

LUFKIN

INDUSTRIES, INC.

1983 ANNUAL REPORT







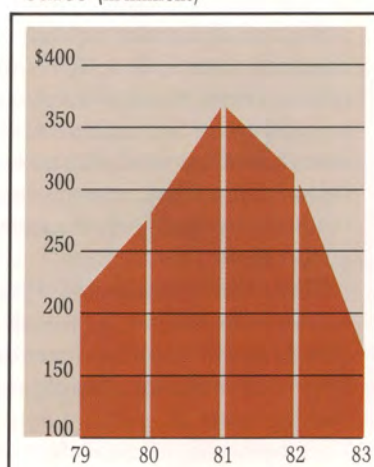


FINANCIAL HIGHLIGHTS

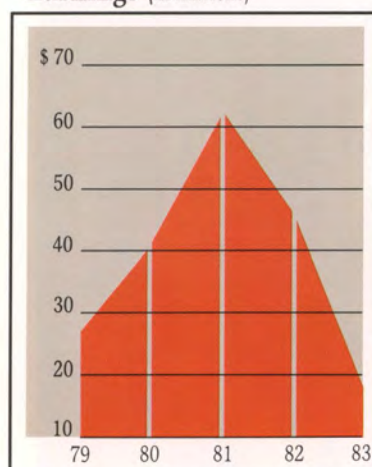
(In thousands of dollars, except per share data)

Years ended December 31	1983	1982	1981	1980	1979
Net sales	\$170,406	\$309,664	\$364,443	\$273,936	\$206,386
Net earnings	19,573	46,957	62,697	40,682	26,414
Net earnings per share . .	11.38	27.12	36.02	23.37	15.17
Total assets	266,065	260,224	247,478	186,085	142,457
Long-term debt	2,500	3,000	3,500	4,000	4,500
Cash dividends per share	9.00	10.00	9.00	6.50	5.50
Book value per share . . .	128.38	125.99	109.88	82.87	65.99

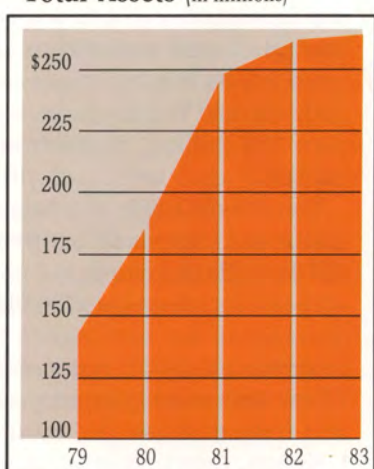
Sales (in millions)



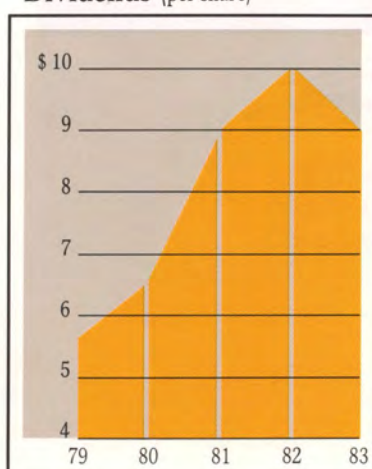
Earnings (in millions)



Total Assets (in millions)



Dividends (per share)



Front Cover:
A LUFKIN Mark II
pumps in this
pastoral scene
in Canada

Left: LUFKINs
dot the rugged
terrain of Mt.
Poso, California

TO OUR SHAREHOLDERS



At this time last year, I wrote to the shareholders that 1982 was a challenging year. That being true, 1983 was even more challenging. It was an inspired quest, the goal being to remain a strong, viable and profitable company. I am happy to report at 1983's end, we were successful in our quest.

This success was not happenstance, nor was it a foregone conclusion. It required the coming together of the entire team — management and on-line employees — in a vibrant, dedicated, energy-fused search to find new methods of manufacturing, financing, selling, competing, even a new philosophy of business itself. And as a whole, we were successful.

Until the recession of 1982, there were few changes in the way we did business over the past several years. But when the downturn came, we immediately began to make drastic changes. The first effort was to reduce costs as quickly as possible. This we accomplished by reducing the work-week, cancelling orders for material, and eventually by reducing our workforce. The second line of attack was aimed at our inventories which were extremely high, for we had purchased material to meet our orders but these were wiped out by wholesale cancellations. By year's end, we had reduced our inventories to slightly more than \$26 million, down from \$46.6 million two years earlier.

The downturn in our business began in 1982, and that trend continued in 1983. Sales in 1983 were \$170.4 million, compared to \$309.7 million in 1982, a 45 per cent decrease. This resulted in a 59 per cent decrease in net earnings to \$19.6 million in 1983, compared to \$47.0 million net earnings in 1982. These decreases primarily were in the pumping unit and industrial gear business of the Machinery Division. Our pumping unit business was affected directly by the number of active drilling rigs, the substantial inventory of pumping units in the market

place and the vast decrease in the export markets for pumping units. Industrial gear sales were down in direct relationship to recession in the oil industry and the economy of the United States in general.

On the other hand, the Trailer Division rebounded from an operating loss in 1982 to a 61 per cent increase in sales in 1983. This Division's net sales were \$36.6 million in 1983, compared to \$22.7 million in 1982. Its operating loss in 1982 was primarily due to the decrease in demand for trailers and also because of the loss of the fabrication and assembly work on pumping units for the Machinery Division. Orders for new trailers began to increase significantly in the last half of 1983, and at the beginning of 1984, a backlog of orders existed for approximately six months. Business for this segment of our company is expected to remain strong throughout 1984, mainly due to federal legislation increasing the width and length of trailers that travel the nation's interstate highways.

