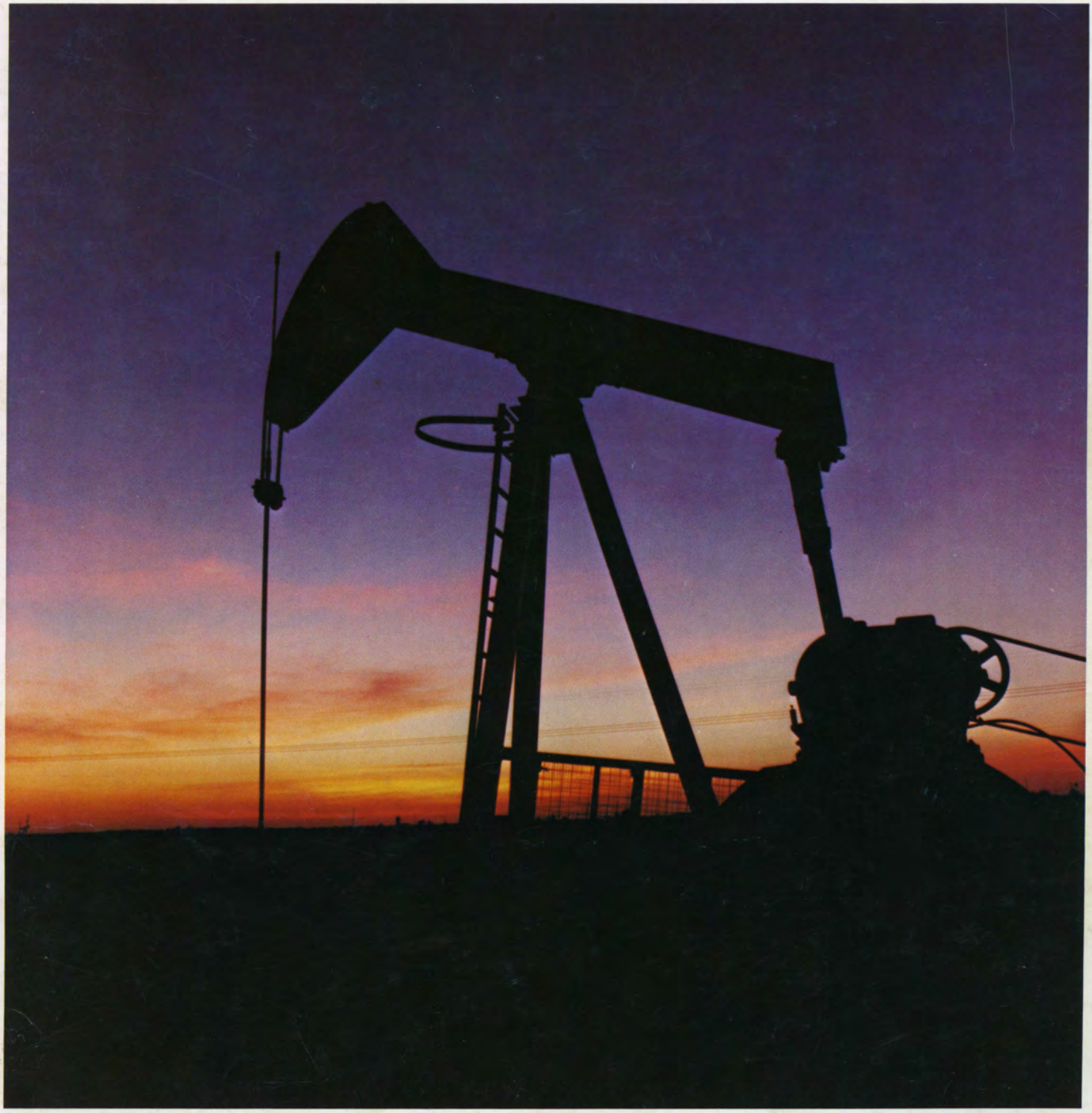
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LUFKIN

ANNUAL REPORT FOR 1977



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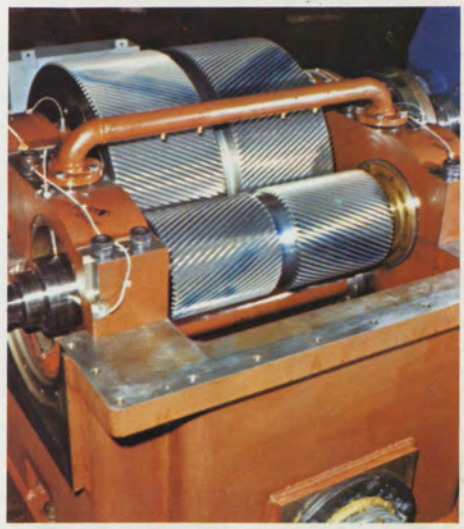
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FINANCIAL HIGHLIGHTS



(In millions, except per share data)

	1977	1976
Net sales	**$147.9**	$106.7
Earnings before income taxes	**41.7**	29.6
Net earnings	**22.6**	15.9
Working capital	**65.9**	55.9
Book value per share	**50.63**	42.66
Dividends per share	**5.00**	2.20
Earnings per share	**12.96**	9.16







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TO THE STOCKHOLDERS



For Lufkin Industries, Inc. 1977 was a special year. We celebrated the 75th anniversary of the founding of this company and we concluded the year with record sales of $147,916,000 and record earnings of $22,568,000.

Dividends to stockholders were $5.00 per share, the highest ever paid by the company. This compares to $2.20 per share in 1976.

