LUFKIN

LUFKIN INDUSTRIES, INC. 1982 ANNUAL REPORT

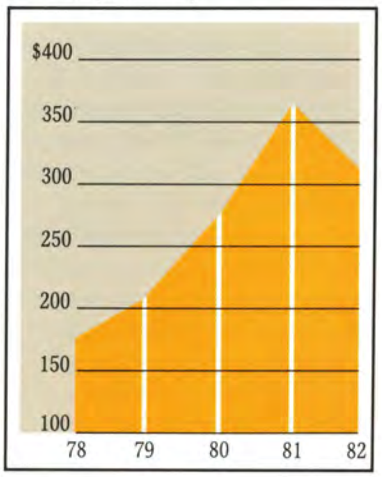
A LUFKIN Conventional 114D-109-48 Unit produces in Newton, Falls, Ohio, amid the beauty of an Autumn day.

FINANCIAL HIGHLIGHTS

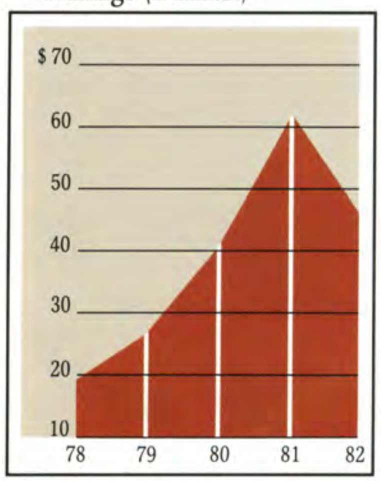
(In thousands of dollars, except per share data)

Year ended December 31	**1982**	1981	1980	1979	1978
Net sales	**$309,664**	$364,443	$273,936	$206,386	$173,266
Net earnings	**46,957**	62,697	40,682	26,414	19,052
Net earnings per share	**27.12**	36.02	23.37	15.17	10.94
Total assets	**260,224**	247,478	186,085	142,457	124,384
Long-term debt	**3,000**	3,500	4,000	4,500	5,000
Cash dividends per share	**10.00**	9.00	6.50	5.50	5.25
Book value per share	**125.99**	109.88	82.87	65.99	56.32

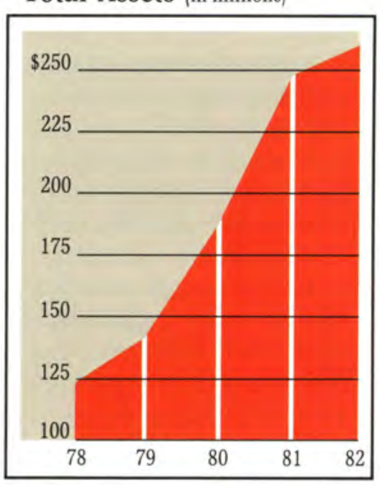
Sales (in millions)



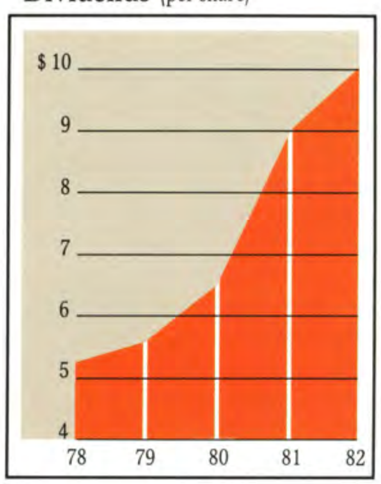
Earnings (in millions)



Total Assets (in millions)



Dividends (per share)



Left: LUFKIN Air-Balanced Unit, Stark County, North Dakota

To Our Shareholders

The year 1982 was a challenging one, and it tested the innovative talents of the entire management team.

The worldwide downturn of the oil industry began with sudden reality for your company in early May. By the end of the month, almost $100 million in pumping unit orders were cancelled. From March, when the unprecedented number of 1061 pumping units were shipped from our plant, to May, when shipments dropped to less than 50 per week, we found our business had changed drastically. A surplus of oil on the world market resulted in extreme reductions in drilling programs which caught oil producers with large inventories of pumping units, and thus followed the wholesale cancellations of orders for new equipment from us.

However, while net sales and earnings were down in 1982, this was the second best year in our history. Net sales for 1982 were $309.7 million, a 15 per cent decrease from net sales of $364.4 million in 1981. Net earnings fell 25 per cent from $62.7 million in 1981 to $47.0 million in 1982. On the other hand, the percentage of net earnings to net sales decreased only 2.0 per cent from 17.2 per cent in 1981 to 15.2 per cent in 1982. We were able to maintain this level of profitability by reducing costs and inventories in line with the reduced levels of demand for our products.

Total assets of the company continue to increase, reaching $260.2 million in 1982, compared to $247.5 million in 1981. Cash dividends of $10 per share were distributed in 1982, up from $9 per share in 1981. Book value increased in 1982 to $125.99 per share from $109.88 per share in 1981.

As indicated, pumping unit net sales dropped in 1982 to $244.0 million from $291.7 million in 1981. Gear net sales were up slightly from $35.5 million in 1981, to $36.1 million in 1982. Trailer Division net sales in 1982 dropped to $22.7 million, compared to $30.1 million in 1981. The Industrial Supplies Division net sales decreased in 1982 to $6.9 million, compared to $7.2 million in 1981.

The 80th anniversary of the company was marked in

1982. We entered the year with a backlog of orders that taxed the capacity of our production facilities. Our employment numbered almost 4500 people, and our warehouses and yards were filled with large inventories of raw material. Almost without warning, the year that had been full of promise changed to one of grim concern.

During the second quarter of the year, an acute downturn in our business occurred. What followed was a herculean effort by the management team and all middle management personnel to restructure our organization.

