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LUFKIN

1976 ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

(In millions, except per share)

	1976	1975
Net sales	**$106.7**	$133.2
Net income	**15.9**	22.5
Working capital	**55.9**	46.9
Book value per share	**42.66**	35.70
Net income per share	**9.16**	12.92
Quarterly dividends		
First	**.30**	.22
Second	**.35**	.25
Third	**.35**	.25
Fourth	**1.20**	1.00
	2.20	1.72

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

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REPORT TO STOCKHOLDERS:

The year 1976 began with uncertainty. Although 1975 was a record year for Lufkin Industries, the new year would bring negotiations for a labor contract which would expire April 20, 1976.

Following intense negotiations and a company proposal which management believed was reasonable and equitable, the AFL-CIO rejected the proposed contract and voted to strike.

From April 20 to September 30, the company endured a five and one-half months strike. However, the company continued to operate the plant and make shipments to customers through the efforts of supervisory, sales and service and office personnel together with newly hired production employees. A new labor contract was signed September 30, 1976 for a period of two years.

We are happy to report that despite the strike, 1976 was the second best year for Lufkin Industries from the standpoint of sales and earnings. Sales for the year totaled $106,681,000 with earnings of $15,946,000. These figures compare to 1975 sales of $133,233,000 and earnings of $22,485,000.

Dividends to stockholders were increased from $1.72 per share in 1975 to $2.20 per share in 1976, which is the highest dividend ever paid by the company.

Earnings per share amounted to $9.16 in 1976. Book value of Lufkin Industries stock on December 31, 1976 was $42.66 per share, up from $35.70 per share on December 31, 1975.

The company invested approximately $6 million in capital equipment and buildings in 1976. About half this amount went to the new cleaning room in the foundry, with an equal investment in new tools and equipment in the machine and structural shops.

The company's expansion plans include a new gear building equipped with the latest facilities for heat-treating, finishing, assembling and testing of gears and gear products. This will require approximately two years for completion and will be financed from internally generated funds.

Future plans also call for converting all green sand molding in the old foundry to the no-bake system, eliminating gas-fired baking ovens. A substantial portion of the cost of this new facility and expansion will be for environmental systems and equipment.

The outlook for 1977 is good, especially in oil field pumping units and trailers. We lost several good gear customers during the strike because we were unable to make all deliveries. It is going to take some time to get the gear business built up again.

From market information we read and hear concerning our products, we feel confident that 1977 will be another good year for Lufkin Industries.



R. L. Poland
President and Chief Executive Officer



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LUFKIN

OPERATING REVIEW



LINE OF BUSINESS SUMMARY

	1976	1975	1974	1973	1972
Net sales—as percent of total					
Machinery Division					
Pumping units	**69**	74	55	44	43
Gears	**16**	14	15	20	18
Trailer Division	**10**	8	25	30	33
Automotive and Industrial Supplies Division	**5**	4	5	6	6
Operating income before income taxes— as percent of total					
Machinery Division	**99**	98	92	93	99
Trailer Division	**(2)**	1	8	5	(10)
Automotive and Industrial Supplies Division	**1**	1	—	2	1

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Lufkin Industries, Inc. was incorporated under the laws of the State of Texas March 4, 1902. It has maintained its principal office and manufacturing facilities in Lufkin, Texas since that date. In 1977, the company will observe its 75th anniversary.

The company's operations are divided into three divisions: the machinery division, trailer division and automotive and industrial supplies division.

The machinery division designs, manufactures and sells oil field pumping equipment and related products. It also designs, manufactures and sells industrial and marine gears.

The company 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 used 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 1976, foreign sales accounted for approximately 17 percent of the company's total net sales with over 11 percent of such sales being made to Canada and Latin America.

The trailer division designs, manufacturers and sells a variety of truck-trailers, including dumps, flatbeds and vans. These products range in length from 18 to 51 feet and have capacities up to 75,000 pounds in flatbeds, 60,000 pounds in vans and 30 cubic yards in dump trailers.

The automotive and 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 percent of total net sales for 1976 by the machinery division was 85 percent. This included 69 percent from pumping unit sales and 16 percent from gear sales.

The trailer division accounted for 10 percent of total net sales and the automotive and industrial supplies division accounted for five percent of total net sales.