Earnings per share were $12.96 in 1977; in 1976, earnings were $9.16 per share.

Book value of Lufkin Industries stock on December 31, 1977 was $50.63 per share, up from $42.66 per share on December 31, 1976.

These figures are ample evidence that the company recuperated from the five and one-half-month strike which occurred in 1976.

Capital expenditures for equipment and buildings in 1977 amounted to $6,549,414. This investment and that scheduled for 1978 represent one of the largest modernization programs that the company has ever undertaken. Improvements in 1977 primarily were for replacement of obsolete equipment and construction in the foundry and machine shop.

The foundry department began in 1977 to convert all dry sand molding to the new no-bake system, thus eliminating the large expensive-to-operate gas-fired baking ovens. This no-bake process is also a much cleaner operation which improves working conditions. The first phase of this conversion should be completed in 1978.

A continuing improvement of facilities of the foundry department in 1978 is estimated to cost $6,000,000 and will result in a new pattern shop and a new automated cleaning room for the counterweight foundry. A substantial amount of this capital expenditure will be for air pollution control equipment and environmental systems.

Future expansion plans include a new gear building equipped with the latest facilities for heat-treating, finishing, assembling, and testing of gears and gear products.

These new expansions as well as those of the past several years are financed from internally generated funds.

This past year, Lufkin Industries made its first acquisition in 38 years. The Martin Wagon Company was purchased in 1939, the forerunner of the present Trailer Division. In September, 1977, we purchased the assets of Midwest Casting Corporation. This foundry is located at Mabelvale, Arkansas, nine miles south of downtown Little Rock and just outside its city limits.

Although the plant had not been in operation for several months, we poured iron in October, 1977, and it is now in full operation producing

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some 50 tons of iron castings per day.

Of the $147,916,000 in net sales in 1977, $118,377,000 were in the Machinery Division. Our export sales, including Canada, were approximately $30,951,000, or about 26 per cent of Machinery Division sales.

This represents a sizeable increase in export sales in 1977 as compared to 1976. The reason for this, we believe, is the fact that free flowing wells in the Middle East are gradually having to go on pumps. Also, change in the political climate in Argentina is resulting in new sales opportunities for our company.

The first entry in the Syria market for Lufkin Industries occurred in 1977 with a multi-million dollar order for pumping units. This business had gone heretofore to Eastern Europe manufacturers.

LUFKIN received a $1.8 million order from South Africa in 1977 for sugar mill gears which were the largest installations we have ever provided.

We have streamlined our overseas operations consistent with the jet age. Since by air our sales representatives are only 24 hours away from any country, we have concentrated our salesmen in Houston from where they service the Far East, Middle East, South America and Mexico. In early 1978, the London office will be closed and England and Europe will be serviced



by our sales representative operating out of Houston.

This has proved to be more efficient with substantial increases in our export business in 1977.

We entered 1978 with a substantial backlog of orders in both the Machinery and Trailer Divisions.

Lufkin Industries employs some 2,900 persons, who are loyal, dedicated employees whose performance of duties is consistent with our pursuit of excellence in our products and our relationships with customers. We acknowledge with pride their important contribution to the notable success of the past year.

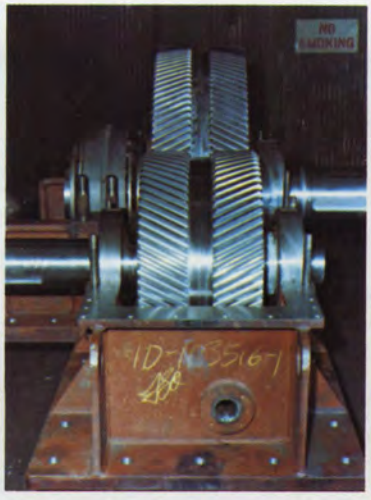
The business outlook for 1978 is good, especially in oilfield pumping units and trailers. We feel that 1978 will be another good year for Lufkin Industries.

R. L. Poland
President and Chief Executive Officer

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OPERATIONS REVIEW









An Overview

The company operates principally in three industries which correspond to its three operating 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 as well as industrial and marine gears. The Trailer Division designs, manufactures and sells a variety of truck-trailers. The Automotive and Industrial Supplies Division is essentially a wholesale supplier of automotive spare parts, heavy hardware items, and other miscellaneous industrial items.

Sales And Operating Income By Division

	1977	1976	1975	1974	1973
			(In thousands of dollars)		
Net Sales					
Machinery Division					
Pumping units	**$ 94,672**	$ 73,350	$ 98,686	$ 57,700	$ 34,282
Gears	**23,705**	16,899	18,844	15,392	17,605
Trailer Division	**23,589**	11,047	10,596	25,798	23,766
Automotive and Industrial Supplies Division	**5,950**	5,385	5,107	5,116	4,645
Total	**$147,916**	$106,681	$133,233	$104,006	$ 80,298
Operating Income					
Machinery Division	**$ 38,179**	$ 28,416	$ 40,575	$ 15,259	$ 7,763
Trailer Division	**1,357**	(685)	379	1,241	686
Automotive and Industrial Supplies Division	**147**	245	314	161	181
Total	**$ 39,683**	$ 27,976	$ 41,268	$ 16,661	$ 8,630

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MACHINERY DIVISION Pumping Units & Gears

The Machinery Division is located on approximately 80 acres, about 20 acres of which are under roof. Improvements in the building facilities which were begun in 1977 and scheduled for completion in 1978 will put additional manufacturing areas under roof, bringing the total to more than one million square feet.

