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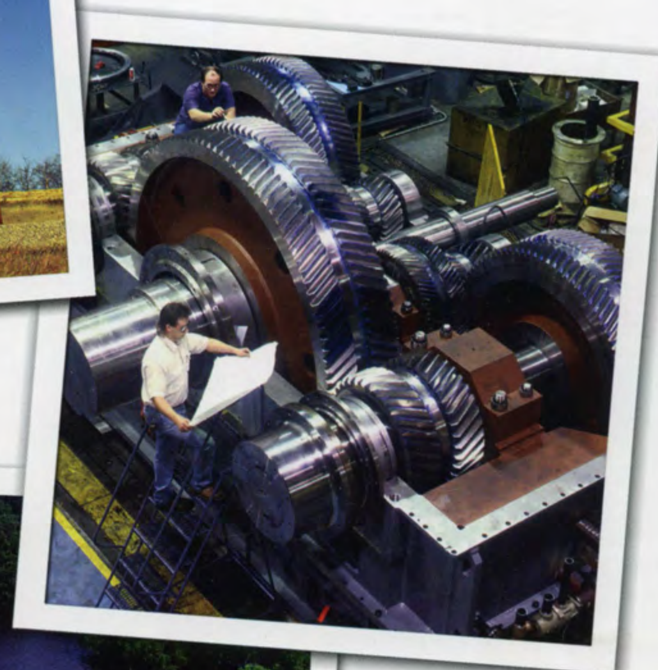

Lufkin Industries, Inc. 2002 Annual Report

LUFKIN

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Corporate Profile

Founded in 1902, Lufkin Industries, Inc. (Nasdaq: LUFK) is a vertically integrated company that designs, engineers, manufactures, sells, installs and services high quality and high valued-added oil field equipment and power transmission products across the globe and highway trailers in the South Central United States and Mexico.

Oil Field Products and Services

Lufkin is a leading global provider of artificial lift oil field equipment and services, primarily consisting of highly adaptable pumping units, automation technology equipment and a variety of services including on-site installation, technical support and maintenance. Additionally, the Company operates a gray and ductile iron foundry producing up to 300 tons per day of captive and commercial castings for the heavy equipment, valve and machine tool markets. Lufkin maintains a significant presence in all major oil markets.

Power Transmission Products and Services

Lufkin is also a leading worldwide provider of power transmission equipment, primarily precision-made gears in weights of from 300 pounds to 250 tons and in power levels from 20 to 85,000 horsepower. These highly engineered products are used in industrial applications in a variety of industries, such as oil and gas, petrochemical, steel, plastics, sugar, rubber, marine and power generation. Lufkin's global service organization supports new equipment sales as well as an extensive after-market for installed power transmission equipment.

Trailers

Lufkin designs and manufactures many different sizes and styles of vans, platforms and high capacity, lightweight dump trailers, primarily for sale in its core South Central U.S. market. Lufkin's trailers are known for their quality construction, reliability, innovative design and competitive price. The Company has been in the trailer business for over 60 years.

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Financial Highlights

	December 31,				
(Thousands of dollars, except per share amounts)	**2002**	2001	2000	1999	1998
Sales	**$228,724**	$278,907	$254,603	$246,000	$287,532
Operating expenses	**215,314**	245,903	242,473	246,183	267,127
Earnings before income taxes	**13,767**	32,300	11,242	(2,013)	21,627
Net earnings	**8,535**	19,542	6,970	(1,268)	13,626
Earnings per share:					
Basic	**$1.29**	$3.12	$1.11	$(0.20)	$2.11
Diluted	**$1.26**	$3.03	$1.11	$(0.20)	$2.08
Dividends per share	**$0.72**	$0.72	$0.72	$ 0.72	$0.72
Total assets	**248,355**	246,069	233,582	221,366	242,795
Working capital	**64,421**	61,344	45,201	40,785	55,522
Long-term notes payable, net of current portion	**164**	339	7,043	9,103	11,528
Shareholders' equity	**178,949**	170,999	152,651	152,409	162,896

Notice of Annual Meeting

The Annual Meeting of Shareholders of Lufkin Industries, Inc. will be held at the Museum of East Texas, 503 North Second Street, Lufkin, Texas on May 7, 2003, at 9:00 a.m. local time.

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Letter to Shareholders

Lufkin Industries was solidly profitable for 2002, in spite of the difficult industry conditions faced throughout the year, particularly for our oil field products and services. While there was much to applaud in the performance of the oil field division during the year, together with the double-digit growth achieved by our power transmission and trailer divisions, our 2002 results were hampered by the sluggish domestic economy. The reduction in oil field drilling and production in the United States was the chief cause of the decline in profit from the levels enjoyed in 2001.

Having served the volatile energy market for more than 100 years, our two-fold response to diminished domestic demand in 2002 was conditioned by extensive industry experience. First, we aggressively managed our business to control costs, while redirecting resources to take advantage of opportunities for growth. Our increased net sales from oil field services and automation equipment are products of this effort. We also continued to restructure our operations as conditions dictated. Our decision to discontinue oil field manufacturing operations in Indonesia, while expanding aftermarket opportunities, both domestically and internationally, demonstrated our resolve to respond decisively to market shifts and opportunities.

Second, we remained highly focused on the consistent implementation of our long-term strategies for growth. During 2002, our divisions maintained their market leadership positions, increased the sophistication and breadth of their products and services and gained, or consolidated market share. Furthermore, we continued to evaluate opportunities to expand through acquisitions, while strengthening our financial position and enhancing our ability to leverage both internal and external growth opportunities.
As a result of these ongoing efforts, we believe we strengthened the competitive position of all three divisions during 2002 and increased our ability to produce significant, profitable growth under better economic conditions and consolidated markets.

2002 FINANCIAL RESULTS – The Company's net income for 2002 was $8.5 million, or $1.26 per diluted share, compared to $19.5 million, or $3.03 per diluted share for 2001. Net sales were $228.7 million for 2002, down from $278.9 million for the prior year, while earnings before interest, taxes and depreciation were $25.5 million for the latest year versus $44.7 million for 2001. Our total backlog was $53.6 million at the end of 2002 compared to $64.4 million at the end of 2001.