The net sales of the Industrial Supplies Division increased somewhat during 1983 due in part to the recovery in the housing market. However, the largest dollar-volume customer of the Industrial Supplies Division is our own Machinery Division and that part of its business was considerably decreased. For 1983, the Industrial Supplies had net sales of \$7.0 million compared to \$6.9 million in 1982.

Total assets of the company increased from \$260.2 million in 1982 to \$266.1 million in 1983. Cash dividends decreased from \$10 per share in 1982 to \$9 per share in 1983. Book value of the company's stock was \$128.38 per share in 1983, compared to \$125.99 per share in 1982.

One of the most difficult decisions to make during 1983 was to decrease further our workforce, but the continued downturn of business necessitated our reducing the number of employees. By December 31, 1983, the number of employees was 2250, down from a high of 4450 in March, 1982. On the other hand,

we were cutting operating expenses in as many other ways as possible to keep this business efficient and profitable.

During 1983, your company was profitable; not many of the so-called blue chip companies can make that statement. We withstood the onslaught of reduced prices by our competitors as they sought means to survive. We felt that we set fair prices and stayed with them through the boom days when others skyrocketed their prices because the oil industry was buying at any price. When the bubble burst, our prices remained the same. We are committed to furnish our customers with the highest quality products, priced fairly, warranted with the best service when needed, and backed by a strong company that will be here through the vagaries of the market place.

We feel that we are a better company today than two years ago. We have a team of employees who are inspired and dedicated to accepting the challenges of the coming years. We won't be doing "business as usual." We will be better, innovative, competitive, diversified.



R. L. Poland
President and
Chief Executive

MACHINERY DIVISION

The year 1983 presented top and middle management of Lufkin Industries with a plethora of opportunities to exercise their skills at coping with change. The business climate was totally different from what they were accustomed. There were few orders for products and inventory was exceptionally high. The herculean task before them was to find innovative ways to reduce the inventory, manufacture products more efficiently and more promptly with a reduced workforce that had been decimated by lay-offs the year before.

The Machinery Division is composed of many elements of the company. These include the foundry operations, the machining and assembling operations, the steel fabrication, final assembling and shipping operations, product design engineering, sales department and countless other support groups. It soon became obvious that these individual components needed to pool their various resources

and devise a new manufacturing philosophy to merge with the economic realities of 1983 and possibly for the foreseeable future.

There was no question that the various plants were equipped with some of the finest state-of-the-art manufacturing tools, but their efficiency would be lost without an effective operating plan. The plan devised was part of the new "just in time" philosophy which called for shorter lead times, less finished inventory and faster, more efficient response to demands.

The largest overall objective was to develop more of our manufacturing systems into flow-through, linked processes. This meant revising many floor-plan layouts, installing conveyor systems to transport components from one station to another to eliminate handling. It also meant training sessions for supervisors, technical staff and on-line operators.

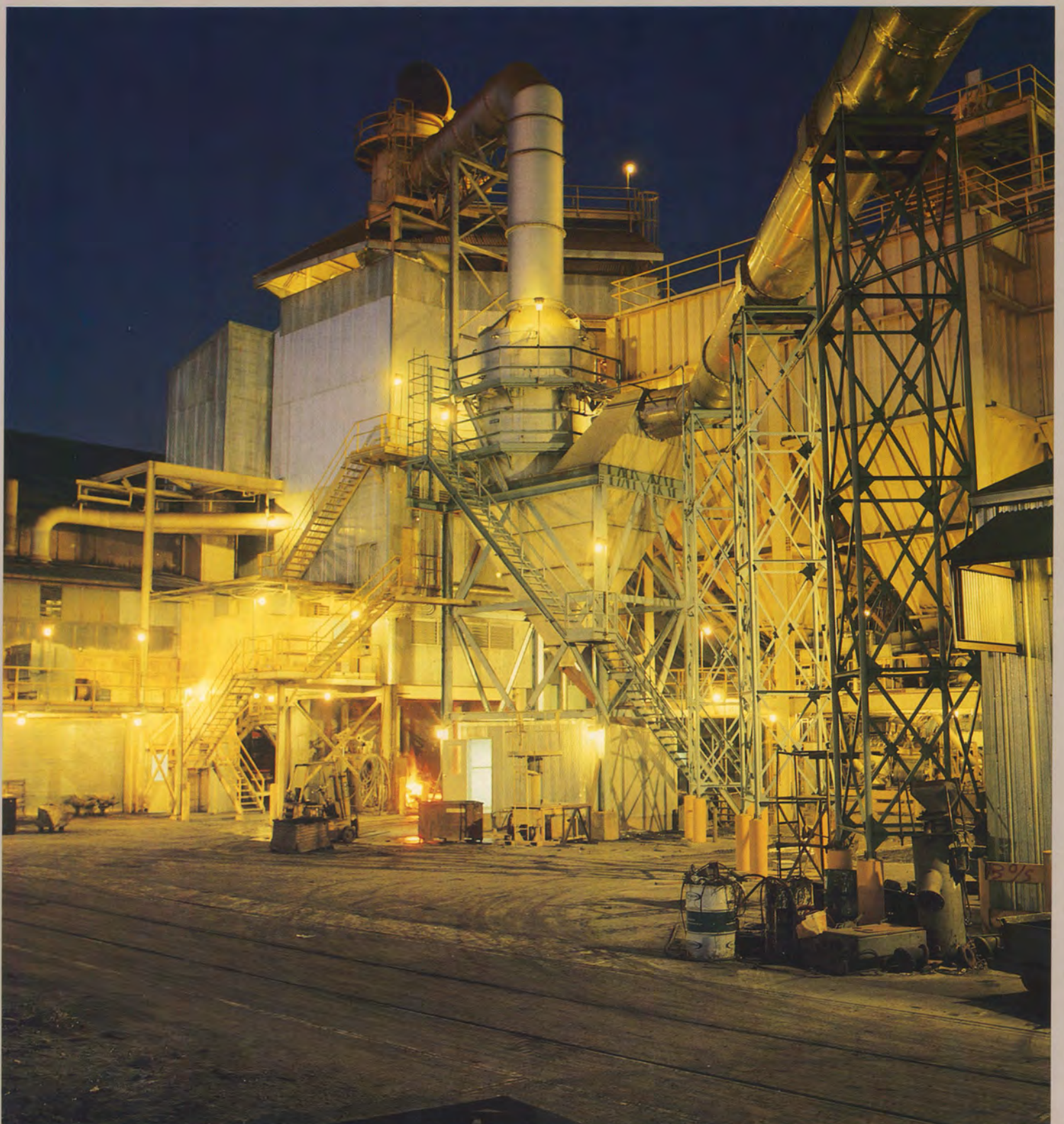
Following the installation a year earlier of the first machining center to begin the process of building the