The plant is composed of 53 buildings and includes a foundry, machine shop, structural shops, assembly shops and warehouses.

The machine shop is large and well-equipped, including a number of automatic vertical and horizontal turret lathes, automatic, manually operated and numerically controlled horizontal boring, milling and drilling machines, and herringbone-type and hobbing-type gear cutting and grinding machines. A well equipped tool-grinding facility grinds the tools for all these machines.

New equipment which was put in service in 1977 includes two lathes,



Industrial gears of many sizes are built for steel, rubber, sugar and paper mills

Right: LUFKIN's pumping units are sold throughout the world



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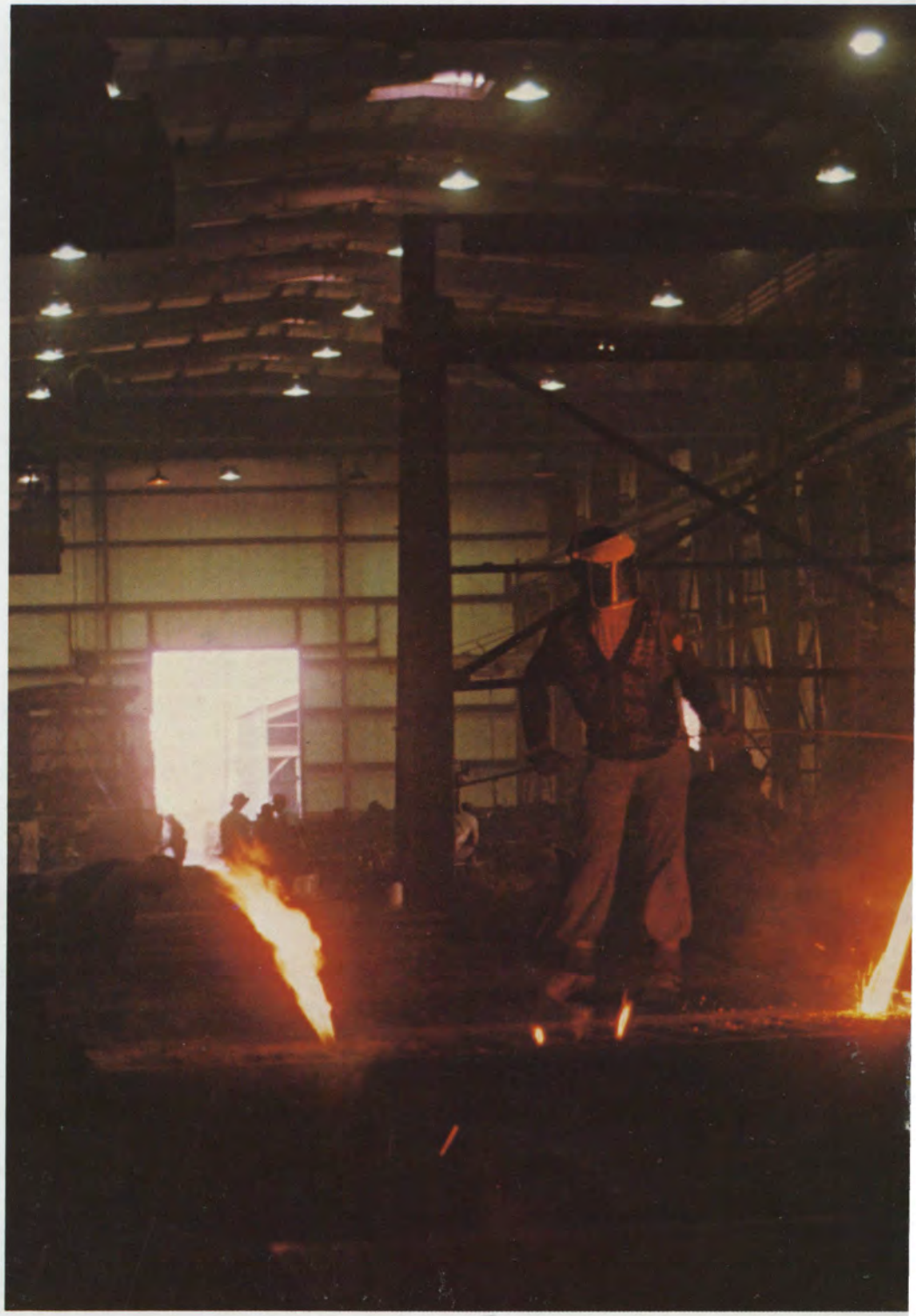
a milling machine, a keyway milling machine, a turret lathe, automatic cutter grinder, hydraulic forcing press and a large cylindrical grinder.

Also a new chip crushing installation was added whereby chips—a by-product of our manufacturing processes—are brought to a hopper, travel down through a chip crusher some 20 feet underground. After crushing, the chips are blown to an elevated bin from where they are loaded into LUFKIN trucks for transporting to Houston for sale.

During 1977, the commercial gear test stand was enlarged and rearranged. This is considered one of the most modern facilities for testing gear units in the United States.

With all this complicated, highly sophisticated machinery in the manufacturing areas, it is imperative that they be operated by skilled employees. In addition to skilled operators, this equipment requires more skillful maintenance, programming and supervisory employees. To this end the company conducts continuous education programs on various levels. The classes are so designed that employees may increase their skills in blueprint reading, mathematics, welding and supervision.

