dollars Except for Per Share Data)

	1975	1974	1973	1972	1971
Net sales	**$133,233**	$104,006	$80,298	$69,921	$54,221
Cost of sales	**82,290**	78,016	63,463	56,707	42,224
Gross income	**50,943**	25,990	16,835	13,214	11,997
Selling, general and administrative expenses	**9,675**	9,329	8,205	7,768	6,869
Operating income	**41,268**	16,661	8,630	5,446	5,128
Other income (expense)	**431**	8	(115)	(63)	(150)
	41,699	16,669	8,515	5,383	4,978
Provision for income taxes	**19,214**	7,870	3,916	2,380	2,281
Net income	**$ 22,485**	$ 8,799	$ 4,599	$ 3,003	$ 2,697
Net income per common share	**$12.92**	$5.05	$2.64	$1.73	$1.55

See the notes to the company's consolidated financial statements for information concerning the company's major accounting policies, including the change in 1974 in the method of accounting for inventories, and other matters.

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Financial Review

Management's Discussion and Analysis of the Summary of Operations

Lufkin Industries, Inc. continued its growth in sales and net income and reported for 1975 record sales of $133,233,000 and record net income of $22,485,000. A discussion of the more significant reasons for the changes in 1974 and 1975 follows:

1974

Sales: The increase of $23,708,000 can be attributed primarily to two factors: (1) the large demand for oilfield equipment due to the energy crisis and increased trailer sales just before costly government regulations became effective in January, 1975 and; (2) the lifting of the price freeze in early 1974, thereby enabling the company to increase prices to offset previously incurred cost increases. There were no new major product lines introduced in 1974 nor was there any additional investments in fixed assets.

Cost of Sales: The company's costs of production were substantially increased by inflation in 1974 with costs of materials increasing in the company's three divisions by an average of 25%. Also, shortages of certain raw materials and allocations by steel suppliers required the company to substitute more expensive materials in certain cases. In April, 1974, the company signed a new labor union contract covering most of its production workers which resulted in a 10% increase in labor costs. Employee benefits, utilities, taxes and supplies were among the major items of overhead which increased during the year, primarily as a result of inflationary factors and increased production. Another item contributing significantly to increased cost of sales in 1974 was the company's change in method of accounting for inventories from FIFO to LIFO. This change, which more clearly reflects income by matching current costs against current revenues, resulted in an increase in cost of sales in 1974 of $3,799,264 in excess of the amount that would have been charged under the previous method. In spite of increased costs due to all of these factors, the company was able to increase its gross margin from 21% in 1973 to 25% in 1974 for the reasons discussed above.

Line of Business Summary

	1975	1974	1973	1972	1971
Net sales—as percent of total					
Machinery Division					
Pumping units	**74**	55	44	43	50
Gears	**14**	15	20	18	17
Trailer Division	**8**	25	30	33	25
Automotive and Industrial Supplies Division	**4**	5	6	6	8
Operating income before income taxes—as percent of total					
Machinery Division	**98**	92	93	99	96
Trailer Division	**1**	8	5	(10)	(14)
Automotive and Industrial Supplies Division	**1**	—	2	1	4

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Other: Selling, general and administrative expenses rose $1,124,000 in 1974 as a result of increased business and inflationary factors. Other income (expense) changed from a net expense of $115,000 in 1973 to a net income of $8,000 in 1974, primarily a result of reduced interest expense on short-term borrowings. Tax expense and net income per share both increased proportionately with net income as the company's effective tax rate and the number of average shares outstanding remained basically the same.