The Company's profitable operations for 2002 contributed to a substantially improved balance sheet at year-end versus the end of 2001. During the year, we reduced our long-term notes payable to $423,000 at year-end from $6.9 million at the end of 2001 and from total debt of $16.6 million at the end of 2000. Concurrently, cash and cash equivalents increased to $27.6 million from $18.1 million and $2.0 million at year-end 2002, 2001 and 2000, respectively. Shareholders' equity grew to $178.9 million at the end of 2002 from $171.0 million at the end of 2001. In addition, we entered a new three-year $27.5 million line of credit during the fourth quarter of 2002.

OIL FIELD – The decline in oil field revenues for 2002 from 2001 was directly tied to a decline in oil and gas drilling and production activity, especially in the United States. This decline began in the second half of 2001

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with falling oil prices but, counter to typical cycles, activity remained depressed throughout 2002 even as the price of oil increased substantially during the year. We attribute this disconnect in the historical relationship between oil prices and domestic drilling activity primarily to the tremendous uncertainty in the oil industry regarding the impact of the Iraq crisis on near, to intermediate, term oil prices and to the continued weakness in the U.S. economy.

Despite this difficult environment, our oil field business produced good results that paled only in comparison to the strong 2001 results. Contributing to our 2002 performance, international demand for oil field equipment remained steady, and we continued to benefit from both our expanding presence in oil field services, as well as our growing position in oil field automation equipment. In the North American markets, our reputation for high quality and rapid production turnaround times helped us capture orders for unplanned needs, or reluctant procurement practices. Furthermore, we focused intensively on reducing costs in line with anticipated revenue.

The industry uncertainty that affected our domestic oil field business in 2002 continues today, as reflected in the decline in our oil field backlog at year-end to $12.6 million from $19.4 million at the end of 2001. Reported drilling activity in the United States and Canada in early 2003 showed a double-digit increase compared to similar periods in 2002 and suggests the potential for higher demand for oil field products in North America later in 2003. We also expect our international oil field equipment and service business to continue partially offsetting the sluggishness of domestic order flow and to achieve further market share gains in aftermarket services and in automation equipment.

POWER TRANSMISSION – We were pleased with the 12.7% growth in revenues from the power transmission division for 2002. This growth was primarily attributable to the strength of the oil and gas related business during 2002. We place our large, high-speed gears principally in pump and compressor applications for offshore oil and gas production, as well as in pipeline projects for oil and gas transportation. Due to the scale of both the engineering effort, together with the field development costs, these projects have longer planning horizons, making them less sensitive to short-term fluctuations in oil prices than land based developments. These applications engage all the strengths that differentiate Lufkin in the power transmission market. Our precision-made gears are engineered to order, requiring high value-added design, production and testing. Because product integrity and reliability are so critical, our vertical integration enables Lufkin to closely monitor the entire production process. Our engineering and service support insures continuing involvement with each project, strengthening our reputation for high quality, honest relationships.

While we experienced significant oil and gas activity in 2002 – and expect this momentum to continue – we were disappointed by continuing low demand for gears used in industrial applications, such as sugar, steel, aluminum, rubber and plastic. However, we are confident that demand will improve as the economy improves and as companies in these industries begin to reinvest after a long period of deferring both maintenance and new investment in capital equipment. The power transmission backlog stood at $30.9 million at the end of 2002, compared to $31.5 million at the end of the prior year.

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TRAILER – The trailer division produced stronger than expected results in an uncertain economy with 15.9% growth in net sales for 2002. Although overall industry demand remained low during 2002, the division's comparable-quarter net sales improved for each quarter of the year. We believe that many of the factors accounting for the growth in trailer net sales for 2002 will support further growth in 2003. Among these factors, equipment purchased during the last cycle of high demand, the period from 1997 to 1999, is reaching its normal replacement schedule. In addition, significant industry consolidation in recent years has continued to cut overall industry capacity and the number of suppliers. In contrast, Lufkin has maintained its core organization and service center network, even as we have introduced innovative new products to the market and strengthened our sales and distribution capabilities. We remain a leader in our regional markets with a reputation for high quality and responsiveness to the needs of our core mid-size and small operator customer base. The challenging environment we continued to face in early 2003 is reflected in our year-end backlog of $10.1 million, compared to $13.5 million at the end of 2001, but we believe that the trailer division is well positioned to achieve significant growth in an improving economic environment.

SUMMARY – In last year's annual report, we said the business conditions we faced for 2002 were anticipated to be some of the most challenging in our 100-year history. While many of these challenges remain, we are proud of our overall performance for 2002, in a tough environment. We are confident we have the competitive and financial strength, not only to maintain our market leadership positions, but to take advantage of opportunities for growth that occur in difficult markets. The strength of our confidence is based on the strength and dedication of our employees throughout the world, and we thank them for their hard work in 2002 and in the year ahead. One page of our annual report is dedicated to Messrs. Jalenak, King and Trout, who retired from the board during 2002, and Mr. Mel Kurth who will retire in 2003. We wish to recognize the many contributions from each of the four. L.R. Jalenak and Henry H. King both served on the board since 1990 and served in leadership positions in the Audit and Compensation Committees. W.W. Trout, Jr. and M.E. Kurth, Jr. both were elected to the board in 1968 and served in virtually every capacity during those years. All have provided consistently valuable counsel and diligently represented our shareholders. I am grateful for their service.

At the same time, we welcome two new directors to the board, James T. Jongebloed and Robert T. Blakely, who bring a wide array of operational expertise and management experience to Lufkin. Finally, we thank you, our fellow shareholder, for your investment in Lufkin and the support it provides the Company.

Sincerely,

Douglas V. Smith

Douglas V. Smith
President and Chief Executive Officer

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Oil Field Products and Services

Lufkin Industries is the global leader in the manufacture, installation and service of beam lift pumping units. The Company commands a significant share of its markets. To serve these markets, Lufkin operates manufacturing facilities in six countries and has an international network of service centers, sales offices or sales representation affiliations in 43 countries.