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LUFKIN

MACHINERY DIVISION
Oil Field Equipment



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The machinery division is located on approximately 80 acres, about 17 acres of which are under roof. The plant is composed of 41 buildings and includes a foundry, machine shop, structural shops, assembly shops and warehouses.

The foundry has a capacity of approximately 250 tons per day of gray and ductile iron castings with a maximum individual casting capacity of up to nine tons and is capable of producing up to 35 tons per day of nodular iron castings and some brass and aluminum products.

Associated with the foundry are a well-equipped pattern shop, heat-treating facilities and metallurgical and sand laboratories.

The machine shop is large and well-equipped, including a number of automatic vertical and horizontal turret lathes; automatic, manually operated and numerically controlled tracing-type engine lathes; and manually operated and numerically controlled horizontal boring, milling and drilling machines, herring-bone-type and hobbing-type gear cuttting and grinding machines.

A well-equipped tool-grinding facility grinds the tools for all these machines.

Capital investments amounted to $5,954,000 during 1976. Approximately $5,611,000 of this amount was spent in the machinery division.

Part of the machinery division capital investment was used for the purchase of a tape-controlled plasma arc shape cutting machine for the welding and structural plant.

This machine occupies about one-third of one of the two bays which were provided in a 110-foot by 190-foot extension to this plant. Both bays are equipped with new overhead cranes.

The basic machine has a cutting area of 14 feet by 50 feet. It can cut steel plate up to three inches. It also cuts stainless steel and aluminum plate.

Construction of a new castings cleaning department was completed in 1976 at a cost of approximately $3 million and was put into production in September, 1976. The company funded this expansion with internally generated funds.

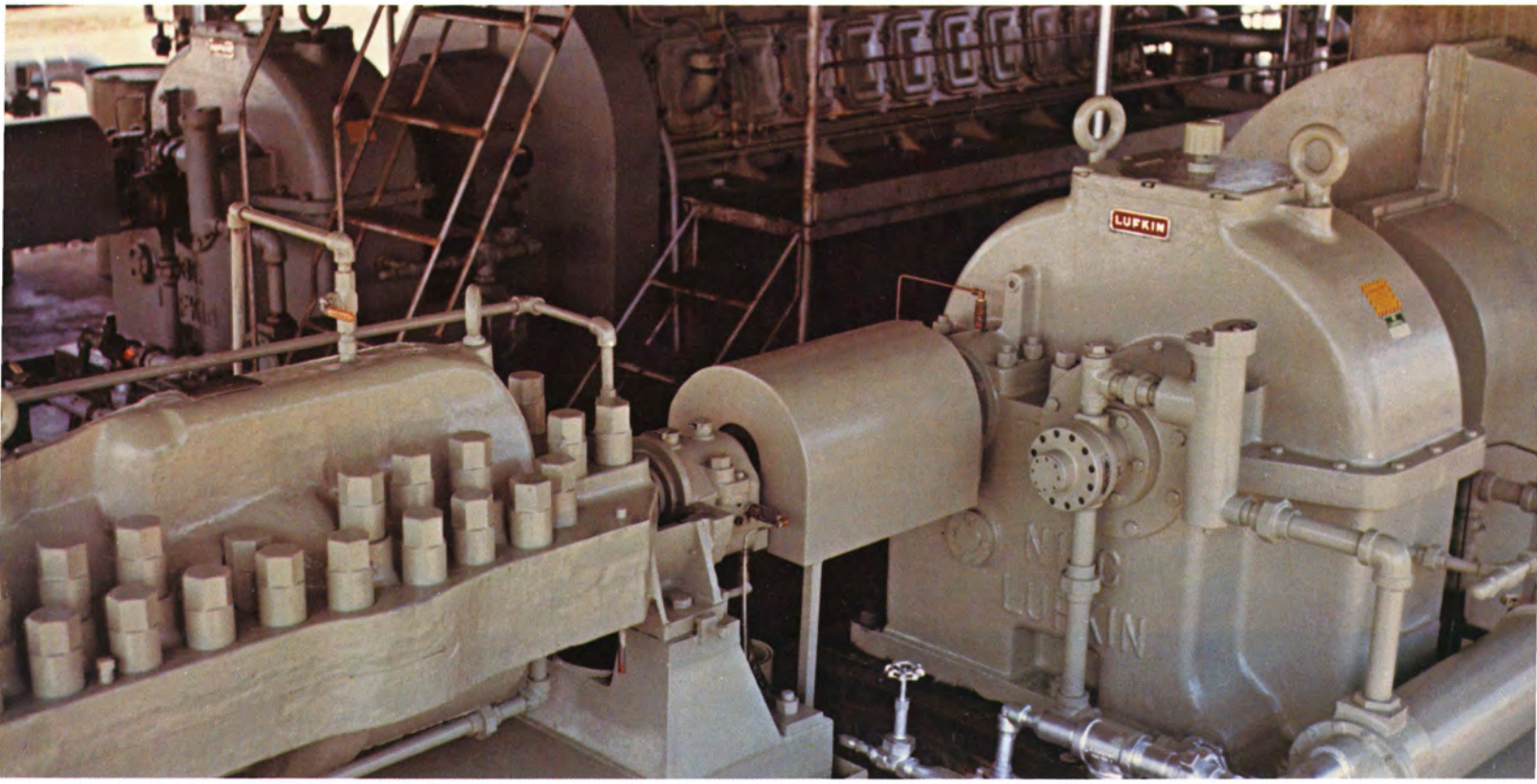
New equipment in this cleaning department includes an overhead crane which moves large castings to and from the individual booths; a monorail shot blast machine; a tum blast machine with vibrating conveyor.