From full production on a seven-day week basis, the workweeks were cut and some second and third shifts eliminated. It soon became apparent that this was not enough, and we were forced to reduce our workforce to 1974 and 1975 levels. Cost reductions were made in every department, and material orders to our suppliers were cancelled or delayed whenever possible. Our Little Rock, Arkansas, foundry and Cushing, Texas, fabrication plant were closed. The manufacturing plant in Canada was curtailed greatly, leaving only a skeletal crew. New construction was slowed or halted.

These efforts were successful. The necessary retrenching resulted in finding new methods to expand markets, cut costs, improve productivity and quality.

While orders for pumping units during the second and third quarters were scarce, our industrial gear business remained fairly good. Our Industrial Supplies Division maintained a steady supply of orders during most of the year. The Trailer Division, already depressed for three years, had a particularly tough year in that while it had been building pumping unit structures during the trailer recession, it lost that business when the new fabricating plant was completed, and all fabrication was moved to it.

The export business has been strong since the second quarter and has amounted to approximately 25 per cent of our total business during this recession. We believe our pumping unit export business will remain steady in South America and the East, but Canadian sales probably will remain slow.

During our 80th anniversary year, a new corporate office was completed and occupied. We are proceeding on many of our long-range plans but at a slower pace. The new structural steel plant was completed, and all fabrication, with some exceptions, is being done in this modern, highly automated plant. The large castings foundry which was begun in January, 1982, has been slowed, but when it is completed, it will be one of the most modern foundries to be found anywhere, and we will be able to supply all our needs for castings as well as market iron castings as a product.

Also in our 80th year, we published a history of the company. This hard-cover book contains many black and white and color photographs chronicling the saga of Lufkin Foundry & Machine Company to present-day Lufkin Industries, Inc. The book is available at the public relations office at a special price for shareholders.

Your company is strong and healthy. It has talented, resourceful and dedicated employees. It has modern facilities and state-of-the-art equipment. Its financial condition is excellent. We are confident that we will meet successfully the challenges of 1983.

R.L. Poland
President and
Chief Executive

These gear shaper machines cut production time, thereby reducing costs on pumping unit gears

Machinery Division

Despite the downturn in business due to the ills of the oil industry, much was accomplished in 1982 in the Machinery Division which will enhance the company's position in the market place for years to come.

For five previous years until May, 1982, the Machinery Division's manufacturing facilities operated at or above maximum efficient operating capacity. For the remainder of 1982, efforts were concentrated on productivity improvement and quality control programs.

Throughout the machining and assembling operations, the foundry operations and the steel fabricating, final assembling and shipping facilities, new ways to reduce costs of manufacturing without sacrificing quality or customer service were researched and put into operation.

While most capital expenditure projects were halted or delayed, some expansions and modernizations were completed earlier in the year.

Probably the most significant achievement in 1982 in the Machinery Division was the immediate reaction and resilience of employees whose abilities averted a crisis when the crunch in the oil industry occurred.

Machining and Assembling Operations

The emphasis in the machining and assembling areas shifted from how many pumping unit parts could be made, to how efficiently these parts could be produced. Quality control programs were initiated throughout these areas. Recent modernization programs had resulted in capabilities to produce enough parts for 250 units per week. With demand down, new procedures were instituted that added value to the products, not costs to manufacturing.

Several sophisticated machines ordered in 1981 arrived and were installed in 1982. These highly automated machine tools complete several steps in the manufacturing process, eliminating material handling and movement of parts about the shop areas. Gear shaper machines cut production time on pumping unit gears by 75 per cent. Techniques perfected in removing

A crank pin production line operates in the Shaft Shop

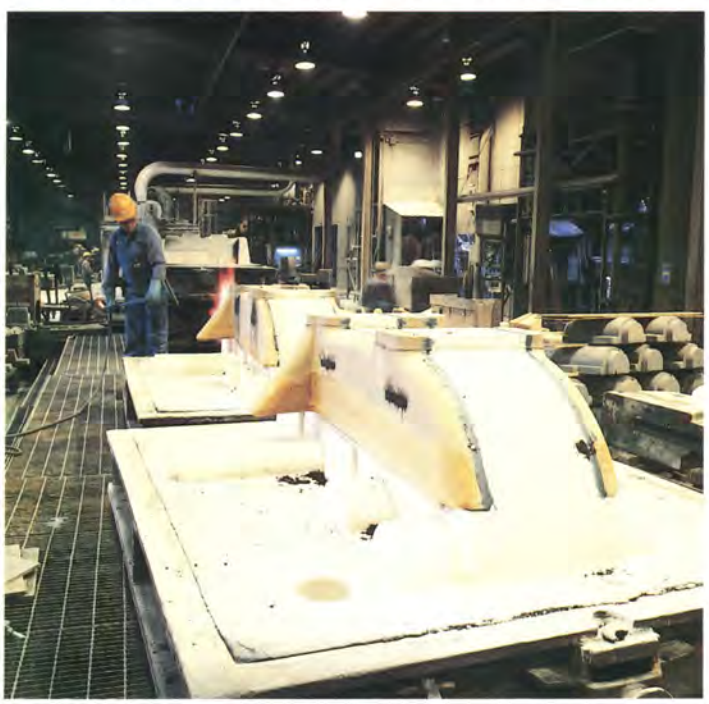
This marine gear will operate in a Venezuelan LST Navy vessel metal on the hobbing machines reduced machining time on some sizes of gears by two-thirds. Conveyor systems installed in crank pin production areas eliminated manual material handling.

Following the completion in 1981 of a $7.5 million facility for the manufacturing of industrial and marine gears, efforts in 1982 were to convince the market place that LUFKIN was indeed committed to the gear industry. Gear grinding machine tools were installed and several in-plant gears were ground to give employees experience in this method of gear production and to provide needed gearing in the gear testing facilities. These ground gears are more accurate and run quieter. No problems have surfaced in their performance.

During the past year, a series of marine gear units were redesigned and manufactured with case-hardened and ground gearing. The prototype of this new line was scheduled for display at the 1983 Boat Show in New Orleans. It is believed by many to be the gearing of the future. Metal is removed by grinding the involute surfaces to acute accuracies. These gear teeth carry large loads per inch of face width, meaning that these gears are made with smaller rotating elements making the overall package smaller. To the customer, this means a higher horsepower gear that is quiet and occupies less space.