Lufkin's oil field products and services fall in three major areas. The first, capital equipment, consists of beam lift pumping units. The Company produces six basic types of pumping units that address the particular well-depth and fluid-production characteristics of each application. Because Lufkin is a vertically integrated manufacturer of this equipment, it can provide its customers rapid response. Lufkin can also provide full system design, which supports the Company's reputation for high quality, full service and reliability.

The second major area of oil field focus is Lufkin's service organization, through which the Company installs, repairs and maintains equipment. The expansion of the Company's service capabilities has been an integral part of its strategy to become an integrated provider of oil field beam-lift products and services.

Lufkin also benefits from its ongoing expansion into the third area of its oil field business, automation technology equipment. This equipment cuts the cost of operating and maintaining pumping equipment by automating the operation of the pumping units using software and instrumentation. The growth of this business has also been driven by the ability of automation equipment to optimize oil well efficiency by providing more effective reservoir management. This capability was especially critical in domestic markets during 2002, where reduced drilling activity underscored the importance of enhancing production from existing wells. Already one of the leading providers in this expanding business, Lufkin introduced an extension of its automation products in 2002, with advanced technological features that are beyond any other products currently in the market.

In support of the above three oil field initiatives and as an example of the Company's vertical integration capabilities, Lufkin operates a gray and ductile iron foundry capable of producing high quality captive and commercial castings ranging in size from 100 pounds to 15 tons for the heavy equipment, valve and machine tool markets. Having a captive foundry resource has enhanced the Company's competitive position by reducing lead times for production of oil field and power transmission castings, thus enabling the Company to respond to tight customer delivery and quality requirements.

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Power Transmission

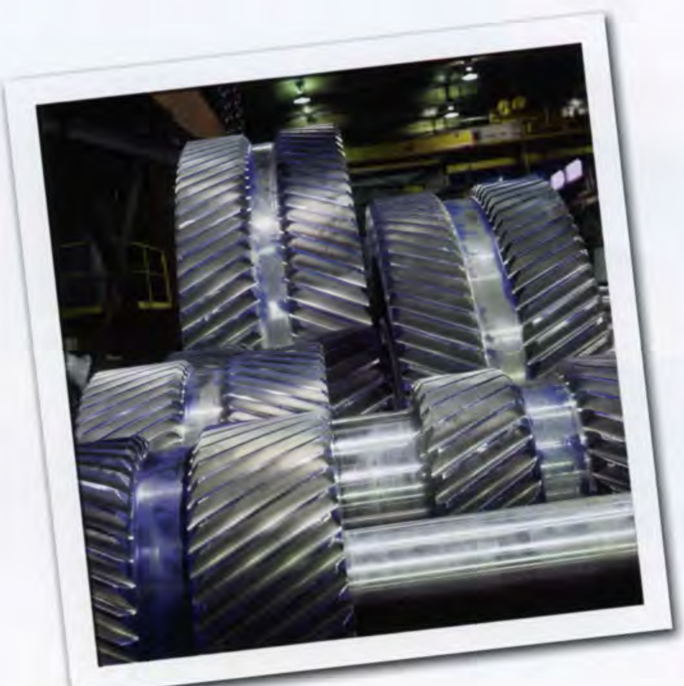
Lufkin's leadership position in the global market for mechanical power transmission products - gears that function as speed increasers or speed reducers - is based on many of the same attributes that support its reputation in the oil field business. Lufkin's market position in the gear industry is built on engineering excellence, superior customer service, product reliability, rapid delivery and strong after sales support. The power transmission division has experienced growth in business from the oil and gas segment of the turbomachinery market, and 2002 witnessed the sharpest rise yet in bookings from customers outside of the United States. Furthermore, Lufkin's ability to serve the global markets is greatly enhanced by having full service, design and manufacturing capabilities in place in the United States and Europe. In addition, the division has a technical sales and project management organization in the U.S., Europe and Asia to ensure that rigorous project schedules are met on budget.

The power transmission division's gear products for the oil and gas sector are used in projects that have long lead times from feasibility study to installation, including such projects as offshore oil and gas production platforms, oil pipelines and LNG facilities. Lufkin has more experience with the high energy gearing for these applications than any other gear manufacturer. The division has active quotations for near-term projects that, as these projects move into the procurement phase, are expected to drive demand for Lufkin's gear products for the oil and gas sector of the turbomachinery market.

The second major segment of Lufkin's power transmission business is the market for industrial applications, such as for the steel, sugar, plastics and rubber industries, which require low speed, high torque gears. This market remained sluggish during 2002, although an improving economic environment could unleash pent-up demand.

While the general industrial sector had low capital spending for new equipment, Lufkin's repair and service business has shown substantial growth in recent years. This growth was largely due to Lufkin's ability to repair, repower and develop new gear solutions for industrial processes that require gears. In 2002, the pace of growth in the aftermarket slowed from the previous year, but remained strong. As the general economy improves, the Company expects growth in the gear repair and service market to accelerate because of idle industrial capacity being brought back on-line. During 2002, Lufkin broke ground on a new service center to provide support to gear users in the Southeast United States. This facility will open in early 2003 and will provide Lufkin with the most capable gear repair and service center in the region.

Lufkin's power transmission division enjoyed one of its better years in 2002. A number of challenges face the division for 2003, but Lufkin is encouraged by growth in those sectors in which the division has a strong competitive position. If oil and gas spending continues at its current level, and if the general economy improves, the Company expects continued improvement in this division's financial performance.



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Trailers

Although Lufkin's core trailer market in the South Central United States is smaller than the global markets of its other product lines, it has built the same reputation for high quality, reliability, innovative design and competitive pricing that are the hallmarks of its other businesses. After 64 years in the trailer business, Lufkin has also developed an experienced perspective on the cyclical increases and declines in trailer demand. As a result of this experience, the Company's strategy during periods of weaker demand is to focus on maintaining market share in its South Central U.S. marketplace, to continue to respond to customers needs with innovative, well engineered and high quality products and to reduce manufacturing costs in line with prospects for net sales.