The company recognizes the public's concern with the quality of the environment in the area in which its operations are located. A substantial portion of the cost of the recently completed counterweight foundry and the casting cleaning department was for environmental systems and equipment.

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LUFKIN

MACHINERY DIVISION
Industrial & Marine Gears



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The company produces numerous sizes and combinations of industrial and marine propulsion gears. Each year large investments are made in machine tools to improve the manufacture of LUFKIN gears.

In 1976, some $2 million was invested in machine tools. Of this amount, $1,300,000 was spent in the machine shop for machine tools. This includes the purchase of two special accuracy gear hobbing machines at a cost of about $650,000. A quarter of a million dollars was spent on a special gear inspection machine.

This equipment will greatly enhance LUFKIN's ability to produce quality high speed gears. The inspection machine will check gears and determine any minute inaccuracy so that the overall product can be improved.

The accuracy of LUFKIN's total product is becoming increasingly more important as the units operate at higher speeds. The special accuracy machines will cut and produce much more accurate gears and the inspection machine will help provide the best quality product for the company's customers.

Approximately the same dollar amount is budgeted for 1977. Facilities will be improved and updated and also several new very accurate, highly productive machines will be added for producing gear housings and turning of gear blanks and various miscellaneous parts.

A multi-million dollar expansion of LUFKIN's gear facilities has been approved by the Board of Directors. This expansion will take several years to complete.

Implementation of the plans depends on action by the Lufkin City Commission which is underway at the present time. Approval by the City of Lufkin is necessary since the expansion plans call for the closing of some city streets adjoining company property.

If approval is given, LUFKIN will have, when the expansion is completed, one of the largest and most modern gear manufacturing facilities in the United States.

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LUFKIN

TRAILER DIVISION



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The trailer manufacturing facility is located on a 60-acre portion of a 400-acre tract of land owned in fee by the company and consists of one large building with a floor area of approximately eight acres. The plant operations are highly automated and consist principally of fabrication, welding and assembly activities.

The trailer division designs, manufactures, sells and services a variety of van, flatbed and dump trailers. It also is involved in repairing and selling used trailers which the company receives in connection with the sale of its new trailers.

The company has trailer sales and service facilities in Atlanta, Georgia; Shreveport, Louisiana; Oklahoma City, Oklahoma; Memphis, Tennessee; and Lufkin, Dallas, Houston, San Antonio and Lubbock, Texas. A trailer sales and parts facility is located in New Orleans, Louisiana.

A sales force of approximately 30 employees distribute the products of the trailer division, primarily in the south. Except in a few isolated cases, the company does not market trailers through dealers. The company's trailers are sold to a large number of customers, including trucking concerns operating nationally.

During 1976 when trailer sales were off nationwide, the trailer division produced almost 500 oil field pumping units in their facilities.

During the labor dispute for five and one-half months in 1976, the trailer division continued to manufacture truck-trailers with supervisory, office, sales and service employees who did not participate in the dispute.