As the products the company produces continually become more complex, LUFKIN has placed greater emphasis on its quality assurance procedures. In the pursuit of excellence, the company wants the customer assured that the product he purchases is a quality piece of machinery which will perform adequately the purpose for which it was purchased.



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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 system. 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. There are numerous sizes and combinations of Lufkin oil field pumping units within the four basic types. The conventional crank balanced unit alone has at least 100 variations.





The company's gears (speed increasers and reducers) are designed, manufactured and sold primarily for use in marine propulsion units and for use in conjunction with machinery in heavy industries such as the steel, rubber, paper and sugar industries. The company produces numerous sizes and combinations of gears.

The company uses approximately 50 of its own employees to sell its Machinery Division's products to the domestic petroleum, manufacturing and shipbuilding industries.

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.

The Machinery Division set several new records in 1977. Total dollar shipments were at an all-time high at $118,377,000. Commercial gear shipments set a new record at $23,705,000. Pumping unit shipments were the second highest on record with 4,860 units being shipped to locations throughout the world amounting to $94,672,000.

A total of 5,162 pumping unit gear housing assemblies were built last year in the Machinery Division, which set a new record.

Far left: Foundry improvements were extensive during 1977; more in 1978

Top left: Foundry at Mabelvale, Ark.

Left: LUFKIN-powered tow boat

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TRAILER DIVISION

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, ranging in length from 18 to 51 feet and having capacities up to 75,000 pounds in flatbeds, 60,000 pounds in vans and 30 cubic yards in dump trailers. Manufacturing operations are keyed mainly to specific customer orders.

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.

The truck trailer market is extremely competitive and the company's products compete directly with those of other manufacturers, a number of which are larger and have greater resources than the company. Price, quality, speed of delivery and financing are primary competitive factors.

Trailer Division sales for 1977 were $23,589,000, up 114 per cent over 1976. The number of units delivered were up 109 per cent over 1976.

During 1977, in addition to their standard lines, the Trailer Division produced a considerable number of special trailers such as drop frames, lowboys and missile erection trailers.

In a program to upgrade Trailer Division sales and service facilities, the company has approved the purchase of the properties now occupied by the Lubbock and Shreveport branches.



Trailer Division added a new lightweight float to its standard line

Right: Missile erection trailer



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Top: Two LUFKIN dump trailers

Above: Vans ready for delivery

Late in 1977, the company began building a new sales and service facility adjacent to the Machinery Division offices in Oklahoma City. This will be a 10-bay drive-through building for trailer service with a large parts department, sales offices, reception room, lunch room and employee shower facilities. This should be completed by mid-1978.

According to national statistics, trailer sales throughout the United States should rise about five per cent in 1978 over the past year. Based on the backlog of orders and the current demand, 1978 is expected to be a good year for the Trailer Division.

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AUTOMOTIVE & INDUSTRIAL SUPPLIES DIVISION

When the company was founded in 1902, the Automotive & Industrial Supplies Division was established. Back then, it was called the Mill Supplies Division because it stocked repair parts and supplies for the lumber companies, and Lufkin Industries, Inc. at its founding was a repair shop for sawmill equipment. It, too, was known by another name at that time: Lufkin Foundry & Machine Company.

Today there is no resemblance to the mill supplies department of the early years. Five years ago, a fire razed this Division, and a new facility was erected that covers an entire city block.

These facilities include 2,097 feet of display area, approximately 121,500 square feet of warehouse space and about 5,200 square feet for administrative operations. A pipe storage yard covers about 27,000 square feet.

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.