State-of-the-art machine tools increase plant's efficiency



This low profile pumping unit was introduced in 1983



Silhouetted against the night sky, the foundry's stacks are quiet



This \$1.5 million collection of gears depicts LUFKIN's variety of industrial and marine gearing

MACHINERY DIVISION

company's first flexible manufacturing cell for pumping unit gear housing production, an additional three machining centers were placed on special foundations and arranged strategically to accept automated material handling systems, dedicated material load/unload stations, central chip and coolant handling systems and modern scheduling and management systems.

In the foundry operations, an automated molding machine to produce small castings was installed. This brought production from 75 to 100 man-made molds in an eight-hour shift to 120 molds in an hour by this machine. Other activity included the completion of the engineering work to convert the existing counterweight foundry into a ductile iron gear foundry. This will be a highly automated facility designed for close control over the production of ductile castings.

A pattern make-ready department was instituted to intensify inspection of each pattern before it goes to the molding cycle. By finding any blemish in the pattern at this stage will prevent it from occurring in all subsequent castings made from that pattern which would require additional work in the cleaning department.

Since the steel fabrication, final assembly and shipping plant had been in full production only since late 1982, with its production and assembly lines being some of the most modern in existence, the crux of efforts here were to meet short delivery schedules. By mid-1983, many orders were taken with one or two days allowed for delivery. With many components of an order not in inventory, it was necessary to manufacture such parts and still meet the required delivery schedules. It is a source of great pride that the records show not one order was lost because the required delivery date could not be met.

A new philosophy concerning quality control was evident during 1983 at the steel fabrication, final assembly and shipping plant. Its program was



The pattern shop is the beginning of product manufacturing



The safety program includes testing devices worn by employees

MACHINERY DIVISION

upgraded, and a new policy was instituted. It was named "quality is a state of mind." The quest was to manufacture quality in, not inspect errors out. To date, the results have been exceptional. However, improvements in methods of manufacturing will be a never-ending cycle.

The product design engineering department designed a new innovative low profile pumping unit for installation in agriculture fields irrigated by traveling sprinkler systems. The prototype of this new unit was unveiled at the annual sales conference of the Machinery Division, in January, 1984, and assembly line models are already in the field. Also in the design stage is a new slant-hole pumping unit for wells where the sucker rod comes out of the ground at angles of as much as 45 degrees.

This department worked closely with the manufacturing areas, making design changes to effect quicker and better machining of components. As

more sophisticated machine tools are installed in the plant, there is constant re-designing to take advantage of the new machining technology.

During the first six months of 1983, the Machinery Division's sales force contended with virtually a nonexistent market. There were few pumping unit orders and the marine gear market was in a vacuum. By mid-year the pumping unit business began to turn around, although the gear market remained depressed. Nevertheless, the sales department remained committed to the oil industry and opened new repair facilities in Odessa, Texas, and new sales offices in Abilene, Texas, and Williston, North Dakota.

Historically, the cornerstone of the company has been highest quality, prompt delivery and fair pricing. These have been the guiding forces as all areas of the Machinery Division have cooperated as a team to meet successfully the challenges of 1983.