This strategy served Lufkin well in 2002, during which the trailer division produced consistent comparable-quarter growth over 2001 at a time of generally weak overall trailer demand throughout the country. In spite of the challenging environment, the Company introduced new products in 2002, including an innovative bottom dump trailer and neared completion of a new half round dump trailer design to be introduced in 2003. These new products enhance Lufkin's market position and its profitability, and the Company expects to continue leveraging its strong design and production capabilities in response to demand for new products that arises from changes in materials, manufacturing techniques or customer needs.

Lufkin also continued to expand market share in its core markets of mid-sized corporate and private fleets and in the owner-operator market, even as it broadened its distribution network. Through the patient implementation of these consistent strategies, combined with the Company's strong financial position, Lufkin has remained well positioned to ramp up its production levels to take advantage of increased demand in an expanding economy.

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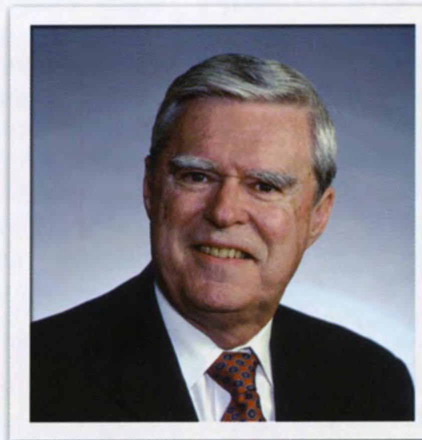
Dedication To Recently Retired Board Members

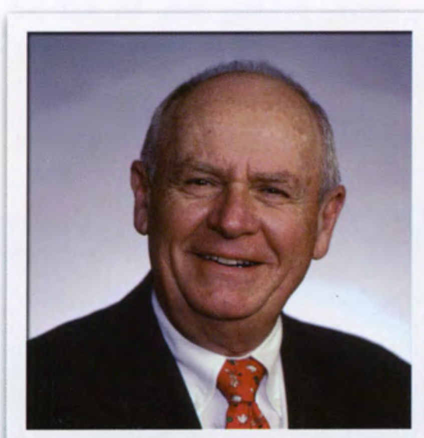
L. R. Jalenak, Jr.

Mr. Jalenak was initially elected to the Company's Board of Directors in 1990. Formerly, Mr. Jalenak served as the Chairman of the Board of CLEO Inc., a subsidiary of Gibson Greetings, Inc.



Melvin E. Kurth, Jr.

Mr. Kurth was initially elected to the Company's Board of Directors in 1968. Formerly, Mr. Kurth served as the Chairman of the Board of Southland Paper Mills, Inc.



H. H. King

Mr. King was initially elected to the Company's Board of Directors in 1990. Formerly, Mr. King served as the Vice Chairman of the Board of Texas Eastern Corporation.

W. W. Trout, Jr.

Mr. Trout was initially elected to the Company's Board of Directors in 1968. Formerly, Mr. Trout is a retired Vice President of the Company.

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Board Members

Douglas V. Smith

Chairman of the Board
Board member since 1993

R. T. Blakely

Member –
Audit Committee
Member –
Pension Committee
Board member since 2003

John H. Lollar

Chairman –
Audit Committee
Member –
Compensation Committee
Board member since 1997

S. W. Henderson, III

Member –
Executive Committee
Member –
Compensation Committee
Board member since 1971

B. H. O'Neal

Chairman –
Compensation Committee
Member –
Audit Committee
Board member since 1992

J. T. Jongebloed

Member –
Audit Committee
Member –
Compensation Committee
Board member since 2002

H. J. Trout, Jr.

Chairman –
Pension Committee
Member –
Executive Committee
Board member since 1980

Thomas E. Wiener

Member –
Executive Committee
Member –
Pension Committee
Board member since 1987

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Corporate Officers

D. V. Smith
CEO,
President, Chairman

L. M. Hoes
Vice President,
General Manager – Oil Field Division

J. F. Glick
Vice President,
General Manager –
Power Transmission Division

S. H. Semlinger
Vice President,
General Manager – Trailer Division

P. G. Perez
Vice President,
Corporate Secretary

R. D. Leslie
Vice President,
Treasurer, CFO

Key Locations

Corporate Offices
P. O. Box 849
Lufkin, TX 75902-0849
936-634-2211

Houston Sales Offices
Oil Field/Power Transmission
Domestic and International
9821 Katy Freeway, Suite 900
Houston, TX 77060
713-468-7804

Trailer Sales
Highway 69 S.
Lufkin, TX 75901
800-324-3812

Foundry Sales
P. O. Box 849
Lufkin, TX 75902-0849
936-634-2211

Oil Field Domestic Service Headquarters
P. O. Box 1594
Levelland, TX 79336
806-894-2889

Oil Field International Service Headquarters
9821 Katy Freeway, Suite 900
Houston, TX 77060
713-468-7804

Gear Repair and Service Headquarters/Sales
711 Industrial Blvd.
Lufkin, TX 75902
936-634-2211

Lufkin France
Avenue des Chavannes, BP18
70020 Fougerolles, France
011 (33) 384-49-64-00

Lufkin Canada
1050 McDougall Place, 808-4th Ave. S. W.
Calgary, Alberta T2P 3E8
403-234-7692

Lufkin Egypt
5 Road 281, Corner of 265
New Maadi
Cairo, Egypt
011-202-754-8828

Common Stock Transfer Agent

Computershare Investor Services, LLC
7550 Lucerne Drive, Suite 103
Cleveland, OH 44130
440-239-7352

Auditors

Deloitte & Touche, LLC
333 Clay Street, Suite 2300
Houston, TX 77002-4196
713-982-2000

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FORM 10-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002 — Commission file number 0-2612

LUFKIN INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of incorporation or organization)

75-0404410
(I.R.S. Employer Identification No.)