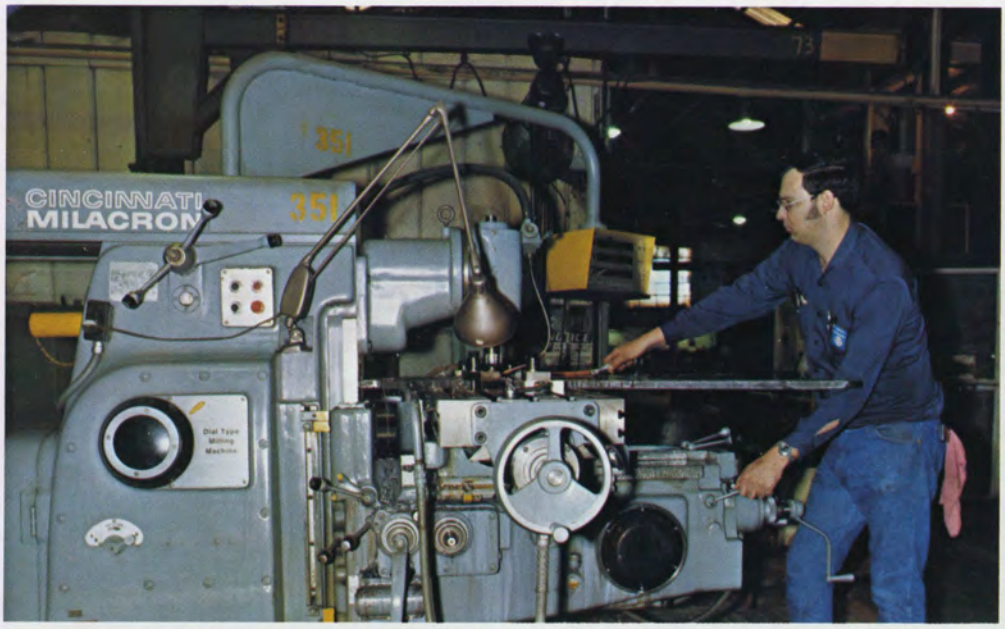


Pipe storage yard covers some 27,000 square feet

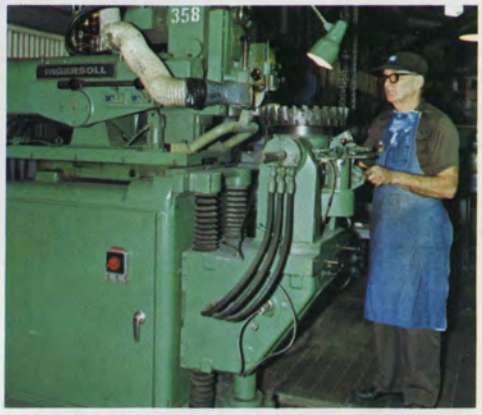
Left: Automotive and industrial supplies are loaded for delivery

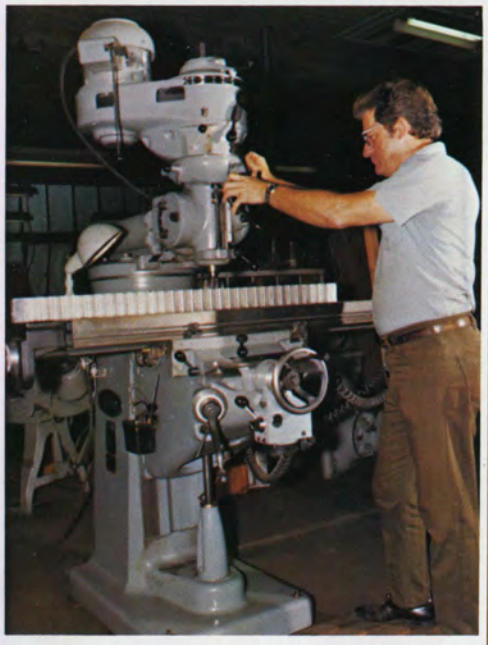
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CAPITAL EXPENDITURES

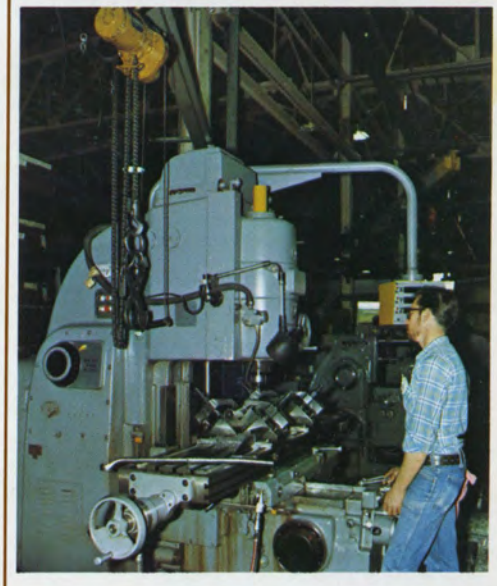








Among new machine tools installed during 1977 were two lathes, milling machines, keywaying machine, automatic cutter grinder, hydraulic forcing press and cylindrical grinder



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LUFKIN PEOPLE





















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FINANCIAL REVIEW



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FIVE-YEAR CONSOLIDATED SUMMARY OF OPERATIONS

(In Thousands of Dollars Except for Per Share Data)

Years Ended December 31,	1977	1976	1975	1974	1973
Net sales	**$147,916**	$106,681	$133,233	$104,006	$ 80,298
Cost of sales	**95,446**	68,328	82,290	78,016	63,463
Gross income	**52,470**	38,353	50,943	25,990	16,835
Selling, general and administrative expenses	**12,787**	10,377	9,675	9,329	8,205
Operating income	**39,683**	27,976	41,268	16,661	8,630
Other income (expense)	**1,974**	1,620	431	8	(115)
Earnings before income taxes	**41,657**	29,596	41,699	16,669	8,515
Provision for income taxes	**19,089**	13,650	19,214	7,870	3,916
Net earnings	**$ 22,568**	$ 15,946	$ 22,485	$ 8,799	$ 4,599
Earnings per common share	**$12.96**	$9.16	$12.92	$5.05	$2.64

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

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MANAGEMENT DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

1977 Compared to 1976

Sales: The increase of $41,235,000 can be attributed to a greater demand for the company's oil field equipment as well as its trailer products. In addition, sales volumes increased reflecting settlement of a labor dispute which lasted approximately 5½ months in 1976 during which time the plant was operated at reduced levels.

Cost of Sales: Although the company experienced a significant increase in sales volume, the overall gross margin percentage in 1977, which was comparable to 1976, did not increase as anticipated due to the company's inability to increase sales prices in proportion to increased costs of production, due to inflation.

Other: Selling, general and administrative expenses increased $2,410,000 as a result of both inflationary factors and the increase in sales volume. Selling, general and administrative expenses as a percentage of net sales decreased to 8.6% in 1977 from 9.7% in 1976. Other income and expense increased $354,000 in 1977 resulting primarily from increased interest income from larger average holdings of temporary investments and installment notes during 1977. Both tax expense and net income per share increased proportionately with net income.

1976 Compared to 1975

Sales: The decrease of $26,552,000 can be attributed primarily to a 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, as a result of reduced production levels resulting from the company's 5½-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.