Employee operates a modern machine in structural steel plant



Mark II bases leave structural plant for final assembly



LUFKIN trucks are being loaded for destinations throughout the oilfields of the nation



Trailer storage yards are filled with new vans and dumps, signalling a business upturn

TRAILER DIVISION

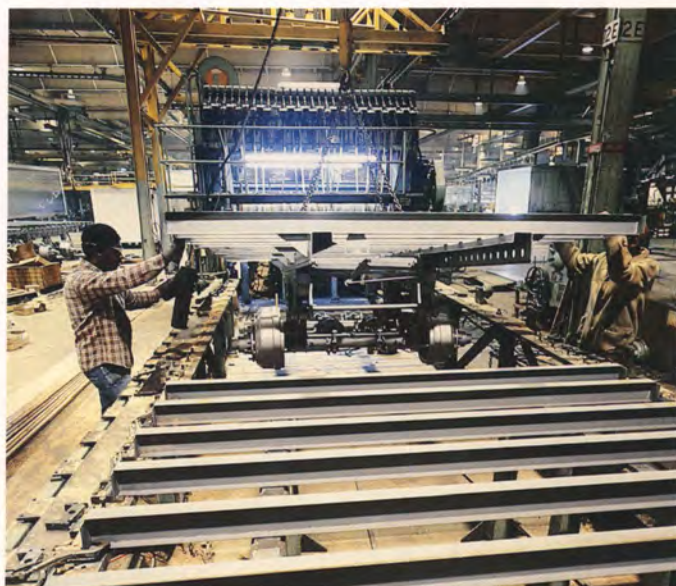
For the Trailer Division, 1983 could be labeled a year of extremes. When the year began, there were few orders coming in and no backlog. Yet there was optimism because of the enactment of the Surface Transportation Act of 1982. This Act permitted wider and longer trailers to travel the Interstate highways, and it was believed that many transportation companies would begin updating their equipment. The upturn did not occur until May when the first of what would be several orders from a nationally known trucking company came in. Before the year ended, this company placed orders for 1,186 trailers.

With the other orders the Division received, the total number of trailers manufactured in 1983 was 2,245, compared to 1,396 manufactured in 1982. Net sales for the year were \$36.6 million, with invoicing in December breaking all records for one month. Add to that the fact that this Division made a profit this year after having suffered a loss in 1982, and the optimism and excitement by the employees were understandable.

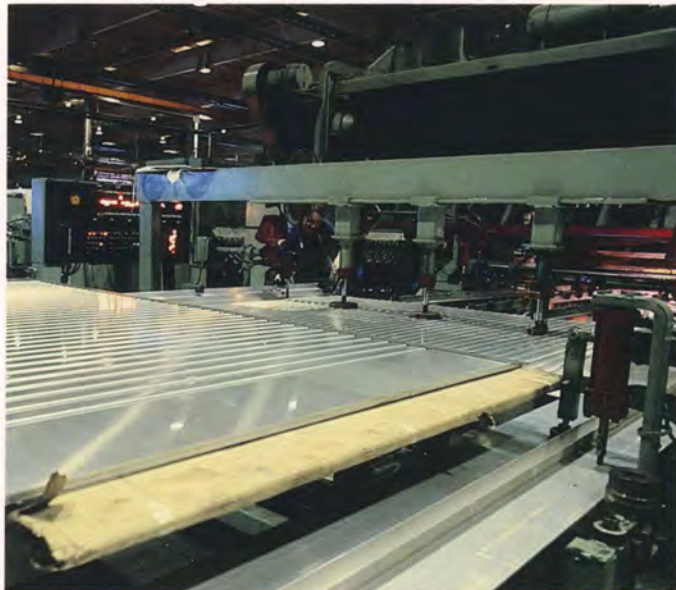
The upswing in trailer sales prompted the re-hiring of many employees and the adding of a partial second shift. Foremost in each department was the search for production efficiency. Several innovations have decreased manufacturing time on trailers without sacrificing quality. Upgrading some areas of the manufacturing facilities began in late 1983 and will continue into 1984 to keep pace with increased production schedules.

Earlier in the year, prices were soft with most manufacturers cutting prices as low as needed to get what business there was. By mid-year, however, prices began to firm up and by year's end, most trailer manufacturers had a backlog of business.

It is anticipated that the company's trailer business will continue good in 1984.



Business is booming again in the Trailer Division plant



Highly automated Pierce-Rivet machine produces trailer roofs

INDUSTRIAL SUPPLIES DIVISION

Sales of the Industrial Supplies Division increased during 1983, although sales to its largest customer in total volume — the Machinery and Trailer Divisions of the company — was down almost \$2 million because of the general recession in the oil and truck-trailer industries. Net sales were \$7.0 million in 1983, compared to net sales of \$6.9 million in 1982.

The increase in net sales resulted from increased business in the pole line hardware. Utilities continued to expand and update their systems which added to the sales of this segment of the Division's supplies.

Although the housing industry began a slight change upward about mid-year, the Division's sales to the building trades increased little. However, plumbing supplies and forestry-related items remained steady. Competition for business in plumbing supplies and forestry-related items increased during 1983, with the

acquisition of smaller businesses by national supply houses. This is expected to continue in 1984. Industrial Supplies salesmen expect to meet and match this competition by aggressive salesmanship and increased efficiency by the support group of employees in the offices and warehouses. The prompt deliveries, competitive prices and stocking the thousands of items needed by the Division's customers have engendered a loyal following.