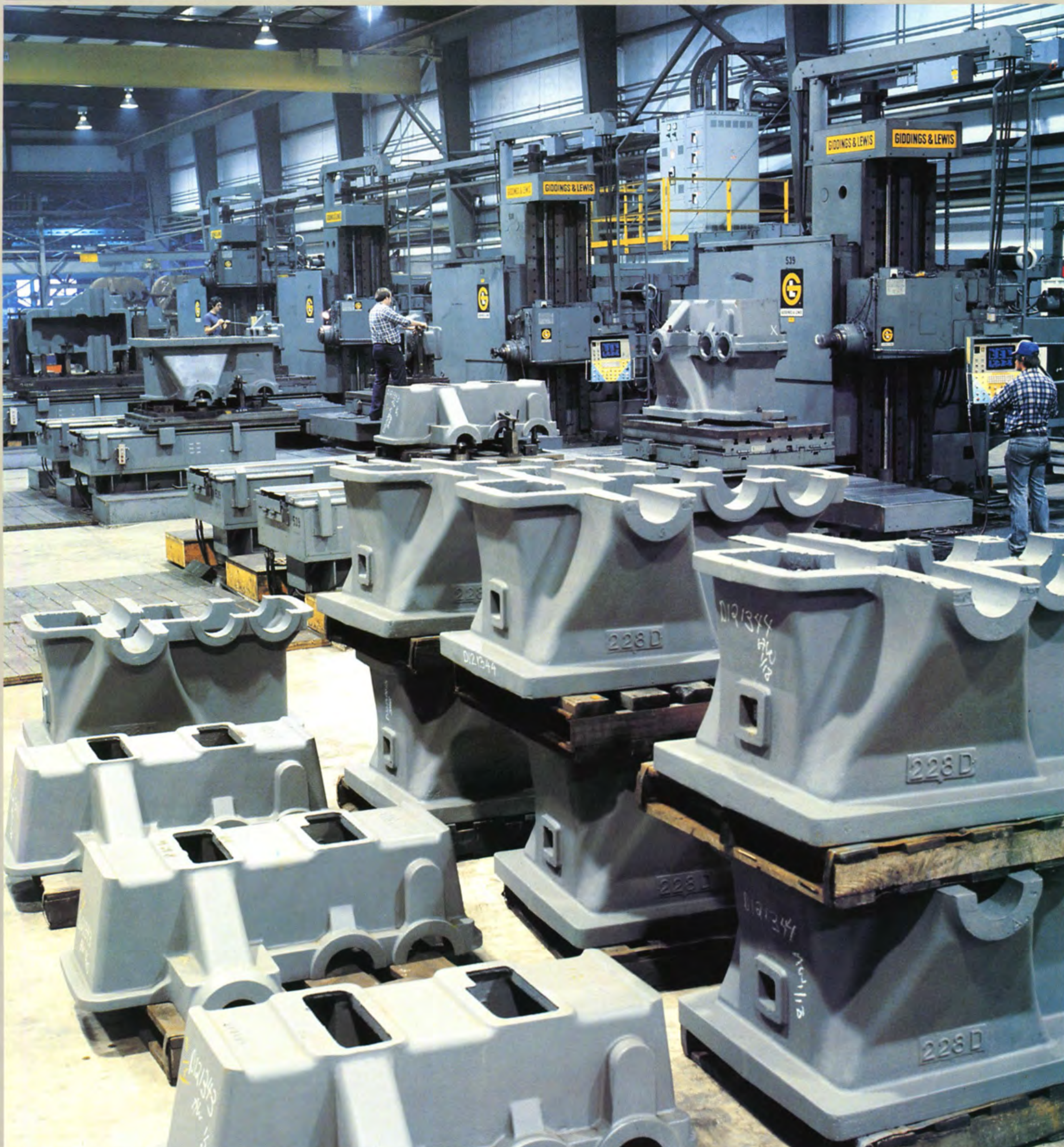
Also in 1982, we introduced a new pumping unit size —the Mark II 1824. It is the largest Mark we build, having a 42,700-pound polished rod rating and a 216-inch stroke. This bigger Mark can pump deeper wells and the first one sold was installed in the Maricaibo, Venezuela area.

We not only produced the largest pumping unit in 1982, we also provided the pumping unit for the world's deepest rod pumped well. A Mark was installed on a major oil company's well in Wyoming and uneventfully produced oil from 14,500 feet. According



New method of applying mold lathings increases castings quality

Completion of a new large castings foundry has been delayed



These numerically-controlled machining centers complete many operations at one location

Automated processes result in efficient operations in new steel fabricating plant to the oil company, our pumping unit replaced a hydraulic lift system that had serviced the well for many years, but maintenance costs had become prohibitive. It was decided to try a rod pumping unit for the first time on a well of this depth. It proved to be an efficient, reliable alternative to deep well production. It is hoped this will lead others in the oil industry to specify rod pumping systems for deep well production.

Some 670 industrial and marine gears were shipped in 1982, down about 80 units from 1981. However, our dollar sales were comparable to 1981 since gear shipments were of more sophisticated units having higher speeds and higher horsepower ratings.

Approximately 6650 pumping units were shipped in 1982, compared to about 8800 the previous year. These figures reflect the downturn in the oil industry throughout the world.

Foundry Operations

Of all the production areas of the company, perhaps the foundry operations were hardest hit by the downturn in the business. It had been geared to produce at capacity in addition to using production from the Little Rock plant as well as the purchase of outside castings in equal amounts to that produced in Lufkin.

The department had 944 employees on April 1, 1982, working three shifts of six- and seven-day workweeks. Beginning in May and continuing throughout the summer and fall months, employment in this area dropped 67 per cent, workweeks of three days were common and tonnage poured dropped by 50 per cent.