Sales increased by about four percent in 1976 over sales in 1975 in the trailer division.

Predictions are that substantial increases in trailer sales will be evident throughout the United States in 1977.

LUFKIN began 1977 with a good backlog of orders and it is hoped that the company will benefit from the expected market potential in the trailer industry in 1977.

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LUFKIN

AUTOMOTIVE & INDUSTRIAL SUPPLIES DIVISION



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This division is the company's oldest. It began when the company began, back in 1902 when the company's business was repairing sawmill equipment. Along with its repair business, the company stocked supplies for the lumber companies.

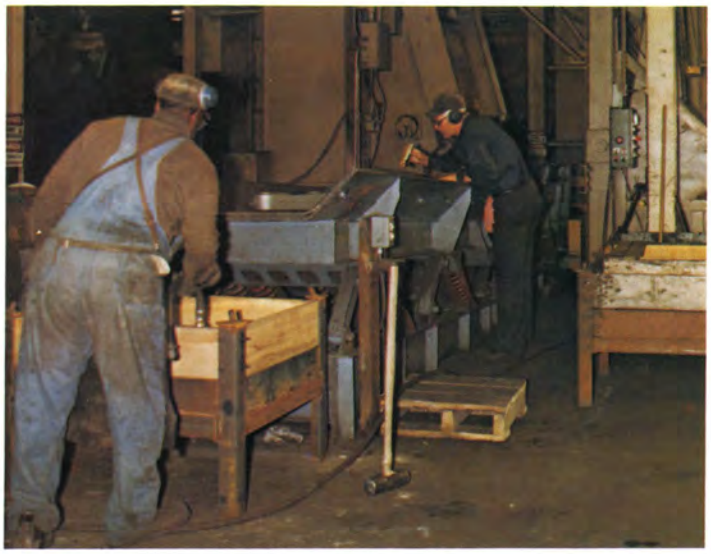
Today there is no resemblance to the mill supplies department as it was known in the early days. Following a disastrous fire four years ago, a new facility was built that covers an entire city block.

These facilities include 2097 feet of display area, approximately 121,500 square feet of warehouse space and about 5200 square feet for administrative operations. There is a pipe storage yard covering about 27,000 square feet.

The automotive and industrial supplies division is essentially a wholesale supplier of automotive spare parts, heavy hardware items, plumbing fixtures, pole line hardware and miscellaneous industrial items.



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Right: A tum blast machine in the new cleaning room handles all small castings

Below: Welding & Structural shop has new tape-controlled plasma arc shape cutter





This new machine is used for analysis and accuracy verification of high speed gearing



Special gear hobbing machine is used for high accuracy gear applications





Above: Hustler II NC lathe produces pumping unit crankpins. Operator uses pneumatically balanced handling device for rapid loading and unloading. NC control contains mini-computer

Left: Monorail shot blast machine was custom-designed for Lufkin Industries. It handles the largest cranks and gear housings produced, one of which measures 11 by 4 by 7 feet

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LUFKIN

Industries, Inc.
1976
FINANCIAL
REVIEW

Lufkin Industries, Inc. and Subsidiaries Consolidated Summary of Operations

Years Ended December 31

(In Thousands of Dollars Except for Per Share Data)

	1976	1975	1974	1973	1972
Net sales	**$106,681**	$133,233	$104,006	$80,298	$69,921
Cost of sales	**68,328**	82,290	78,016	63,463	56,707
Gross income	**38,353**	50,943	25,990	16,835	13,214
Selling, general and administrative expenses	**10,377**	9,675	9,329	8,205	7,768
Operating income	**27,976**	41,268	16,661	8,630	5,446
Other income (expense)	**1,620**	431	8	(115)	(63)
Income before income taxes	**29,596**	41,699	16,669	8,515	5,383
Provision for income taxes	**13,650**	19,214	7,870	3,916	2,380
Net income	**$ 15,946**	$ 22,485	$ 8,799	$ 4,599	$ 3,003
Net income per common share	**$9.16**	$12.92	$5.05	$2.64	$1.73

See the notes to the company's consolidated financial statements for information concerning the company's major accounting policies.