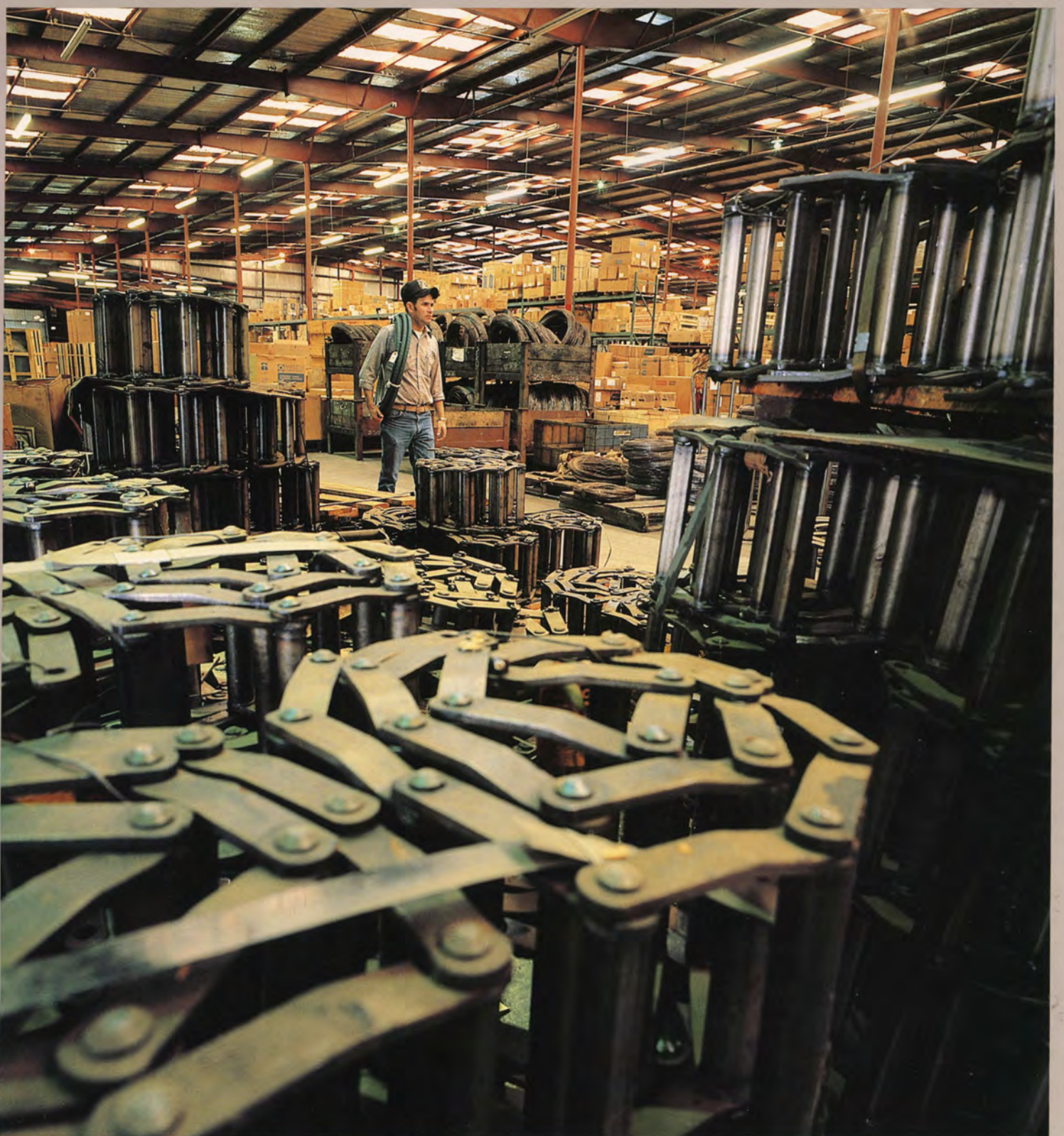
Since the other Divisions of the company have always been the largest dollar-volume customer of Industrial Supplies, efforts in 1984 will be concentrated on enhancing that relationship. A special product team will inventory the kinds of items used throughout the company to learn if the Industrial Supplies Division can enhance its stock for the profitability of the entire company.



Business for Industrial Supplies Division kept steady pace



Thousands of items are stocked in modern warehouses



Pole line hardware business increased as utilities expanded



FINANCIAL REVIEW & FINANCIAL STATEMENTS

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Left:
Conventional
Unit, Noble
County, Okla.

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 of counterbalancing configuration that is 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.

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 1983, foreign sales accounted for approximately 19 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 24 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.

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'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. 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 150 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 2,250 people, of whom approximately 1,500 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, 1984, the Company had approximately 1,200 record holders of its common stock.

Lufkin has paid cash dividends for 44 consecutive years. Total dividend payments were \$15,473,000 in 1983 and \$17,321,000 in 1982.

Quarterly Financial Data

In millions, except earnings per share	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1983				
Net sales	\$33.4	\$33.2	\$44.9	\$58.9
Gross income	5.5	4.7	10.6**	21.9**
Net earnings	2.1	1.6	5.0	10.9
Earnings per share	1.20	.93	2.94	6.31
Dividends per share	3.00	2.00	2.00	2.00*
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

*Dividend distributed on January 2, 1984 to stockholders of record on December 1, 1983.

**A liquidation of LIFO inventories occurring during the fourth quarter of 1982 and the third and fourth quarters of 1983 resulted in an increase in gross income during these quarters.