601 South Raguet, Lufkin, Texas
(Address of principal executive offices)

75904
(Zip Code)

Registrant's telephone number, including area code 936/634-2211

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $1 Per Share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate by "X" if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No___

The aggregate market value of the Company's voting stock held by non-affiliates as of the last day of the second fiscal quarter, June 30, 2002, was $187,795,135.

6,527,919 shares of the Company's Common Stock were outstanding on March 17, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Items 10,11,12 and 13 of Part III will be included in an amendment to Form 10-K or incorporated by reference from the registrant's definitive proxy statement to be filed pursuant to Regulation 14A.

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PART I

Item 1. Business

Lufkin Industries, Inc. (the "Company") was incorporated under the laws of the State of Texas on March 4, 1902, and since that date has maintained its principal office and manufacturing facilities in Lufkin, Texas. The Company employed approximately 1,800 people at December 31, 2002, including approximately 1,200 that were paid on an hourly basis. The Company is divided into three operating segments: Oil Field, Power Transmission and Trailer.

Oil Field

Products:
The Oil Field segment manufactures and services artificial reciprocating rod lift equipment, commonly referred to as pumping units, and related products.

Pumping Units- Four basic types of pumping units are manufactured: 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 oil field pumping units within the four basic types.

Service- Through a network of service centers, the Company transports and repairs pumping units. The service centers also refurbish used pumping units.

Automation- The Company designs, manufactures, installs and services computer control equipment and analytical services for pumping units that lower production costs and optimize well efficiency.

Foundry Castings- As part of the Company's vertical integration strategy, the Oil Field segment operates an iron foundry to produce castings for new pumping units. In order to maximize utilization of this facility, castings for third parties are also produced.

Markets:
Demand for pumping unit equipment primarily depends on the level of onshore oil well drilling activity as well as the depth and fluid conditions of that drilling. Drilling activity is driven by the available cash flow of our customers as well as their long-term perceptions of the level and stability of the price of oil. Also, the availability of used pumping unit equipment impacts the North American market.

Competition:
The primary global competition for new pumping units and automation equipment is Weatherford. Used pumping units are also an important factor in the North American market, as customers will generally attempt to satisfy requirements through used equipment before purchasing new equipment. While the Company believes that it is one of the larger manufacturers of sucker rod pumping units in the world, manufacturers of other types of units (submersibles and hydraulics) have a significant share of the total artificial lift market. While Weatherford is the Company's single largest competitor in the service market, small independent operators provide significant competitive pressures.

Because of the competitive nature of the business and the relative age of many of the product designs, price, delivery time, product quality and customer service are important factors in winning orders. To this end, the Company maintains strategic levels of inventories in order to ensure delivery times and invests in new capital equipment to maintain quality and price levels.

Power Transmission

Products:
The Power Transmission segment designs, manufactures and services speed increasing and reducing gearboxes for industrial applications. Speed increasers convert lower speed and higher torque input to higher speed and lower torque output while speed reducers convert higher speed and lower torque input to lower speed and higher torque output. The Company produces numerous sizes and designs of gearboxes depending on the end use. While there are standard designs, the majority of gearboxes are customized for each application.

High-Speed Gearboxes- Gearboxes where rotations per minute (RPM) exceed 4,000 and range up to 60,000. These gearboxes require extremely high precision manufacturing and testing due to the stresses on the gearing. The ratio of increasers to reducers is fairly even. These gearboxes more typically service the energy related markets of petrochemicals, refineries, offshore drilling and transmission of oil and gas.

Low-Speed Gearboxes- Gearboxes where RPM are below 4,000. The majority of low-speed gearboxes are reducers. While still requiring close tolerances, these gearboxes do not require the same precision of manufacturing and testing. These gearboxes more typically service commodity-related industries like rubber, sugar, paper, steel, plastics, mining and cement as well as marine propulsion.

Parts- The Company manufactures capital spares for customers in conjunction with the production of new gearboxes as well as producing parts for after-market service.

Repair & Service- The Company provides on and off-site repair and service for not only its own products but also those manufactured by other companies. Repair work is performed in dedicated facilities due to the high turn-around times required.

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Markets:
As noted above, Power Transmission services many diverse markets, each of which has its own unique set of drivers. Favorable conditions for one market may be unfavorable for another market. Generally, if general global industrial capacity utilizations are not high, then spending on new equipment lags. Also impacting demand are government regulations involving safety and environmental issues that can require capital spending.

Competition:
Despite the highly technical nature of this product, there are many competitors. While several North American competitors recently exited the market, many European companies remain in the market. They include Maag, Flender Graffenstaden, BHS, Renk, Allen Gear and Horsburgh & Scott. While price is an important factor, proven designs and workmanship are critical factors. Due to this, the Company outsources very little of the design and manufacturing processes.

Trailer

Products:
The Trailer segment manufactures and services various highway trailers for the freight-hauling market.

Vans- General-purpose dry-freight vans. These are the highest production trailer in the segment.
Floats- Flat-bed style trailers used in hauling heavier loads that do not require protection from outdoor elements.
Dumps- Trailers designed to haul bulk materials like gravel or sand.
Service- Through a network of company-owned branches, both trailers produced by the Company and by others are repaired and serviced.

Markets:
The Company primarily sells its products in the United States to small and medium size fleet freight-hauling companies. Demand in this market is driven by the available cash flow or financing capabilities of the industry, age of the trailer fleets, changes in government regulations, availability of quality used trailers and the medium-term outlook for freight volumes. The profitability of the freight-hauling market is driven by freight volumes, fuel prices, wage levels and insurance costs.

In the last several years, the freight-hauling market has been severely depressed due to low freight volumes and higher operating costs. This has caused many freight companies to go out of business, which have lead to the bankruptcy of several trailer manufacturers.

Competition:
The new trailer market is highly competitive with relatively low barriers to entry. The majority of the cost of a new trailer comes from purchased materials of aluminum, steel, tires, axles and wood flooring. Since there is minimal product differentiation in this market, price is the key driver. The companies with the highest market share are Great Dane and Wabash, along with several other large manufacturers like Utility, Fontaine and Hyundai. The Company does not have a significant market share in the new trailer market.