To cope with this situation, innovative production programs were initiated to manufacture castings as efficiently as possible, while at the same time reducing a tremendous inventory. The readjustments and changes in production methods proved beneficial. A new method of applying mold lathings has increased the quality of castings and reduced the cleaning time required on these castings.

The Little Rock plant has been "mothballed" but is

Grinder works at pumping unit sub-base assembly station

Export units being loaded for trucking to Port of Houston in condition to reopen on three weeks' notice when the upturn in business necessitates it.

Construction on a large castings foundry has been slowed and completion delayed. The steel erection on the building has been completed and the roofing and siding is scheduled to be installed in early 1983. The status of construction then will be such that at the first indication of an upturn in business, the facility can be brought into operating condition.

The most significant of the new equipment purchased for foundry operations in 1982 is a remote-control grinding unit that represents a breakthrough in the cleaning of castings. It is a prototype of several units to be installed in the new large castings foundry in the future.

Steel Fabrication, Final Assembling and Shipping Operations

The move early in January, 1982, into the new facilities for steel fabrication, final assembling and shipping signaled more efficient operations. Automated processes changed the methods of fabricating pumping units. Cranes and conveyors move raw materials, and computer numerically-controlled machines punch holes that previously were drilled. Eight loading docks in the final assembling and shipping building feature floor-level loading.

After the decline in business, production plans were altered. They had been based on a large backlog of orders. Although the backlog disappeared, production efficiency remained such that by the end of the third quarter, some 51 per cent of pumping unit orders were shipped within one or two weeks, and the remaining 49 per cent, in most instances, were shipped after the third week. It is believed that from this facility, delivery of orders will continue to be reliable and timely.

New marine gear has higher horsepower, quiet operation in smaller package. Gears are case-hardened and ground

The world's deepest rod pumped well is produced by a Mark II pumping unit in Wyoming from 14,500 feet

During a city-wide beautification campaign, LUFKIN planted 850 crepe myrtle shrubs around its property

Photo made in Billings County, North Dakota, by David Freeze, LUFKIN's photographer

LUFKIN vans can be seen on highways throughout the nation

Trailer Division

The challenges of dealing with a down sales market in 1982 were nothing new for the Trailer Division. For the past three years, the trucking industry has been in a slump, and trailer manufacturers have been suffering nationwide. A predicted upturn in the market failed to materialize in 1982, and the Division's sales and production figures reflect the continued recession.

During the first three months of 1982, sales of trailers were as many as the manufacturing facilities could produce, considering the fact that this Division was producing pumping unit structures for the Machinery Division also.

Some 1396 trailers were manufactured in 1982, a decrease of 675 trailers from 1981. Net sales totaled $22.7 million, a decline of $7.4 million from 1981. In addition, the Division manufactured some 1068 pumping units during the first two quarters of 1982. When the oilfield business skidded, this segment of the Trailer Division's business was moved back to the Machinery Division.

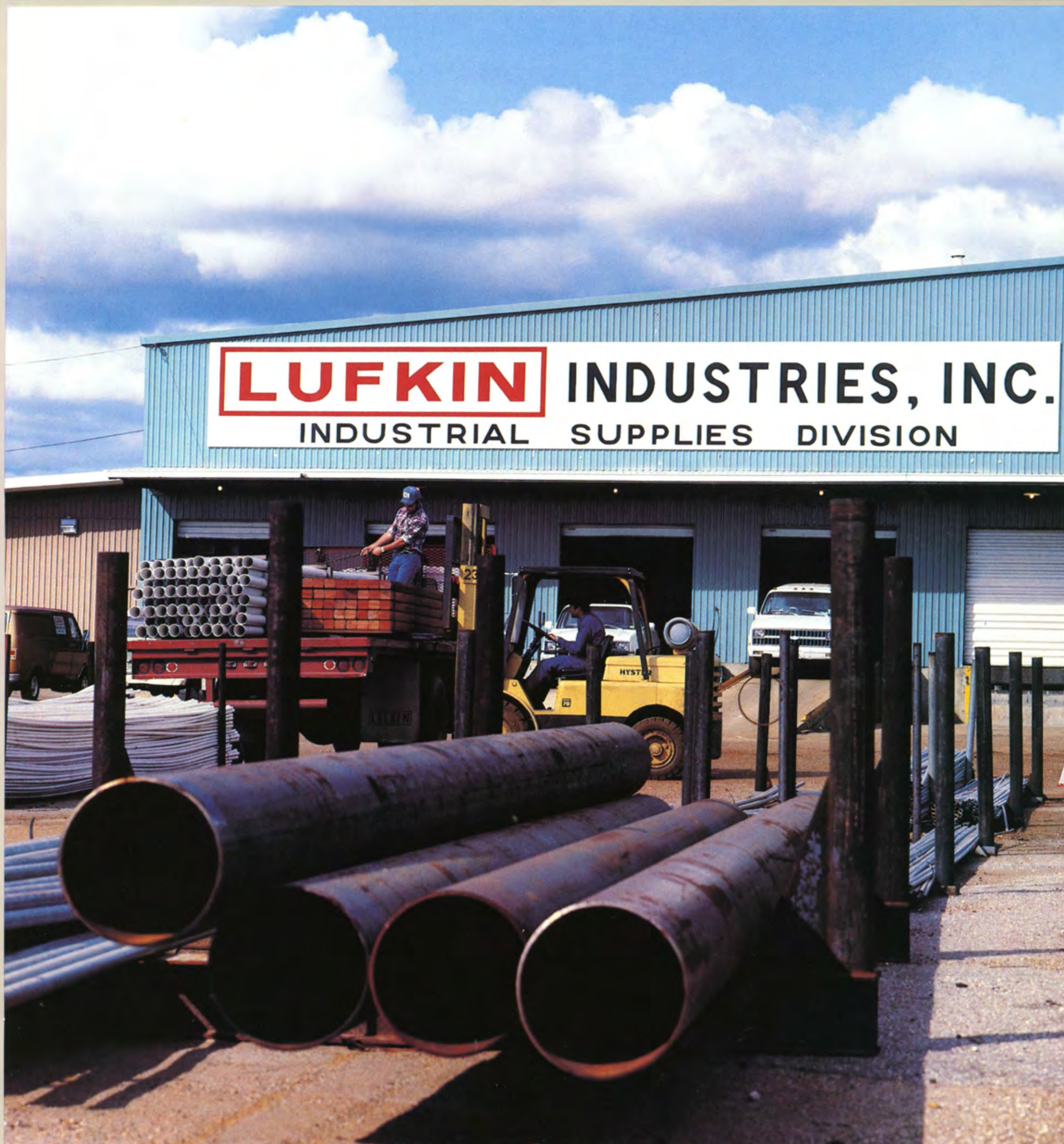
Almost half of the Trailer Division's people were involved in some way with pumping unit manufacturing. Thus, with the loss of the pumping unit business and the stagnation of the trailer market, the work force had to be reduced by approximately 43 per cent. The Division now employs some 284 persons in the local plant and offices, and 100 persons in its nine trailer sales and service branches.