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Financial Review

Management's Discussion and Analysis of the Summary of Operations

Revenue and expense items are shown in the Consolidated Summary of Operations shown on page 13, and material percentage variances for 1976 and 1975 are analyzed below:

1976

Sales: The decrease of $26,552,000 can be attributed primarily to the labor dispute between the company and its labor unions. The plant was operated at reduced levels by supervisory, sales, office and newly-hired employees from April 20, 1976 to September 30, 1976, at which time a new contract settlement was reached.

Cost of Sales: The company's gross margin decreased from 38% in 1975 to 36% in 1976. This decrease was the result of reduced production levels resulting from the company's five and one-half month labor dispute. Overhead costs were not decreased proportionately with production levels resulting in reduced gross margin percentages.

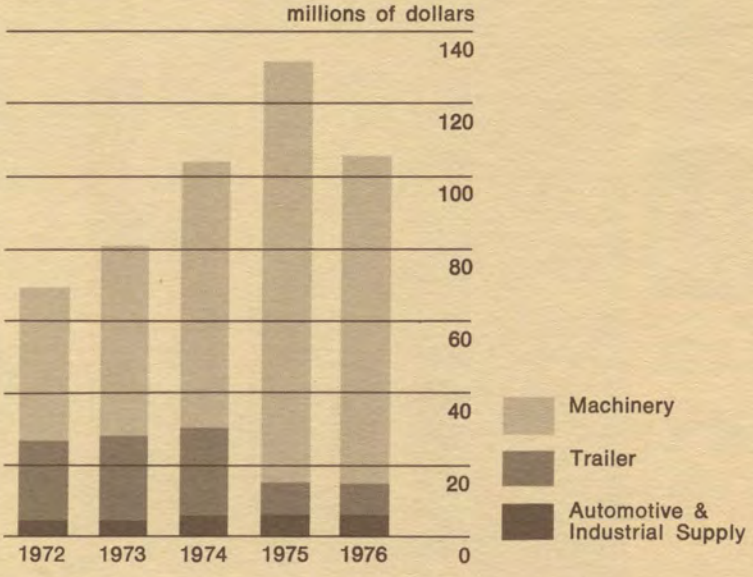
Other: Selling, general and administrative expenses rose $702,000 in 1976 due primarily to inflationary factors. Other income increased $1,189,000 as a result of a substantial increase in interest income resulting from larger average holdings of temporary investments and installment notes during 1976. Tax expense and net income per share both decreased proportionately with net income as the company's effective tax rate and the number of average shares outstanding remained basically the same.

1975

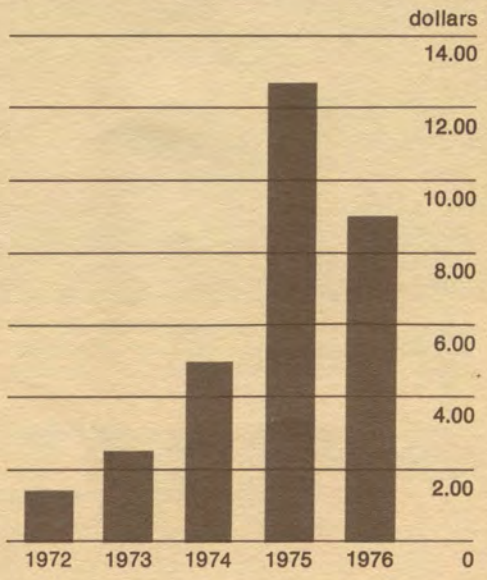
Sales: The increase of $29,227,000 was generated primarily through greater volume in oilfield pumping equipment. There was a significant industry-wide reduction in the demand for the company's trailer products. As a result of this reduced demand for trailers, the company began producing the smaller sizes 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 oil field 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.

Net Sales



Earnings per Common Share



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

Dividends

Lufkin has paid cash dividends for 37 consecutive years. Quarterly dividend payments in 1976 were 30 cents per share in the first quarter and 35 cents per share in the last three quarters with an extra dividend of 85 cents per share in the last quarter. This totaled $2.20 per share in 1976 compared to $1.72 per share in 1975, an increase of 28%. Total dividend payments were $3,830,000 in 1976 and $2,994,000 in 1975.

Financial Position

The company's strong financial position was further improved in 1976 and its balance sheet at December 31, 1976 was the strongest in its history. Working capital (current assets in excess of current liabilities) increased $8,965,000 reaching $55,870,000 at December 31, 1976. Cash and temporary investments were $22,280,000 at December 31, 1976, a record amount.