Item 2. Properties

The Company's major manufacturing facilities are located in and near Lufkin, Texas are owned in fee and include approximately 150 acres, a foundry, machine shop, structural shops, assembly shops and warehouses. The Company also has a plant in Nisku, Canada that 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. The Company also has a plant in Fougerolles, France that manufactures, assembles and sells industrial gears and power transmission products throughout Europe.

Item 3. Legal Proceedings

A class action complaint was filed in the United States District Court for the Eastern District of Texas on March 7, 1997, by an employee and a former employee which alleged race discrimination in employment. Certification hearings were conducted in Beaumont, Texas in February of 1998 and in Lufkin, Texas in August of 1998. The District Court in April of 1999 issued a decision that certified a class for this case, which includes all persons of a certain minority employed by the Company from March 6, 1994, to the present. The Company appealed this class certification decision by the District Court to the 5th Circuit United States Court of Appeals in New Orleans, Louisiana. This appeal was denied on June 23, 1999. The Company is defending this action vigorously. Furthermore, the Company believes that the facts and the law in this action support its position and is confident that it will prevail if this case is tried on its merits.

In the case of Echometer and James N. McCoy vs. Lufkin Industries, Inc., the plaintiff filed suit in U.S. District Court alleging infringement of a Data Processing and Display for Echo Sounding Patent. The Company has vigorously defended its position that its fluid level product does not infringe the plaintiff's patent. Trial for this case is scheduled for May 2003.

There are various other claims and legal proceedings arising in the ordinary course of business pending against or involving the Company wherein monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect its consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

None

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PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Common Stock Information

	2002			2001		
	Stock Price			Stock Price		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$ 27.000	$ 21.820	$ 0.18	$ 22.500	$ 16.188	$ 0.18
Second	29.730	23.460	0.18	31.480	18.375	0.18
Third	28.700	23.910	0.18	29.500	20.250	0.18
Fourth	28.180	22.300	0.18	27.250	22.750	0.18

The Company's common stock is traded on the NASDAQ Stock Market (National Market) under the symbol LUFK and as of March 14, 2003, there were approximately 600 record holders of its common stock.

The Company has paid cash dividends for 63 consecutive years. Total dividend payments were $4,670,000, $4,481,000 and $4,549,000 in 2002, 2001 and 2000, respectively.

Item 6. Selected Financial Data

Five Year Summary of Selected Consolidated Financial Data

(In millions, except per share data)	2002	2001	2000	1999	1998
Sales	$ 228.7	$ 278.9	$ 254.6	$ 246.0	$ 287.5
Net earnings (loss) from operations	8.5	19.5	7.0	(1.3)	13.6
Net earnings (loss) per share					
Basic	1.29	3.12	1.11	(0.20)	2.11
Diluted	1.26	3.03	1.11	(0.20)	2.08
Total assets	248.4	246.1	233.6	221.4	242.8
Long-term notes payable, net of current	0.2	0.3	7.0	9.1	11.5
Cash dividends per share	0.72	0.72	0.72	0.72	0.72

Quarterly Financial Data (Unaudited)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002				
Sales	$ 51.0	$ 60.9	$ 60.8	$ 56.0
Gross profit	8.2	14.1	14.2	10.3
Net earnings	0.2	3.5	3.8	1.0
Basic earnings per share	0.03	0.53	0.57	0.17
Diluted earnings per share	0.03	0.52	0.56	0.16
2001				
Sales	63.5	73.2	75.6	66.6
Gross profit	14.7	18.3	19.0	16.0
Net earnings	3.0	5.3	6.6	4.6
Basic earnings per share	0.49	0.85	1.04	0.72
Diluted earnings per share	0.49	0.83	1.01	0.70

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Sales for the year ended December 31, 2002, decreased to $228.7 million from $278.9 million for the year ended December 31, 2001. Sales for 2000 were $254.6 million. The Company reported net earnings of $8.5 million or $1.26 per share (diluted) for the year ended December 31, 2002, compared to net earnings of $19.5 million or $3.03 per share (diluted) for the year ended December 31, 2001. Net income of $7.0 million or $1.11 per share (diluted) was reported for the year ended December 31, 2000.

In October 2002, the Company experienced a two-week work stoppage by its unionized workforce at its primary manufacturing facilities in Lufkin, Texas. This work stoppage was related to health-care and pension benefit differences during contract negotiations. While certain shipments were delayed during the fourth quarter of 2002, this work stoppage did not have a significant impact on the overall results of the fourth quarter of 2002.

The sales mix of the Company's operating segments for the three years ended December 31, 2002, was as follows:

	Percent of total sales		
	2002	2001	2000
Oil Field	52%	65%	46%
Power Transmission	31	23	25
Trailer	17	12	29
Total	100%	100%	100%

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001:

The following table summarizes the Company's sales and gross profit by operating segment (in thousands of dollars):

Year Ended December 31,	2002	2001	Increase (Decrease)	% Increase (Decrease)
Sales				
Oil Field	$ 118,700	$ 182,271	$ (63,571)	(34.9)
Power Transmission	70,455	62,498	7,957	12.7
Trailer	39,569	34,138	5,431	15.9
Total	$ 228,724	$ 278,907	$ (50,183)	(18.0)
Gross Profit				
Oil Field	$ 24,953	$ 48,876	$ (23,923)	(48.9)
Power Transmission	19,566	18,946	620	3.3
Trailer	2,319	227	2,092	921.6
Total	$ 46,838	$ 68,049	$ (21,211)	(31.2)

Oil Field sales for the year ended December 31, 2002, decreased 34.9% to $118.7 million from $182.3 million in the year ended December 31, 2001. Lower energy prices in the first half of 2002 caused declines in oil field drilling and production activity, directly impacting the sale of new pumping units. The higher energy prices seen in the last half of 2002 have not translated into higher activity levels. Drilling activity has not increased with the higher energy prices due to uncertainty over both future global demand levels and the stability of the price of oil. This was also reflected in the backlog of Oil Field, which declined to $12.6 million at December 31, 2002, from $19.4 million at December 31, 2001.