Additional Financial Information

Stockholders may obtain additional financial information for the year ended December 31, 1983 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)	1983	1982	1981
Net sales:			
Machinery Division			
Pumping units	\$108,577	\$244,041	\$291,694
Gears	18,213	36,062	35,463
Trailer Division	36,585	22,671	30,088
Industrial Supplies Division	7,031	6,890	7,198
Total net sales	<u>170,406</u>	<u>309,664</u>	<u>364,443</u>
Operating income:			
Machinery Division	25,376	75,383	102,314
Trailer Division	317	(613)	1,432
Industrial Supplies Division	333	427	585
Total operating income	<u>26,026</u>	<u>75,197</u>	<u>104,331</u>
Assets:			
Machinery Division	128,257	145,036	164,195
Trailer Division	33,776	20,961	23,775
Industrial Supplies Division	5,125	4,902	5,438
General corporate assets	98,907	89,325	54,070
Total assets	<u>266,065</u>	<u>260,224</u>	<u>247,478</u>
Capital expenditures:			
Machinery Division	4,836	21,828	29,902
Trailer Division	109	413	666
Industrial Supplies Division	49	37	195
General corporate	106	3,981	2,920
Total capital expenditures	<u>5,100</u>	<u>26,259</u>	<u>33,683</u>
Depreciation:			
Machinery Division	7,392	6,634	5,067
Trailer Division	420	494	612
Industrial Supplies Division	116	108	111
General corporate	644	500	281
Total depreciation	<u>8,572</u>	<u>7,736</u>	<u>6,071</u>
Net sales by geographic region:			
United States	138,774	233,275	299,255
Canada	15,132	12,216	22,515
Latin America	6,301	45,592	34,326
Other regions	10,199	18,581	8,347
Total sales	<u>\$170,406</u>	<u>\$309,664</u>	<u>\$364,443</u>

MANAGEMENT'S ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

Operating Results

Net sales and earnings continued their downward trend in 1983. Sales for 1983 were \$170.4 million, compared to \$309.7 million in 1982 and \$364.4 million in 1981, a decrease of 45% in 1983 and 15% in 1982. These decreases were primarily in the Machinery Division's pumping units and commercial gears.

The pumping unit sales decrease is primarily attributable to a reduced level during 1982 and 1983 in the number of active drilling rigs as well as a decrease in the number of pumping units sold in the export markets during 1983. 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 and 1983.

Due to the uncertainty of oil prices and the supply/demand imbalance of oil, the Company is unsure of prospects for 1984 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 increased 61% from \$22.7 million in 1982 to \$36.6 million in 1983. Sales in 1981 were \$30.1 million. This increase in demand of trailers during 1983 resulted primarily from improved economic conditions of the customers served as well as new regulations allowing larger trailers on Federal highways.

The Trailer Division had an operating loss during 1982 as a result of the 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.

Orders began to increase significantly for trailers in the last half of 1983 and a backlog of approximately

six months in most trailer models existed at the beginning of 1984. The Company feels that trailer sales will continue to be strong throughout 1984.

While sales decreased 45% in 1983, net earnings decreased 59% from \$47.0 million in 1982 to \$19.6 million in 1983. Net earnings had decreased 25% in 1982 from \$62.7 million in 1981. The percentage of net earnings to net sales, however, decreased from 17.2% in 1981 to 15.2% in 1982 to 11.5% in 1983. 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 4450 people in March 1982 to 2250 people in December 1983. 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 to \$26.1 million at December 31, 1983. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years. The effect of this liquidation increased net earnings by approximately \$4,350,000 or \$2.53 per share.

Liquidity and Capital Resources

At December 31, 1983, the Company had working capital of \$94,745,000 as compared to \$108,730,000 at December 31, 1982 and \$93,993,000 at December 31, 1981. The Company believes that existing working capital is more than sufficient to satisfy its 1984 requirements. In recent years, the expansion of the Company's facilities has been financed with internally generated funds and the Company plans financing any expansion and improvements of its facilities in this manner.

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

CONSOLIDATED BALANCE SHEET

December 31, 1983 and 1982

(Thousands of dollars)

Assets	1983	1982
Current assets:		
Cash	\$ 3,469	\$ 2,777
Temporary investments	43,016	59,708
Accounts receivable	30,220	32,790
Installment notes and contracts receivable	16,449	10,253
Inventories	<u>26,083</u>	<u>30,515</u>
Total current assets	<u>119,237</u>	<u>136,043</u>
Property, plant and equipment:		
Land	7,384	7,382
Buildings	45,847	40,285
Machinery and equipment	<u>97,804</u>	<u>98,585</u>
	151,035	146,252
Less accumulated depreciation	<u>49,046</u>	<u>40,791</u>
Net property, plant and equipment	101,989	105,461
Investments in marketable securities	44,514	18,352
Other assets	<u>325</u>	<u>368</u>
	<u>\$266,065</u>	<u>\$260,224</u>

See notes to consolidated financial statements.

Liabilities and Stockholders' Equity	1983	1982
Current liabilities:		
Current portion of long-term debt	\$ 500	\$ 500
Accounts payable	6,287	4,570
Accrued liabilities:		
Payrolls	1,011	782
Contributions to pension plans	5,547	5,018
Taxes	7,709	13,005
Dividends declared	<u>3,438</u>	<u>3,438</u>
Total current liabilities	24,492	27,313
Long-term debt, net of current portion	2,000	2,500
Deferred income taxes	18,865	13,803
Stockholders' equity:		
Common stock, par \$1 per share, 2,000,000 shares authorized	1,719	1,719
Capital in excess of par	15,555	15,555
Retained earnings	<u>203,434</u>	<u>199,334</u>
Total stockholders' equity	<u>220,708</u>	<u>216,608</u>
	<u>\$266,065</u>	<u>\$260,224</u>

CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31, 1983, 1982 and 1981

(Thousands of dollars)

	1983	1982	1981
Net sales	\$170,406	\$309,664	\$364,443
Cost and expenses:			
Cost of sales	127,752	216,316	242,647
Selling, general and administrative expenses	16,629	18,151	17,465
Interest income	(9,714)	(8,263)	(7,837)
Interest expense	187	283	283
Other, net	224	(280)	97
	<u>135,078</u>	<u>226,207</u>	<u>252,655</u>
Earnings before income taxes	35,328	83,457	111,788
Income taxes	<u>15,755</u>	<u>36,500</u>	<u>49,091</u>
Net earnings	<u>\$ 19,573</u>	<u>\$ 46,957</u>	<u>\$ 62,697</u>
Earnings per share	<u>\$11.38</u>	<u>\$27.12</u>	<u>\$36.02</u>

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years Ended December 31, 1983, 1982 and 1981

(Thousands of dollars)

	Common Stock		Capital	Retained
	Shares	Amount	In Excess of Par	Earnings
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
Net earnings				19,573
Cash dividends				(15,473)
Balance December 31, 1983	<u>1,719,210</u>	<u>\$1,719</u>	<u>\$15,555</u>	<u>\$203,434</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1983, 1982 and 1981

(Thousands of dollars)

	1983	1982	1981
Source of funds:			
From operations:			
Net earnings.....	\$ 19,573	\$46,957	\$ 62,697
Expenses not currently requiring outlay of working capital:			
Depreciation	8,572	7,736	6,071
Deferred Federal income taxes.....	<u>5,062</u>	<u>4,435</u>	<u>3,291</u>
Funds generated from operations	33,207	59,128	72,059
Decrease in marketable securities and other assets	<u>—</u>	<u>3,994</u>	<u>—</u>
Total funds provided.....	<u>33,207</u>	<u>63,122</u>	<u>72,059</u>
Use of funds:			
Net additions to property, plant and equipment	5,100	26,259	33,683
Dividends	15,473	17,321	15,666
Reduction in long-term debt	500	500	500
Increase in marketable securities and other assets	26,119	—	4,305
Purchase of treasury stock	<u>—</u>	<u>4,305</u>	<u>—</u>
Total funds used	<u>47,192</u>	<u>48,385</u>	<u>54,154</u>
Increase (decrease) in working capital	<u><u>\$(13,985)</u></u>	<u><u>\$14,737</u></u>	<u><u>\$17,905</u></u>
Working capital increase (decrease) resulted from changes in:			
Cash	\$ 692	\$ 61	\$ 2,228
Temporary investments	(16,692)	35,923	135
Accounts receivable	(2,570)	(21,536)	10,655
Installment notes and contracts receivable	6,196	(107)	4,153
Inventories	(4,432)	(16,124)	12,305
Accounts payable	(1,717)	8,431	(4,627)
Accrued liabilities	<u>4,538</u>	<u>8,089</u>	<u>(6,944)</u>
Increase (decrease) in working capital	<u><u>\$(13,985)</u></u>	<u><u>\$14,737</u></u>	<u><u>\$17,905</u></u>

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 and preferred stock are carried at cost and had a market value of \$43,109,000 and \$16,822,000 at December 31, 1983 and 1982, 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 (\$14,497,000 at December 31, 1983 and \$8,219,000 at December 31, 1982) 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, 1983 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, 1983, the date of the latest actuarial valuation, was estimated to be \$13,659,000. The total pension expense was \$5,541,000 in 1983, \$5,018,000 in 1982 and \$4,538,000 in 1981, 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	
	1983	1982
Actuarial present value of accumulated plan benefits		
Vested	\$34,448	\$30,086
Nonvested	3,345	3,452
	<u>\$37,793</u>	<u>\$33,538</u>
Net assets available for benefits	<u>\$45,100</u>	<u>\$35,377</u>

(4) Income taxes

The income tax provision for 1983, 1982 and 1981 consisted of the following:

	(Thousands of dollars)		
	1983	1982	1981
Amounts currently payable	\$10,693	\$32,065	\$45,800
Amounts deferred	5,062	4,435	3,291
	<u>\$15,755</u>	<u>\$36,500</u>	<u>\$49,091</u>

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)		
	1983	1982	1981
Taxes computed at statutory rate	\$16,250	\$38,390	\$51,422
Investment tax credits	(234)	(1,908)	(2,129)
Other, net	(261)	18	(202)
Actual provision	<u>\$15,755</u>	<u>\$36,500</u>	<u>\$49,091</u>

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

	(Thousands of dollars)		
	1983	1982	1981
Excess of tax depreciation over book depreciation	\$3,156	\$2,658	\$1,513
DISC earnings not currently subject to tax	1,969	1,989	1,459
Other	(63)	(212)	319
	<u>\$5,062</u>	<u>\$4,435</u>	<u>\$3,291</u>

(5) Inventories

Inventories used in determining cost of sales were as follows:

	(Thousands of dollars)			
	1983	1982	1981	1980
Finished goods	\$ 5,054	\$ 5,906	\$ 5,494	\$ 4,389
Work in process	10,391	11,218	18,979	13,289
Raw material	10,638	13,391	22,166	16,656
	<u>\$26,083</u>	<u>\$30,515</u>	<u>\$46,639</u>	<u>\$34,334</u>

Had the FIFO method been used in determining inventory values, inventories would have been \$29,693,000, \$36,996,000, \$43,904,000, and \$31,936,000 higher at December 31, 1983, 1982, 1981 and 1980, respectively.