A special products department was created to handle production of items other than trailers. During 1982, the trailer plant marketed a line of garbage containers for several municipalities, and solicited fabrication work from industries and businesses within a 100-mile radius.

There is reason for cautious optimism for 1983. Federal legislation has been passed that will allow wider and longer trailers on interstate highways. It is hoped that many trucking companies that have been delaying purchases of new trailers will decide to buy the larger trailers in 1983.

The van production line built some 740 vans in 1982

Second highest number of trailers sold in 1982 were floats



Some 1,200 different items are stocked by Industrial Supplies for customers within 150-mile radius

Industrial Supplies Division

The greatest challenge of 1982 for the Industrial Supplies Division was selling in an increasingly competitive market. With the decline in business throughout the metropolitan areas such as Houston and Dallas, a number of vendors came to East Texas, attempting to recover lost sales.

The Division found itself competing with vendors who undercut our prices. Fortunately, they could not offer the customer services this Division has built its reputation on, such as quick deliveries, competitive prices and handling the stock at the customer's convenience.

The Industrial Supplies salesmen were successful in overcoming their competition, for 1982 was one of the best years in this Division's history. Outside net sales were $6.9 million and sales to Lufkin Industries brought the 1982 sales to slightly less than $12 million.

Sales to the company were high because of the expansion projects during the first quarter of the year which was the completion of the steel fabricating, final assembling and shipping facility and the beginning of construction on the large castings foundry.

Outside sales were up in 1982 mainly due to an increase in sales of pole line hardware. As population increased in the territories, local utilities expanded and updated their systems and the Industrial Supplies Division has benefitted from their growth.

Although the housing industry is down nationally, the Division saw little change in its building trades business. Plumbing supplies sales remained steady as did sales to forestry-related customers.

The Division employs 48 persons and serves a 150- mile radius of Lufkin, excluding the metropolitan areas.

Industrial Supplies Division maintained steady sales despite increased competition from new vendors

Saws of various sizes are stocked. This saw is 84 inches in diameter and is used in the timber industry


LUFKIN

FINANCIAL REVIEW & FINANCIAL STATEMENTS

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New corporate office building was finished in 1982.

Financial Review

Description of Business

The Company was incorporated under the laws of Texas on March 4, 1902 and has since that date maintained its principal office and manufacturing facilities in Lufkin, Texas. The Company's operations are divided into three divisions, the Machinery Division, Trailer Division and Industrial Supplies Division, which correspond to the Company's principal industry segments.

Machinery Division

The Company's Machinery Division designs, manufactures, sells and services various types of oilfield pumping units as well as industrial and marine gears. Lufkin manufactures four basic types of 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 required. There are numerous sizes and combinations of Lufkin oilfield pumping units within the four basic types. 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 manufactures most of the component parts used in its products and purchases the raw materials and outside manufactured parts from a variety of suppliers on an order basis. The inventory of the Machinery Division consists primarily of raw materials and component parts which are generally assembled into finished products to fill specific customer orders. These finished products are sold by the division's own employees directly to the domestic petroleum, manufacturing and ship-building industries. Until May 1982, at which time the Company experienced a decline in demand for oilfield pumping units, the Company had operated its Machinery Division manufacturing facilities at or above the maximum efficient operating capacity for the past five years.

Oilfield pumping units are the Company's primary products sold in export. These sales, other than to Canada, are made principally through foreign sales representatives, licensees and distributors. During 1982, foreign sales accounted for approximately 25 percent of the Company's total net sales. While foreign sales are generally more profitable, they are subject to the risk of fluctuations in foreign import duties and taxes.

The domestic and international markets for the products of the Company's Machinery Division are highly competitive with price, quality and the speed of delivery being important factors. While the Company believes that it is one of the larger manufacturers of sucker rod pumping units in the United States, manufacturers of other types of units (submersibles and hydraulics) have a significant share of the total pumping unit market. The Company does not believe it is a significant factor in the gear market.

Trailer Division

The Company designs, manufactures, sells and services a variety of van, flatbed, and dump trailers, ranging in length from 18 to 50 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.

The Trailer Division is also 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, San Antonio, Houston and Lubbock, Texas. A trailer sales and parts facility is located in New Orleans, Louisiana.

The Company uses a sales force of approximately 30 employees to distribute its trailers, primarily in the South. The Company also markets trailers through dealers. The Company 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. The Company does not believe it is a significant factor in the market for truck trailers either in the South or nationally.

Industrial Supplies Division

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

The Division's sales are made at the Company's facilities in Lufkin and through approximately six traveling salesmen. Sales are primarily in the East Texas area and the Division is not a substantial factor in the markets in which it competes.

General Information

Properties. The Company's major manufacturing facilities are located in and near Lufkin and are owned in fee.

Machinery Division—The Machinery Division is located on approximately 100 acres and includes a foundry, machine shop, structural shops, assembly shops and warehouses.