Gross profit for Oil Field decreased to $25.0 million, or 48.9%, for the year ended December 31, 2002, compared to $48.9 million for the year ended December 31, 2001, due primarily to the decline in sales of oil field products but also due to a decline in the gross margin. Gross margin decreased to 21.1% in 2002 compared to 26.9% in 2001 due to the product mix shifting towards lower margin commercial castings and fixed production costs increasing as a percentage of revenue.

Direct selling, general and administrative expenses for Oil Field decreased to $7.6 million, or 20.0%, for the year ended December 31, 2002, from $9.5 million for the year ended December 31, 2001. This decrease was due to lower third-party sales commissions and lower legal expenses associated with ongoing and routine litigation. In 2002 certain types of legal expenses previously charged directly to Oilfield were charged to Corporate.

Sales for the Company's Power Transmission segment increased to $70.5 million, or 12.7%, for the year ended December 31, 2002, compared to $62.5 million for the year ended December 31, 2001. High-speed applications serving the oil and gas, refinery and petrochemical markets increased in 2002 with some improvement seen in low-speed applications for the sugar and marine markets. However, demand in the power generation, steel and rubber markets continues to remain weak, contributing to the decline in Power Transmission backlog to $30.9 million as of December 31, 2002, compared to $31.5 million as of December 31, 2001.

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Power Transmission gross profit increased to $19.6 million, or 3.3%, for the year ended December 31, 2002, from $18.9 million for the year ended December 31, 2001. This improvement did not match the increase in sales, due to a gross margin decline to 27.8% for the year ended December 31, 2002, from 30.4% for the year ended December 31, 2001. Higher margins on sales of high-speed gearboxes and parts were offset by a decline in inter-segment revenue to the Oil Field segment, reducing from $12.8 million in 2001 to a more normal level of $1.8 million in 2002. Due to the extraordinary demand for pumping units in Oil Field in 2001, Power Transmission produced a large number of gearboxes for Oil Field. While these gearboxes were sold near cost to Oil Field, this incremental volume improved plant utilization and fixed cost absorption of Power Transmission, improving the overall gross margin.

Direct selling, general and administrative expenses for Power Transmission increased slightly to $10.2 million, or 1.0%, for the year ended December 31, 2002, from $10.1 million for the year ended December 31, 2001.

Trailer sales for the year ended December 31, 2002, increased 15.9% to $39.6 million from $34.1 million for the year ended December 31, 2001, due to some improvement in the freight-hauling market. However, the market remained depressed due to a combination of lower shipping volumes, higher fuel costs, higher personnel costs and higher insurance rates. The continued depressed state of the market is reflected in the decline in backlog from $13.5 million at December 31, 2001, to $10.1 million at December 31, 2002.

Trailer gross profit and margin improved to $2.3 million and 5.9%, respectively, for the year ended December 31, 2002, from $0.2 and 0.7%, respectively, for the year ended December 31, 2001. This gross margin improvement was primarily due to two factors: cost containment efforts and reduced warranty charges. Labor and overhead costs only increased 12.0% in 2002 compared to 2001 versus the 15.9% revenue increase. Warranty charges were lower due to improved quality efforts and a lower pool of trailers under warranty.

Direct selling, general and administrative expenses for Trailer decreased to $1.5 million, or 31.9%, for the year ended December 31, 2002, from $2.2 million for the year ended December 31, 2001. This decrease was primarily due to lower insurance claim expenses.

Corporate administrative expenses, which are allocated to the segments primarily based on third-party revenues, increased to $14.2 million, or 6.8%, for the year ended December 31, 2002, from $13.3 million for the year ended December 31, 2001, due to costs associated with the settlement of the labor dispute in the fourth quarter of 2002 and higher legal expenses associated with ongoing and routine litigation.

Other income and expense for the year ended December 31, 2002, totaled $0.4 million of income versus $0.7 million of expense for the year ended December 31, 2001. This improvement was due to higher interest income from invested cash, lower interest expense from reduced debt levels and the non-recurrence of losses on asset disposals incurred in 2001.

Pension income, which is reported as a reduction of cost of sales in each segment, decreased to $5.3 million, or 10.2%, for the year ended December 31, 2002, from $5.9 million for the year ended December 31, 2001. This decline was because liabilities of the plan increased while the expected return on assets declined from a reduction in the fair market value. Pension income in 2003 is expected to decline to approximately $2.5 million due to further declines in the fair market value of the assets of the plan lowering the expected return. In conjunction with these market declines, the Company reviewed its assumptions for 2003 and lowered the discount rate to 6.75% from 7.00%, the expected long-term return on assets to 8.75% from 9.00% and the compensation rate increase to 4.50% from 5.00%.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000:

The following table summarizes the Company's net revenues and gross profit by operating segment (in thousands of dollars):

Year Ended December 31,	2001	2000	Increase (Decrease)	% Increase (Decrease)
Sales				
Oil Field	$ 182,271	$ 118,097	$ 64,174	54.3
Power Transmission	62,498	62,923	(425)	(0.7)
Trailer	34,138	73,583	(39,445)	(53.6)
Total	$ 278,907	$ 254,603	$ 24,304	9.5
Gross Profit				
Oil Field	$ 48,876	$ 23,739	$ 25,137	105.9
Power Transmission	18,946	15,590	3,356	21.5
Trailer	227	4,921	(4,694)	(95.4)
Total	$ 68,049	$ 44,250	$ 23,799	53.8

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Oil Field sales for the year ended December 31, 2001, increased 54.3% to $182.3 million from $118.1 million in the year ended December 31, 2000. Increases in production activity among oil producers resulted in significant increases in both new pumping unit sales and oil field service activity. However, lower energy prices and corresponding production activity in the fourth quarter of 2001 is reflected in the backlog of Oil Field, which declined to $19.4 million at December 31, 2001, from $33.3 million at December 31, 2000.