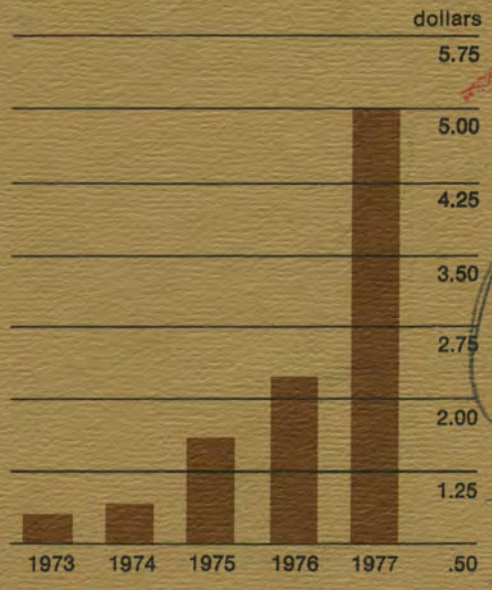
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Dividends

Lufkin has paid cash dividends for 38 consecutive years. Total dividend payments were $8,704,000 in 1977 and $3,830,000 in 1976. Quarterly dividend payments per share for 1977 and 1976 are shown below:

	1977	1976
First Quarter	$ .40	$ .30
Second Quarter	.60	.35
Third Quarter	1.00	.35
Fourth Quarter	3.00	1.20
	$5.00	$2.20

Dividends per Common Share



Net Sales



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Financial Position

The company's strong financial position was further improved in 1977 and its balance sheet at December 31, 1977 was the strongest in its history. Working capital (current assets in excess of current liabilities) increased $10,005,000 reaching $65,875,000 at December 31, 1977. Cash and temporary investments were $30,305,000 at December 31, 1977, a record amount.

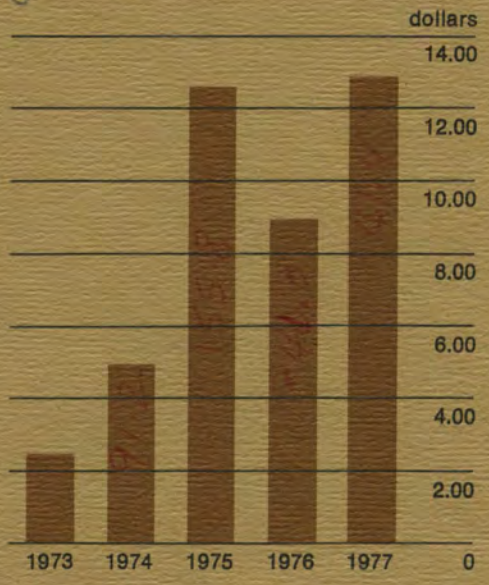
Total stockholders' investment increased $13,865,000 to $88,126,068 at December 31, 1977. The stock had a book value of $50.63 per share at December 31, 1977, which compares to $42.66 per share for the previous year.

Additional Financial Information

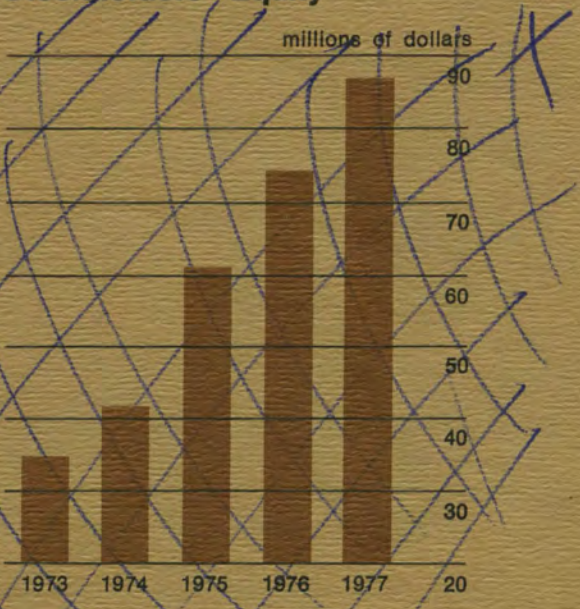
Stockholders may obtain additional financial information for the year ended December 31, 1977 from the company's Form 10-K Report filed with the Securities and Exchange Commission. A copy of this report may be obtained by written request to The Secretary, Lufkin Industries, Inc., P.O. Box 849, Lufkin, 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.

Earnings per Common Share



Stockholders' Equity



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CONSOLIDATED BALANCE SHEET

December 31, 1977 and 1976

ASSETS	1977	1976
Current Assets:		
Cash	$ 767,152	$ 1,534,930
Temporary investments	29,537,747	20,744,682
Accounts receivable, less reserve of $225,000	17,969,838	12,087,317
Installment notes and contracts receivable, less reserve of $75,000	4,506,254	3,040,908
Inventories	29,545,137	25,910,973
Total current assets	82,326,128	63,318,810
Property, plant and equipment:		
Land	1,894,746	1,647,688
Buildings	12,951,618	11,534,941
Machinery and equipment	34,335,566	29,823,378
	49,181,930	43,006,007
Less—Accumulated depreciation	19,348,944	17,137,899
	29,832,986	25,868,108
Other assets	300,136	316,413
	$112,459,250	$ 89,503,331

LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities:		
Current portion of long-term debt	$ 500,000	$ 500,000
Accounts payable and accrued liabilities	9,380,833	5,929,629
Income taxes payable	6,570,349	1,019,220
Total current liabilities	16,451,182	7,448,849
Long-term debt, net of current portion	5,000,000	5,500,000
Deferred Federal income taxes	2,882,000	2,293,000
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	70,635,185	56,770,599
Total stockholders' investment	88,126,068	74,261,482
	$112,459,250	$ 89,503,331