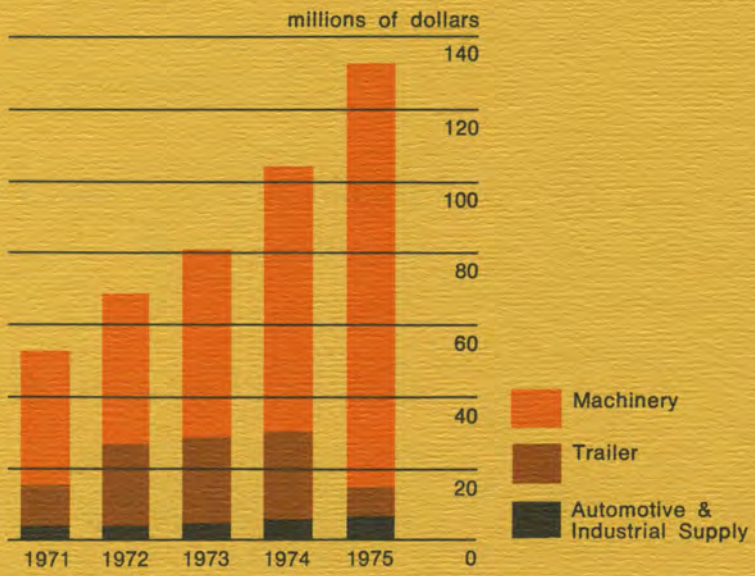
1975

Sales: The increase of $29,227,000 was generated primarily through greater volume in oilfield pumping equipment. There was a significant industry-wide reduction in the demand for the company's trailer products. As a result of this reduced demand for trailers, the company began producing the smaller sizes of oilfield pumping equipment at its trailer facilities. In addition, expanded and improved production facilities enabled the Machinery Division to substantially increase its production capacity, which the company was able to utilize with its increase in customer orders.

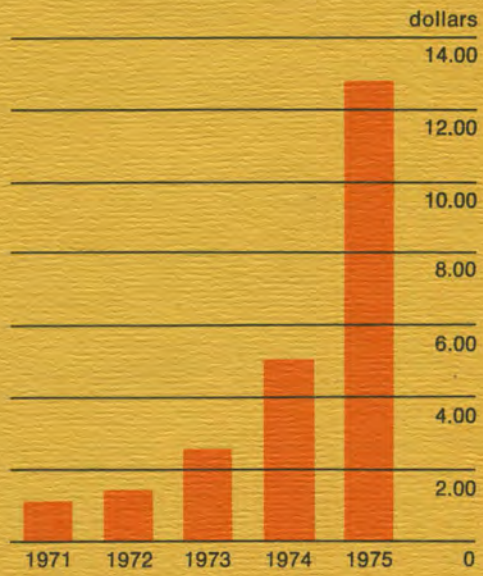
Cost of Sales: The company was able to significantly increase its gross margin to 38% in 1975, up from 25% in 1974. This improvement resulted primarily from the large increase in sales of oilfield pumping equipment and the reduction in trailer sales volume. The company realizes a significantly larger gross margin on its oilfield pumping equipment than on its trailer products. The large increase in sales was achieved with only slightly increased labor and overhead costs.

Other: Selling, general and administrative expenses rose $346,000 in 1975 primarily as a result of inflationary factors. Selling, general and administrative expenses as a percentage of net sales decreased to 7.2% in 1975 from 9.0% in 1974. Other income increased $423,000 in 1975 resulting primarily from increased interest income partially offset by increased interest expense. Interest income increased in 1975 as a result of increased holdings of temporary investments and installment notes during the year. Interest expense was up as a result of interest payments in settlement of the company's Federal income tax suit. Both tax expense and net income per share increased proportionately with net income as the

Net Sales



Earnings per Common Share



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company's effective tax rate and the number of average shares outstanding remained basically the same.

Dividends

Lufkin has paid cash dividends for 36 consecutive years. Quarterly dividend payments in 1975 were 22 cents per share in the first quarter and 25 cents per share in the last three quarters with an extra dividend of 75 cents per share in the last quarter. This totaled $1.72 per share in 1975 compared to $.82 per share in 1974, an increase of 110%. Total dividend payments were $2,994,000 in 1975 and $1,427,000 in 1974.

Financial Position

The company's strong financial position was further improved in 1975 and its balance sheet at December 31, 1975 was the strongest in its history. Working capital (current assets in excess of current liabilities) increased $12,321,000 reaching $46,905,000 at December 31, 1975. Cash and temporary investments were $21,143,000 at December 31, 1975, a record amount.