The Company also has a plant in Nisku, Canada which produces structural parts for pumping units. These parts are then assembled with parts shipped from Lufkin and are delivered to the Company's Canadian customers.

Trailer Division—The Company's trailer manufacturing facilities are located on a 60-acre portion of a 400-acre tract of land owned in fee by the Company and consist 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.

Industrial Supplies Division—The Industrial Supplies Division has one warehouse which is located in Lufkin and contains approximately 120,000 square feet. A portion of this space is used for administrative operations.

Employees. The Company employs approximately 2,500 people, of whom approximately 1,650 are hourly paid. The Company has an open shop contract with three labor unions, all members of the AFL-CIO, which runs to September 30, 1984. The Company considers employee relations to be satisfactory.

Information on Voting Stock

There is no active market in the Company's common stock. As of February, 1983, the Company had approximately 1,200 record holders of its common stock.

Lufkin has paid cash dividends for 43 consecutive years. Total dividend payments were $17,321,000 in 1982 and $15,666,000 in 1981.

Quarterly Financial Data

In millions, except earnings per share	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1982				
Net sales	$98.9	$93.7	$51.3	$ 65.8
Gross income	32.1	24.8	11.2	25.2**
Net earnings	16.1	11.4	5.1	14.4
Earnings per share	9.27	6.54	2.95	8.36
Dividends per share	3.00	3.00	2.00	2.00*
1981				
Net sales	$69.4	$90.0	$93.3	$111.7
Gross income	21.8	31.3	30.9	37.8
Net earnings	10.5	15.6	15.4	21.2
Earnings per share	6.06	8.94	8.84	12.18
Dividends per share	2.00	2.00	2.00	3.00

*Dividend distributed on January 3, 1983 to stockholders of record on December 1, 1982.

**A liquidation of LIFO inventories occuring during the fourth quarter of 1982 resulted in an increase in gross income during the quarter.

Additional Financial Information

Stockholders may obtain additional financial information for the year ended December 31, 1982 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.

Business Segment Information

(In thousands of dollars)	1982	1981	1980
Net sales:			
Machinery Division			
Pumping units	**$244,041**	$291,694	$215,089
Gears	**36,062**	35,463	26,732
Trailer Division	**22,671**	30,088	24,738
Industrial Supplies Division	**6,890**	7,198	7,377
Total net sales	**309,664**	364,443	273,936
Operating income:			
Machinery Division	**75,383**	102,314	66,331
Trailer Division	**(613)**	1,432	1,337
Industrial Supplies Division	**427**	585	522
Total operating income	**75,197**	104,331	68,190
Assets:			
Machinery Division	**145,036**	164,195	116,623
Trailer Division	**20,961**	23,775	18,597
Industrial Supplies Division	**4,902**	5,438	4,968
General corporate assets	**89,325**	54,070	45,897
Total assets	**260,224**	247,478	186,085
Capital expenditures:			
Machinery Division	**21,828**	29,902	16,628
Trailer Division	**413**	666	1,053
Industrial Supplies Division	**37**	195	1,063
General corporate	**3,981**	2,920	1,150
Total capital expenditures	**26,259**	33,683	19,894
Depreciation:			
Machinery Division	**6,634**	5,067	3,577
Trailer Division	**494**	612	586
Industrial Supplies Division	**108**	111	99
General corporate	**500**	281	169
Total depreciation	**7,736**	6,071	4,431
Net sales by geographic region:			
United States	**233,275**	299,255	220,065
Canada	**12,216**	22,515	17,148
Latin America	**45,592**	34,326	28,560
Other regions	**18,581**	8,347	8,163
Total sales	**$309,664**	$364,443	$273,936

Management's Analysis of Operating Results and Financial Condition

Operating Results

Net sales and earnings were down significantly in 1982 as compared with 1981. Sales for 1982 were $309.7 million, compared to $364.4 million in 1981, a decrease of 15%. This decrease was primarily in the Machinery Division's pumping units and in the Trailer Division.

The pumping unit sales decrease is primarily attributable to an unprecedented decline in the number of active drilling rigs during 1982 from a high of 4,500 in December 1981 to less than 2,400 in December 1982, a decline of over 45%. In addition, there was a substantial inventory of pumping units in the market place which had an impact on the Company's sales during 1982.

Due to the uncertainty of oil prices and the supply/demand imbalance of oil, the Company is unsure of prospects for 1983 and beyond. Although the Company feels that drilling activity probably bottomed out in late 1982, improvement in drilling activity and the Company's sale of pumping units are dependent on recovery in demand for oil and a stronger economy.

The Trailer Division's sales decreased 25% from $30.1 million in 1981 to $22.7 million in 1982. This decrease in demand of trailers resulted primarily from weaker economic conditions of the customers served.

The Trailer Division had an operating loss during 1982 as a result of this decrease in demand and also because of the loss of the fabrication and assembly work on pumping units for the Machinery Division. In 1981, it had fabricated structural parts and assembled some 2,100 pumping units.

While sales decreased 15% in 1982, net earnings decreased 25% from $62.7 million in 1981 to $47.0 million in 1982. The percentage of net earnings to net sales, however, decreased only from 17.2% in 1981 to 15.2% in 1982. The Company was able to maintain this level of profitability by reducing costs and inventories in line with the lower levels of demand. It was necessary to reduce the Company's employee force from a high point of 4,450 people in March 1982 to 2,500 people in December 1982. Other operating expenses were likewise decreased. Inventories were decreased from $46.6 million at December 31, 1981 to $30.5 million at December 31, 1982.

Liquidity and Capital Resources

At December 31, 1982, the Company had working capital of $108,730,000 as compared to $93,993,000 at December 31, 1981. The Company believes that existing working capital is more than sufficient to satisfy its 1983 requirements. In recent years, the expansion of the Company's facilities has been financed with internally generated funds and the Company plans to finance any expansion and improvements of its facilities in this manner in 1983.