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

Years ended December 31, 1977 and 1976

EARNINGS	1977	1976
Net sales	**$147,916,060**	$106,681,068
Cost of sales	**95,445,597**	68,327,790
Gross income	**52,470,463**	38,353,278
Selling, general and administrative expenses	**12,786,897**	10,377,422
Operating income	**39,683,566**	27,975,856
Other income (expense):		
Interest income	**2,451,802**	1,840,665
Interest expense	**(496,243)**	(517,870)
Other, net	**18,111**	297,493
Earnings before income taxes	**41,657,236**	29,596,144
Provision for income taxes		
Current	**18,500,000**	12,981,000
Deferred	**589,000**	669,000
	19,089,000	13,650,000
Net earnings	**$ 22,568,236**	$ 15,946,144
Earnings per share	**$12.96**	$9.16

RETAINED EARNINGS	1977	1976
Retained earnings, beginning of year	**$ 56,770,599**	$ 44,654,061
Net earnings	**22,568,236**	15,946,144
Cash dividends (per share $5.00 in 1977 and $2.20 in 1976)	**(8,703,650)**	(3,829,606)
Retained earnings, end of year	**$ 70,635,185**	$ 56,770,599

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1977	1976
Source of Funds:		
From operations:		
Net earnings	**$ 22,568,236**	$ 15,946,144
Expenses not currently requiring outlay of working capital		
Depreciation	**2,584,536**	2,313,629
Deferred Federal income taxes	**589,000**	669,000
Funds generated from operations	**25,741,772**	18,928,773
Decrease in other assets	**16,277**	42,255
Total funds provided	**25,758,049**	18,971,028
Use of Funds:		
Net additions to property, plant and equipment	**6,549,414**	5,676,224
Dividends	**8,703,650**	3,829,606
Reduction in long-term debt	**500,000**	500,000
Total funds used	**15,753,064**	10,005,830
Increase in working capital	**10,004,985**	8,965,198
Working capital—beginning of year	**55,869,961**	46,904,763
Working capital—end of year	**$ 65,874,946**	$ 55,869,961
Working capital increase resulted from changes in:		
Cash	**$ (767,778)**	$ (271,994)
Temporary investments	**8,793,065**	1,408,682
Accounts receivable	**5,882,521**	(3,945,649)
Installment notes and contracts receivable	**1,465,346**	562,052
Inventories	**3,634,164**	(1,506,642)
Accounts payable and accrued liabilities	**(3,451,204)**	1,197,389
Income taxes payable	**(5,551,129)**	11,521,360
Increase in working capital	**$ 10,004,985**	$ 8,965,198

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977 and 1976

(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 earnings.

Temporary investments: In the accompanying balance sheet, temporary investments are carried at cost. At December 31, 1977 and 1976, the quoted market for these investments approximated $28,887,000 and $20,865,000, respectively.

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 ($3,149,232 at December 31, 1977, and $2,095,760 at December 31, 1976) 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 $28,423,006 and $24,650,332, which does not exceed market, at December 31, 1977 and 1976, respectively. Under FIFO and average cost methods, inventories would have been $16,385,798 and $10,380,783 higher at these respective dates.

Inventory costs include material, labor, and factory overhead and consist of the following at December 31, 1977 and 1976:

	1977	1976
Purchased parts held for resale	$ 1,801,440	$ 2,335,832
Raw materials and purchased parts used in manufacturing	13,803,554	11,235,991
Work in process	12,418,128	10,519,507
Finished goods	1,522,015	1,819,643
	$29,545,137	$25,910,973

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 statement of earnings to tax benefits resulting from the utilization of investment tax credits of $192,000 in 1977 and $452,000 in 1976.

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, 1977, is payable $250,000 semi-annually and bears interest at 6.7 percent annually. The related loan agreement contains various restrictive covenants including

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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, 1977, retained earnings of the parent company of approximately $37,000,000 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, 1977, the date of the latest actuarial valuation, was estimated to be $9,190,000. The total pension expense was $2,404,000 in 1977 and $1,812,000 in 1976, 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 exceeded the actuarially computed value of vested benefits at January 1, 1977.

(4) Line of business information

The company operates principally in three industries which correspond to its three operating 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 as well as industrial and marine gears. The Trailer Division designs, manufactures and sells a variety of truck-trailers. The Automotive and Industrial Supplies Division is essentially a wholesale supplier of automotive spare parts, heavy hardware items, and other miscellaneous industrial items.

The following table shows the contribution to sales and earnings before taxes by each of the company's operating divisions. It also shows the identifiable assets used by each of the divisions in their operations. Corporate assets are principally cash and temporary investments.

	Machinery Division	Trailer Division	A & I Supplies Division	Non Allocable Items	Total
	(In thousands of dollars)				
Sales					
Domestic	$ 87,426	$23,589	$ 5,950	$ —	$116,965
Export	30,951	—	—	—	30,951
	$118,377	$23,589	$ 5,950	$ —	$147,916
Earnings before taxes					
Operating profit	$ 38,179	$ 1,357	$ 147	$ —	$ 39,683
Other income (expense)	—	—	—	1,974	1,974
	$ 38,179	$ 1,357	$ 147	$ 1,974	$ 41,657
Assets					
Identifiable assets	$ 61,073	$15,105	$ 3,148	$ 2,528	$ 81,854
Corporate assets	—	—	—	30,605	30,605
	$ 61,073	$15,105	$ 3,148	$33,133	$112,459

Depreciation for the Machinery Division, Trailer Division and Automotive and Industrial Supplies Division, respectively, was $2,030,000, $495,000, and $59,000. Capital expenditures for the three divisions were $5,919,000, $363,000, and $6,000, respectively.