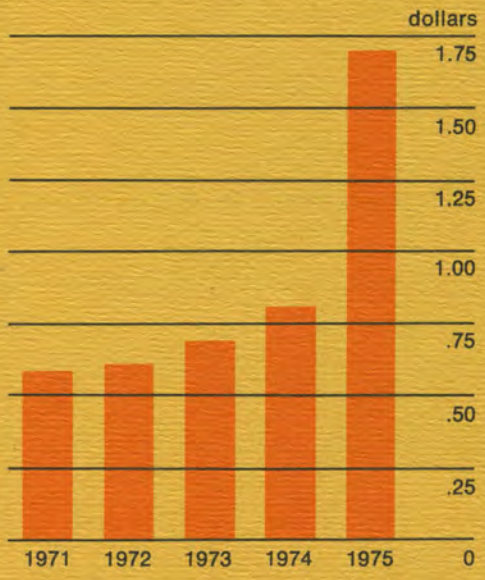
Total stockholders' investment increased $19,491,000 to $62,145,000 at December 31, 1975. The stock had a book value of $35.70 per share at December 31, 1975, which compares to $24.50 per share for the previous year.

Additional Financial Information

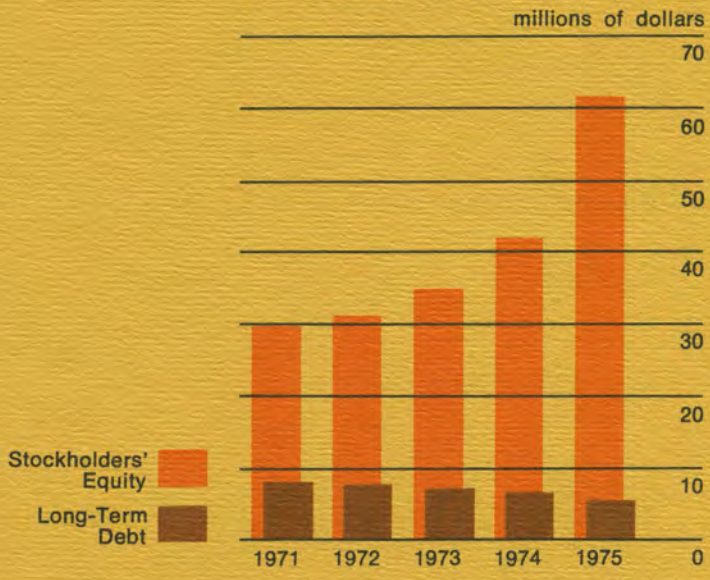
Stockholders may obtain additional financial information for the year ended December 31, 1975 from the company's Form 10-K Report filed with the Securities and Exchange Commission. A copy of this report may be obtained by written request to The Secretary, Lufkin Industries, Inc., P. O. Box 849, Lufkin, Texas 75901.

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.

Dividends per Common Share



Stockholders' Equity and Long-Term Debt



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Lufkin Industries, Inc. and Subsidiaries
Consolidated Statement of Income and Retained Earnings

Years Ended December 31, 1975 and 1974

	1975	1974
Net sales	$133,232,807	$104,005,869
Cost of sales	82,290,180	78,016,313
Gross income	50,942,627	25,989,556
Selling, general and administrative expenses	9,674,834	9,329,067
Operating income	41,267,793	16,660,489
Other income (deductions)		
Interest income	1,009,813	267,927
Interest expense	(632,669)	(522,493)
Other income and expense (net)	53,772	262,780
Income before income taxes	41,698,709	16,668,703
Provision for income taxes		
Current	18,826,000	7,688,000
Deferred	388,000	182,000
	19,214,000	7,870,000
Net income (per share $12.92 in 1975 and $5.05 in 1974)	22,484,709	8,798,703
Retained earnings, beginning of year	25,163,407	17,792,102
Cash dividends (per share $1.72 in 1975 and $0.82 in 1974)	(2,994,055)	(1,427,398)
Retained earnings, end of year	$ 44,654,061	$ 25,163,407

The accompanying notes are an integral part of these consolidated financial statements.