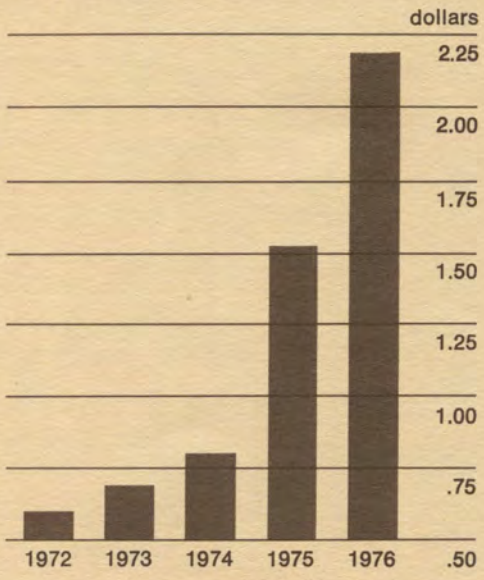
Total stockholders' investment increased $12,116,000 to $74,261,000 at December 31, 1976. The stock had a book value of $42.66 per share at December 31, 1976, which compares to $35.70 per share for the previous year.

Additional Financial Information

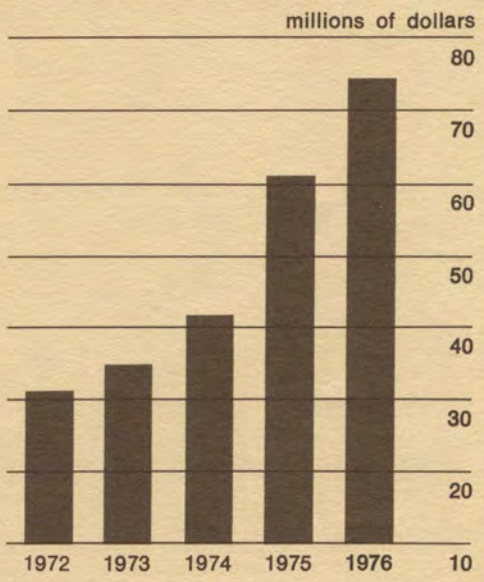
Stockholders may obtain additional financial information for the year ended December 31, 1976 from the company's Form 10-K Report filed with the Securities and Exchange Commission. A copy of this report may be obtained by written request to The Secretary, Lufkin Industries, Inc., P. O. Box 849, Lufkin, 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



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

Years Ended December 31, 1976 and 1975

	1976	1975
Net sales	**$106,681,068**	$133,232,807
Cost of sales	**68,327,790**	82,290,180
Gross income	**38,353,278**	50,942,627
Selling, general and administrative expenses	**10,377,422**	9,674,834
Operating income	**27,975,856**	41,267,793
Other income (expense)		
Interest income	**1,840,665**	1,009,813
Interest expense	**(517,870)**	(632,669)
Other, net	**297,493**	53,772
Income before income taxes	**29,596,144**	41,698,709
Provision for income taxes		
Current	**12,981,000**	18,826,000
Deferred	**669,000**	388,000
	13,650,000	19,214,000
Net income (per share $9.16 in 1976 and $12.92 in 1975)	**15,946,144**	22,484,709
Retained earnings, beginning of year	**44,654,061**	25,163,407
Cash dividends (per share $2.20 in 1976 and $1.72 in 1975)	**(3,829,606)**	(2,994,055)
Retained earnings, end of year	**$ 56,770,599**	$ 44,654,061

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, 1976 and 1975

ASSETS	1976	1975
Current assets		
Cash	**$ 1,534,930**	$ 1,806,924
Temporary investments, at cost, which approximates market	**20,744,682**	19,336,000
Accounts receivable, less reserve of $225,000	**12,087,317**	16,032,966
Installment notes and contracts receivable, less reserve of $75,000	**3,040,908**	2,478,856
Inventories	**25,910,973**	27,417,615
Total current assets	**63,318,810**	67,072,361
Property, plant and equipment		
Land	**1,647,688**	1,502,087
Buildings	**11,534,941**	9,467,197
Machinery and equipment	**29,823,378**	26,645,163
	43,006,007	37,614,447
Less—Accumulated depreciation	**17,137,899**	15,108,934
	25,868,108	22,505,513
Other assets	**316,413**	358,668
	$89,503,331	$89,936,542

LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities		
Current portion of long-term debt	**$ 500,000**	$ 500,000
Accounts payable and accrued liabilities	**5,929,629**	7,127,018
Income taxes payable	**1,019,220**	12,540,580
Total current liabilities	**7,448,849**	20,167,598
Long-term debt, net of current portion	**5,500,000**	6,000,000
Deferred Federal income taxes	**2,293,000**	1,624,000
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	**56,770,599**	44,654,061
Total stockholders' investment	**74,261,482**	62,144,944
	$89,503,331	$89,936,542

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, 1976 and 1975

	1976	1975
Source of funds		
From operations		
Net income	**$15,946,144**	$22,484,709
Expenses not currently requiring outlay of working capital		
Depreciation	**2,313,629**	1,796,471
Deferred Federal income taxes	**669,000**	388,000
Funds generated from operations	**18,928,773**	24,669,180
Decrease in other assets	**42,255**	—
Total funds provided	**18,971,028**	24,669,180
Use of funds		
Net additions to property, plant and equipment	**5,676,224**	8,756,877
Dividends	**3,829,606**	2,994,055
Reduction in long-term debt	**500,000**	500,000
Increase in other assets	**—**	97,203
Total funds used	**10,005,830**	12,348,135
Increase in working capital	**8,965,198**	12,321,045
Working capital—beginning of year	**46,904,763**	34,583,718
Working capital—end of year	**$55,869,961**	$46,904,763
Working capital increase resulted from changes in		
Cash	**$ (271,994)**	$ 562,840
Temporary investments	**1,408,682**	14,630,000
Accounts receivable	**(3,945,649)**	2,015,219
Installment notes and contracts receivable	**562,052**	359,393
Inventories	**(1,506,642)**	2,801,553
Accounts payable and accrued liabilities	**1,197,389**	(1,165,962)
Income taxes payable	**11,521,360**	(6,881,998)
Increase in working capital	**$ 8,965,198**	$12,321,045

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

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Notes to Consolidated Financial Statements

December 31, 1976 and 1975

(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 statement 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 ($2,095,760 at December 31, 1976, and $1,682,349 at December 31, 1975) are included in current assets in accordance with trade practice.

Inventories: The company uses the last-in, first-out (LIFO) method of determining inventory cost for substantially all inventories. LIFO inventories were $24,650,332 and $25,014,724, which does not exceed market, at December 31, 1976 and 1975 respectively. Under FIFO and average cost methods, inventories would have been $10,380,783 and $8,460,016 higher at these respective dates.

Inventory costs include material, labor, and factory overhead, and consist of the following at December 31, 1976 and 1975.

	1976	1975
Purchased parts held for resale	**$ 2,335,832**	$ 2,121,921
Raw materials and purchased parts used in manufacturing	**11,235,991**	12,375,361
Work in process	**10,519,507**	11,608,337
Finished goods	**1,819,643**	1,311,996
	$25,910,973	$27,417,615

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 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 resulting 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, 1976, is payable $250,000 semi-annually and bears interest at 6.7 percent annually. 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, 1976, retained earnings of the parent company of approximately $30,000,000 were not restricted as to payment of dividends under the loan agreement.

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(3) Retirement plans

The company and its subsidiaries have retirement plans covering substantially all employees. The total unfunded prior service cost at January 1, 1976, was estimated to be $7,101,000. The total pension expense was $1,812,000 in 1976 and $1,258,000 in 1975, 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, 1976 exceeded the actuarially computed value of vested benefits at January 1, 1976.

(4) Federal income taxes

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

	1976	**%**	1975	%
Taxes computed at statutory rate	**$14,206,000**	**48.0**	$20,015,000	48.0
Reductions resulting from:				
Investment tax credits	**452,000**	**1.6**	659,000	1.6
Benefits from Western Hemisphere Trade Corporation	**104,000**	**.3**	142,000	.3
Actual provision for income taxes	**$13,650,000**	**46.1**	$19,214,000	46.1

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, 1976 and 1975 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, 1976 and 1975, 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 18, 1977

ARTHUR ANDERSEN & CO.

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