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ACCOUNTANTS' 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, 1977 and 1976 and the related consolidated statements of earnings, 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, 1977 and 1976, 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 22, 1978

ARTHUR ANDERSEN & CO.

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Lufkin, Texas

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President
Lufkin Federal Savings & Loan
Lufkin, Texas

J. G. Kurth
Manages his own investments
Houston, Texas

***M. E. Kurth, Jr.**
Divisional General Manager
Southland Division
St. Regis Paper Company
(manufacturer of paper products)
Houston, Texas

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Lufkin, Texas

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Vice President and Trailer
Division General Manager
Lufkin Industries, Inc.
Lufkin, Texas

***R. L. Poland**
President,
Lufkin Industries, Inc.
Lufkin, Texas

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Lufkin Industries, Inc.
Lufkin, Texas

W. W. Trout, Jr.
Vice President and
Assistant to the President
Lufkin Industries, Inc.
Lufkin, Texas

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Partner, Wiener, Weiss,
Madison & Howell (Law Firm)
Shreveport, Louisiana

J. L. Wiener, Jr.
Partner, Wiener, Weiss,
Madison & Howell
Shreveport, Louisiana

Samson Wiener
President, Wiener Lumber Company
(Seller of lumber and related
products)
Dallas, Texas

*Member Executive Committee

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Vice President

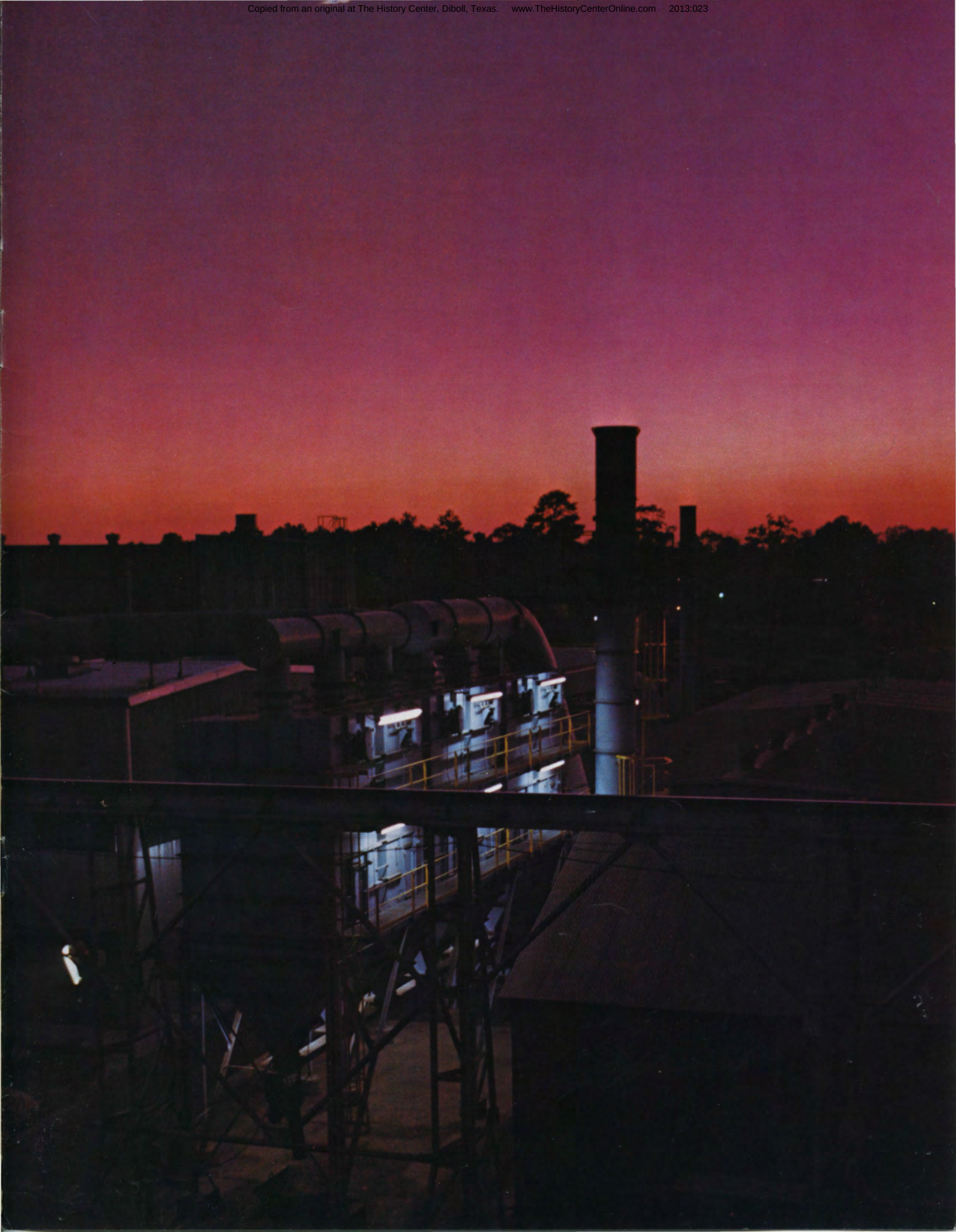
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Assistant Secretary

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Assistant Treasurer

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