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Lufkin Industries, Inc. and Subsidiaries
Consolidated Statement of Changes In Financial Position

Years Ended December 31, 1975 and 1974

	1975	1974
Source of funds		
From operations		
Net income	**$22,484,709**	$ 8,798,703
Expenses not requiring outlay of working capital		
Depreciation	**1,796,471**	1,495,721
Deferred Federal income taxes	**388,000**	182,000
Funds generated from operations	**24,669,180**	10,476,424
Decrease in other assets	**—**	66,419
Total funds provided	**24,669,180**	10,542,843
Application of funds		
Net additions to property, plant and equipment	**8,756,877**	2,079,480
Dividends	**2,994,055**	1,427,398
Reduction in long-term debt	**500,000**	500,000
Increase in other assets	**97,203**	—
Total funds used	**12,348,135**	4,006,878
Increase in working capital	**12,321,045**	6,535,965
Working capital—beginning of year	**34,583,718**	28,047,753
Working capital—end of year	**$46,904,763**	$34,583,718
Working capital increase resulted from changes in		
Cash	**$ 562,840**	$ (987,074)
Temporary investments	**14,630,000**	3,156,000
Accounts receivable	**2,015,219**	3,640,315
Installment notes and contracts receivable	**359,393**	1,120,211
Inventories	**2,801,553**	3,495,238
Accounts payable and accrued liabilities	**(1,165,962)**	(805,935)
Reserve for income taxes	**(6,881,998)**	(3,082,790)
Increase in working capital	**$12,321,045**	$ 6,535,965

The accompanying notes are an integral part of these consolidated financial statements.

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Lufkin Industries, Inc. and Subsidiaries
Consolidated Balance Sheet

December 31, 1975 and 1974

ASSETS	1975	1974
Current assets		
Cash	**$ 1,806,924**	$ 1,244,084
Temporary investments, at cost, which approximates market	**19,336,000**	4,706,000
Accounts receivable, less reserve of $225,000	**16,032,966**	14,017,747
Installment notes and contracts receivable, less reserve of $75,000	**2,478,856**	2,119,463
Inventories	**27,417,615**	24,616,062
Total current assets	**67,072,361**	46,703,356
Property, plant and equipment		
Land	**1,502,087**	1,492,308
Buildings	**9,467,197**	7,544,581
Machinery and equipment	**26,645,163**	20,165,680
	37,614,447	29,202,569
Less—Reserve for depreciation	**15,108,934**	13,657,462
	22,505,513	15,545,107
Other assets	**358,668**	261,465
	$89,936,542	$62,509,928

The accompanying notes are an integral part of these consolidated financial statements.

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LIABILITIES	1975	1974
Current liabilities		
Current portion of long-term debt	**$ 500,000**	$ 500,000
Accounts payable and accrued liabilities	**7,127,018**	5,961,056
Reserve for income taxes	**12,540,580**	5,658,582
Total current liabilities	**20,167,598**	12,119,638
Long-term debt, net of current portion	**6,000,000**	6,500,000
Deferred Federal income taxes	**1,624,000**	1,236,000
Stockholders' investment		
Common stock, par $1 per share: 2,000,000 shares authorized; 1,740,730 shares outstanding	**1,740,730**	1,740,730
Capital in excess of par	**15,750,153**	15,750,153
Retained earnings	**44,654,061**	25,163,407
	62,144,944	42,654,290
	$89,936,542	$62,509,928

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Notes to Consolidated Financial Statements

December 31, 1975 and 1974

(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. The accounts of the foreign subsidiaries have been translated at the current or historical rate of exchange as applicable. Gains or losses on translation are insignificant and have been reflected currently in the statements of income.

Installment notes and contracts receivable: A portion of the company's sales is made on notes and conditional sales contracts which are payable on an installment basis over a period generally from three to five years. The profit from such sales is included in income at the time of sale for financial reporting purposes; however, for tax purposes such profit is recognized as installments are collected. The amounts due after one year ($1,682,349 at December 31, 1975, and $582,685 at December 31, 1974) are included in current assets in accordance with trade practice.