The impact of inflation on the Company is discussed in Note 8 of the Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31, 1982 and 1981
(Thousands of dollars)

Assets	1982	1981
Current assets:		
Cash	$ 2,777	$ 2,716
Temporary investments	59,708	23,785
Accounts receivable	32,790	54,326
Installment notes and contracts receivable	10,253	10,360
Inventories	30,515	46,639
Total current assets	136,043	137,826
Property, plant and equipment:		
Land	7,382	5,884
Buildings	40,285	33,151
Machinery and equipment	98,585	81,637
	146,252	120,672
Less accumulated depreciation	40,791	33,734
Net property, plant and equipment	105,461	86,938
Investments in marketable securities	18,352	22,498
Other assets	368	216
	$260,224	$247,478

See notes to consolidated financial statements.

Liabilities and Stockholders' Equity	**1982**	**1981**
Current liabilities:		
Current portion of long-term debt	$ 500	$ 500
Accounts payable	4,570	13,001
Accrued liabilities:		
Payrolls	782	1,156
Contributions to pension plans	5,018	4,521
Taxes	13,005	19,433
Dividends declared	3,438	5,222
Total current liabilities	27,313	43,833
Long-term debt, net of current portion	2,500	3,000
Deferred income taxes	13,803	9,368
Stockholders' equity:		
Common stock, par $1 per share, 2,000,000 shares authorized	1,719	1,741
Capital in excess of par	15,555	15,750
Retained earnings	199,334	173,786
Total stockholders' equity	216,608	191,277
	$260,224	$247,478

Consolidated Statement of Earnings

Years ended December 31, 1982, 1981 and 1980
(Thousands of dollars)

	1982	1981	1980
Net sales	**$309,664**	$364,443	$273,936
Cost and expenses:			
Cost of sales	**216,316**	242,647	190,815
Selling, general and administrative expenses	**18,151**	17,465	14,931
Interest income	**(8,263)**	(7,837)	(4,933)
Interest expense	**283**	283	290
Other, net	**(280)**	97	(641)
	226,207	252,655	200,462
Earnings before income taxes	**83,457**	111,788	73,474
Income taxes	**36,500**	49,091	32,792
Net earnings	**$ 46,957**	$ 62,697	$ 40,682
Earnings per share	**$27.12**	$36.02	$23.37

Consolidated Statement of Stockholders' Equity

Years ended December 31, 1982, 1981 and 1980
(Thousands of dollars)

	Common Stock		Capital	
	Shares	Amount	In Excess of Par	Retained Earnings
Balance December 31, 1979	1,740,730	$1,741	$15,750	$ 97,388
Net earnings				40,682
Cash dividends				(11,315)
Balance December 31, 1980	1,740,730	1,741	15,750	126,755
Net earnings				62,697
Cash dividends				(15,666)
Balance December 31, 1981	1,740,730	1,741	15,750	173,786
Net earnings				46,957
Cash dividends				(17,321)
Purchase of treasury stock	(21,520)	(22)	(195)	(4,088)
Balance December 31, 1982	1,719,210	$1,719	$15,555	$199,334

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1982, 1981 and 1980
(Thousands of dollars)

	1982	1981	1980
Source of funds:			
From operations:			
Net earnings	$ 46,957	$ 62,697	$ 40,682
Expenses not currently requiring outlay of working capital:			
Depreciation	7,736	6,071	4,431
Deferred Federal income taxes	4,435	3,291	792
Funds generated from operations	59,128	72,059	45,905
Decrease (increase) in marketable securities and other assets	3,994	(4,305)	(471)
Total funds provided	63,122	67,754	45,434
Use of funds:			
Net additions to property, plant and equipment	26,259	33,683	19,894
Dividends	17,321	15,666	11,315
Reduction in long-term debt	500	500	500
Purchase of treasury stock	4,305	—	—
Total funds used	48,385	49,849	31,709
Increase in working capital	$ 14,737	$ 17,905	$ 13,725
Working capital increase (decrease) resulted from changes in:			
Cash	$ 61	$ 2,228	$ (2,456)
Temporary investments	35,923	135	21,150
Accounts receivable	(21,536)	10,655	6,965
Installment notes and contracts receivable	(107)	4,153	(868)
Inventories	(16,124)	12,305	2,903
Accounts payable	8,431	(4,627)	(3,288)
Accrued liabilities	8,089	(6,944)	(10,681)
Increase in working capital	$ 14,737	$ 17,905	$ 13,725

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of major accounting policies

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Temporary investments and investments in marketable securities: In the accompanying balance sheet, temporary investments are carried at cost, which approximates market. The investment in marketable securities consisting of corporate bonds, government securities and common stock is carried at cost and had a market value of $16,822,000 and $18,629,000 at December 31, 1982 and 1981, respectively. In management's opinion, there is no permanent impairment in value and there is no present intention to liquidate these securities at less than cost.

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 ($8,219,000 at December 31, 1982 and $7,976,000 at December 31, 1981) 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, which does not exceed market, for substantially all inventories. Inventory costs include material, labor and factory overhead.

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 on the sale or retirement of these assets are reflected in income.

The Company uses the straight-line depreciation method for financial reporting and accelerated methods 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. Provision is also 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. Current recognition is given in the statement of earnings to tax benefits resulting from the utilization of investment tax credits.

Earnings per share: Earnings per share amounts are based on the weighted average number of shares of common stock outstanding during the period.

(2) Long-term debt

The long-term debt at December 31, 1982 is payable $250,000 semi-annually through 1987 and bears interest at 6.7 percent. The Company is in compliance with the covenants of its debt agreements and does not believe that the covenants will have any adverse effect on future operations.

(3) Retirement plans

The Company and its subsidiaries have retirement plans covering substantially all employees. The total unfunded prior service cost at January 1, 1982, the date of the latest actuarial valuation, was estimated to be $21,887,000. The total pension expense was $5,018,000 in 1982, $4,538,000 in 1981, and $3,769,000 in 1980, 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.