During 1983, 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 1983 purchases. The effect of this liquidation increased net earnings by approximately \$4,350,000 or \$2.53 per share.

(6) Supplementary income statement information

The following costs and expenses were charged to income during 1983, 1982, and 1981:

	(Thousands of dollars)		
	1983	1982	1981
Maintenance and repairs	\$5,311	\$11,495	\$14,527
Depreciation	8,572	7,736	6,071

(7) Business segment information

Information concerning the Company's various business segments is included on Page 18 of this report.

DIRECTORS AND OFFICERS



Board of Directors: Seated, from left, J.L. Wiener, Samson Wiener, S.W. Henderson, Jr., L.A. Little. Standing, from left, S.W. Henderson, III, W.W. Trout, Jr., H.J. Trout, Jr., W.T. Little, F.B. Stevenson, R.L. Poland, J.L. Wiener, Jr., M.E. Kurth, Jr., J.G. Kurth

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
F.B. Stevenson
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

M.A. Penn
Vice President

W.T. Pennington
Vice President

E.G. Pittman
Vice President

B.M. Queen
Vice President

W.W. Trout, Jr.
Vice President

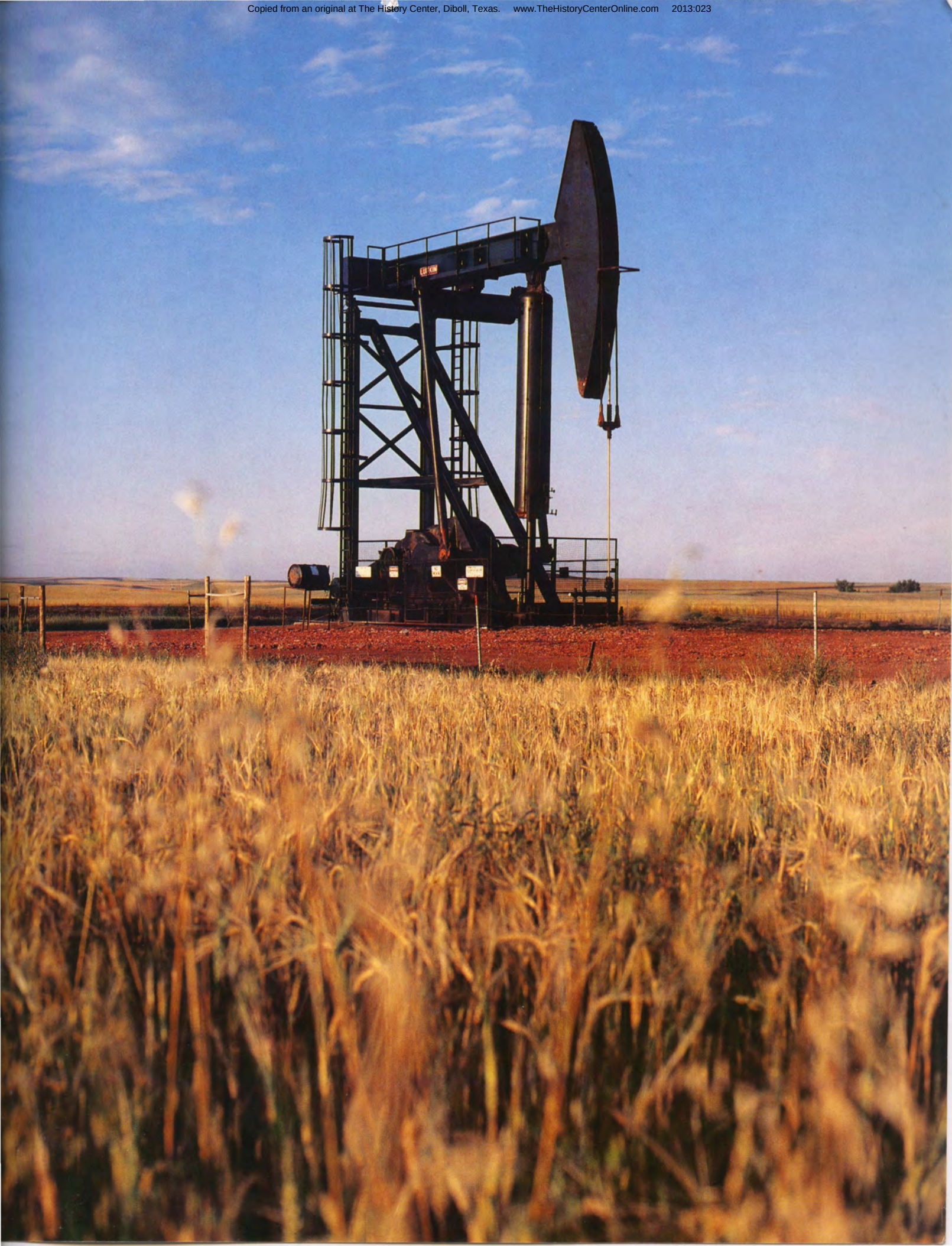
C.J. Haley, Jr.
Secretary-Treasurer

R.E. Myers, Jr.
Assistant Secretary

J.T. Floyd
Assistant Secretary

J.B. Massingill
Assistant Treasurer

Right: LUFKIN
Air-Balanced
Unit, Stark
City, N.D.





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