Inventories: In 1974, the company changed from the first-in, first-out (FIFO) and average cost methods of determining inventory cost to the last-in, first-out (LIFO) method for substantially all inventories. The new method is considered to be preferable because it more closely matches current costs with current revenues in periods of price-level changes since current costs are charged to cost of sales. This change in method had the effect of reducing net income, net of tax benefit, for the year 1974 by $1.13 per share or $1,975,616 ($2,860,360 less an $884,744 increase in income due to an upward adjustment of January 1, 1974 inventories to conform those inventories to the LIFO cost basis of valuation). For this type of accounting change, there is no cumulative effect on retained earnings as of December 31, 1973.

LIFO inventories were $25,014,724 and $22,707,291, which does not exceed market, at December 31, 1975 and 1974 respectively whereas, under FIFO and average cost methods, inventories would have been $8,460,016 and $5,500,693 higher at these respective dates.

Inventory costs include material, labor, and factory overhead, and consist of the following at December 31, 1975 and 1974.

	1975	1974
Purchased parts held for resale	$ 2,121,921	$ 2,742,568
Raw materials and purchased parts used in manufacturing	12,375,361	10,552,943
Work in process	11,608,337	9,347,412
Finished goods	1,311,996	1,973,139
	$27,417,615	$24,616,062

Property, plant and equipment: The company records investments in these assets at cost. Improvements are capitalized, while repair and maintenance costs are charged to operations as incurred. Gains or losses realized are reflected in income.

The company uses the straight-line depreciation method for financial reporting and an accelerated method for tax purposes.

Income taxes: The company provides in the financial statements for United States taxes that may ultimately be payable on all undistributed foreign earnings and on undistributed earnings of its DISC subsidiary. Current recognition is given in the income statements to tax benefits from the utilization of investment tax credits.

Provision has been made in the financial statements for the deferred taxes applicable to depreciation, income on installment notes and contracts receivable and other timing differences between financial and tax reporting methods.

(2) Long-term debt

The long-term debt at December 31, 1975, is payable $250,000 semi-annually

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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, 1975, retained earnings of the parent company of approximately $22,000,000 were not restricted as to payment of dividends under the loan agreement.

(3) Retirement plans

The company and its subsidiaries have retirement plans covering substantially all employees. The total unfunded prior service cost at January 1, 1975, was estimated to be $5,018,000. The total pension expense was $1,258,000 in 1975 and $1,104,000 in 1974, including amortization of prior service costs principally over a 10-year period. The amount provided each year for pension expense is paid into pension trust funds. The market value of the assets of the trust funds at December 31, 1975 exceeded the actuarially computed value of vested benefits at January 1, 1975.

The Pension Reform Act of 1974 requires the company to amend its pension plans to conform with certain provisions of the Act, which will become effective in 1976. The company believes that the effect on annual pension costs and the funding of such costs in 1976 and subsequent years and the effect on unfunded vested benefits resulting from this amendment will not be significant.

(4) Federal income taxes

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

	1975	%	1974	%
Taxes computed at statutory rate	$20,015,000	48.0	$8,001,000	48.0
Reductions resulting from:				
Investment tax credits	659,000	1.6	66,000	.4
Benefits from Western Hemisphere Trade Corporation	142,000	.3	65,000	.4
Actual provision for income taxes	$19,214,000	46.1	$7,870,000	47.2

During 1975, the company and one of its subsidiaries settled its Federal income tax suit involving the years 1961 through 1969 resulting in deficiencies of approximately $184,000 which had been fully provided for in prior years.

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, 1975 and 1974 and the related consolidated statements of income and retained earnings and changes in financial position for the years 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.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Lufkin Industries, Inc., and subsidiaries as of December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Houston, Texas
February 24, 1976

ARTHUR ANDERSEN & CO.

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Directors



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Lufkin, Texas



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