A comparison of accumulated plan benefits, calculated using an estimated rate of return of 4.5%, and net assets for the plans are as follows:

	(In thousands) January 1	
	1982	1981
Actuarial present value of accumulated plan benefits		
Vested	$30,086	$24,864
Nonvested	3,452	2,404
	$33,538	$27,268
Net assets available for benefits	$35,377	$29,557

(4) Income taxes

The income tax provision for 1982, 1981 and 1980 consisted of the following:

	(Thousands of dollars)		
	1982	1981	1980
Amounts currently payable	$32,065	$45,800	$32,000
Amounts deferred	4,435	3,291	792
	$36,500	$49,091	$32,792

A reconciliation of provision for income taxes to the United States tax rate of 46% of earnings before income taxes is as follows:

	(Thousands of dollars)		
	1982	1981	1980
Taxes computed at statutory rate	$38,390	$51,422	$33,798
Investment tax credits	(1,908)	(2,129)	(925)
Other, net	18	(202)	(81)
Actual provision	$36,500	$49,091	$32,792

The Company provides deferred taxes for timing differences between financial and taxable income as follows:

	(Thousands of dollars)		
	1982	1981	1980
Excess of tax depreciation over book depreciation	$2,658	$1,513	$620
DISC earnings not currently subject to tax	1,989	1,459	246
Other	(212)	319	(74)
	$4,435	$3,291	$792

(5) Inventories

Inventories used in determining cost of sales were as follows:

	(Thousands of dollars)			
	1982	1981	1980	1979
Finished goods	$ 5,906	$ 5,494	$ 4,389	$ 4,870
Work in process	11,218	18,979	13,289	11,825
Raw material	13,391	22,166	16,656	14,736
	$30,515	$46,639	$34,334	$31,431

Had the FIFO method been used in determining inventory values, inventories would have been $36,996,000 $43,904,000, $31,936,000, and $23,274,000 higher at December 31, 1982, 1981, 1980 and 1979, respectively.

During 1982, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1982 purchases. The effect of this liquidation is not material on net earnings.

(6) Supplementary income statement information

The following costs and expenses were charged to income during 1982, 1981 and 1980:

	(Thousands of dollars)		
	1982	1981	1980
Maintenance and repairs	$11,495	$14,527	$11,576
Depreciation	7,736	6,071	4,431

(7) Business segment information

Information concerning the Company's various business segments is included on Page 22 of this report.

Sales to Lukiven, S. A., the Company's distributor for its pumping unit equipment in Venezuela, accounted for 11% of consolidated sales in 1982.

(8) Supplemental information on the effects of inflation (Unaudited)

The following supplementary financial information discloses certain effects of inflation on the Company's historical cost financial statements. Current cost calculations involve a number of judgments as well as use of various estimating techniques and, therefore, may not accurately reflect the impact of inflation on the Company's business.

The constant dollar data presents historical cost financial information stated in dollars having equivalent purchasing power as measured by the consumer price index. The current cost data presents financial information adjusted to reflect the changes in prices of certain resources used in the operations of the Company. These adjustments involved the use of current cost amounts for inventories and appropriate indices for current costs of property, plant and equipment. Current cost depreciation is based on the average current cost of properties held during the year. The depreciation methods and useful lives are the same as those used in preparing the primary financial statements.

Consolidated Statement of Earnings Adjusted for Changing Prices for the Year ended December 31, 1982

(Thousands of dollars)	As Reported in Financial Statements	Adjusted for General Inflation (Constant dollars)	Adjusted for Changes in Specific Prices (Current costs)
Net sales	$309,664	$309,664	$309,664
Cost of sales excluding depreciation	209,797	209,190	214,933
Depreciation	7,736	9,465	11,387
Other expenses excluding depreciation	8,674	8,699	8,705
Income taxes	36,500	36,500	36,500
Net earnings	46,957	45,810	38,139
Loss from decline in purchasing power due to increase in net monetary assets		2,458	2,458
Increase in specific prices of inventories and property and equipment, net*			6,393
Effect of increase in general price level			4,979
Excess of increase in specific prices over increase in general price level			1,414

*At December 31, 1982, the current cost of inventory was $67,511,000 and the current cost of net property and equipment was $154,802,000

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices in Average 1982 Dollars

(Thousands of dollars except per share amounts)	Year Ended December 1982	1981	1980	1979	1978
Net sales	$309,644	$364,443	$273,936	$206,386	$173,266
Historical cost information adjusted for general inflation:					
Net income	45,810				
Earnings per common share	26.46				
Net assets at year-end	262,588				
Current cost information:					
Net income	38,139				
Increase in specific prices of inventories and property and equipment, net of inflation	6,393				
Earnings per common share	22.03				
Net assets at year-end	297,246				
Other information:					
Purchasing power gain (loss) of net monetary items	(2,458)				
Dividends per common share	10.00	9.00	6.50	5.50	5.25
Average Consumer Price Index (1967 = 100)	289.1	272.3	246.8	217.4	195.4

Report of Independent Public Accountants

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, 1982 and 1981 and the related consolidated statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were 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, 1982 and 1981, and the results of their operations and the changes in their financial position for each of three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Houston, Texas
February 16, 1983

Directors and Officers

Board of Directors

*S.W. Henderson, Jr.
S.W. Henderson, III
J.G. Kurth
*M.E. Kurth, Jr.
*L.A. Little
W.T. Little
*R.L. Poland
H.J. Trout, Jr.
*W.W. Trout, Jr.
*J.L. Wiener
J.L. Wiener, Jr.
Samson Wiener

*Member Executive Committee

Officers

R.L. Poland
President, Chief Executive

F.B. Stevenson
Executive Vice President

F.D. Griffin
Vice President

J.C. McKay
Vice President

B.M. Queen
Vice President

M.A. Penn
Vice President

W.T. Pennington
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E.G. Pittman
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W.W. Trout, Jr.
Vice President

C.J. Haley, Jr.
Secretary-Treasurer

C. Trevathan
Assistant Secretary

J.T. Floyd
Assistant Secretary

J.B. Massingill
Assistant Treasurer

Right: LUFKIN Mark II Unit, Altamont, Utah


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