Gross profit for Oil Field increased to $48.9 million, or 105.9%, for the year ended December 31, 2001, compared to $23.7 million for the year ended December 31, 2000, due to the above noted increases in product volume associated with higher production activity. Gross margin improved to 26.8% in 2001 compared to 20.1% in 2000 due primarily to increased leverage on the Company's fixed costs.

Direct selling, general and administrative expenses for Oil Field increased to $9.5 million, or 33.7%, for the year ended December 31, 2001, from $7.1 million for the year ended December 31, 2000. This increase was due to higher third-party sales commissions and higher internal sales activity in conjunction with above noted increase in revenue. Also, administrative expenses increased due to higher legal expenses associated with ongoing and routine litigation.

Sales for the Company's Power Transmission segment decreased slightly to $62.5 million for the year ended December 31, 2001, compared to $62.9 million for the year ended December 31, 2000. The uncertain economic conditions experienced in the last several years in many of the Company's domestic and international industrial markets continued to exist in 2001. However, the activity level in these markets has shown improvement, as evidenced by the Power Transmission backlog of $31.5 million as of December 31, 2001, compared to $20.8 million as of December 31, 2000.

Power Transmission gross profit and gross margin, however, increased to $18.9 million and 30.3%, respectively, for the year ended December 31, 2001, from $15.6 million and 24.8%, respectively, for the year ended December 31, 2000. This improvement was due to a combination of higher margins on new equipment sales and increased absorption of fixed overhead costs resulting from volume increases attributable to gearboxes supplied to the Company's Oil Field segment.

Direct selling, general and administrative expenses for Power Transmission decreased to $10.1 million, or 5.7%, for the year ended December 31, 2001, from $10.7 million for the year ended December 31, 2000. This decrease was due to lower personnel-related expenses, reduced severance payments and lower depreciation expense, partially offset by higher bad debt expense.

Trailer sales for the year ended December 31, 2001, decreased 53.6% to $34.1 million from $73.6 million for the year ended December 31, 2000, due to the continued industry-wide decline in the market for new trailers that began in 1999. Due to a combination of lower shipping volumes, higher fuel costs, higher personnel costs and higher insurance rates, freight companies have either significantly reduced orders for new trailers or have gone out of business. Trailer manufacturers have seen revenue declines of as much as 75%, with several shutting down completely. Some improvement has been seen in the trailer market, as demonstrated in the increased backlog to $13.5 million as of December 31, 2001, compared to $9.5 million as of December 31, 2000. This backlog level, though, was still well below traditional levels.

Trailer gross profit and margin declined to $0.2 million and 0.7%, respectively, for the year ended December 31, 2001, from $4.9 and 6.7%, respectively, for the year ended December 31, 2000, due to fixed manufacturing overhead not declining at the same rate as revenue.

Direct selling, general and administrative expenses for Trailer decreased to $2.2 million, or 16.9%, for the year ended December 31, 2001, from $2.6 million for the year ended December 31, 2000. This decrease was due to a combination of lower personnel-related expenses and insurance claims.

Corporate administrative expenses, which are allocated to the segments primarily based on third-party revenues, increased to $13.3 million, or 13.6%, for the year ended December 31, 2001, from $11.7 million for the year ended December 31, 2000, due to increased legal expenses and non-recurring expenses related to the Company's 100th anniversary.

Interest expense for the year ended December 31, 2001, totaled $0.9 million compared to $1.4 million for the year ended December 31, 2000, due to lower average short and long-term debt balances in 2001 compared to 2000. Since the majority of outstanding debt will be repaid in July 2002, interest expense will be greatly reduced after that date. Other income (expense) of $(0.3) million for 2001 was reduced from $0.1 million for 2000.

Pension income, which is reported as a reduction of cost of sales in each segment, decreased to $5.9 million, or 6.9%, for the year ended December 31, 2001, from $6.4 million for the year ended December 31, 2000. While the actual market return of the plan assets has been down, pension income is based on expected long-term return projections and not on current year activity.

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Liquidity and Capital Resources

The Company has historically relied on cash flows from operations and third-party borrowings to finance its operations, including acquisitions, dividend payments and stock repurchases.

The Company's cash balance totaled $27.6 million at December 31, 2002, compared to $18.1 million at December 31, 2001. For the year ended December 31, 2002, net cash provided by operating activities was $22.3 million, cash used in investing activities totaled $4.3 million, cash used in financing activities amounted to $8.8 million and the effect of foreign currency translation amounted to $0.2 million. Significant components of cash provided by operating activities include net earnings adjusted for non-cash expenses of $16.4 million and a net decrease in working capital of $5.9 million. This decrease was primarily due to lower trade receivables and inventory in the Oil Field segment. Cash used in investing activities included net capital expenditures totaling $10.1 million, partially offset by the sale of securities worth $5.9 million previously escrowed for the purposes of paying long-term debt. Capital expenditures in 2002 were primarily for additions and replacements of production equipment and operating vehicles in the Oil Field segment, the expansion into the Southeast U.S. for repairing power transmission equipment and the addition of high-speed testing equipment into the French Power Transmission facility. Capital expenditures for 2003 are projected to be at or greater than the 2002 level. Significant components of cash used in financing activities included payments on long-term debt of $6.7 million, proceeds from stock option exercises of $2.6 million and dividend payments of $4.7 million or $0.72 per share.

Total debt balances at December 31, 2002, including current maturities of long-term debt, consisted of $0.4 million of notes payable to various banks. As of December 31, 2002, the Company had no outstanding debt associated with the Bank Facility discussed below. Total debt decreased by $6.5 million during 2002 due to principal payments on long-term notes payable totaling $6.7 million with an offset of $0.2 million in the Company's foreign currency denominated debt as a result of changes in exchange rates.

During the fourth quarter of 2002, the Company completed and signed a three-year $27.5 million credit facility with a domestic bank (the "Bank Facility") consisting of an unsecured revolving line of credit that provides for up to $17.5 million of committed borrowings along with an additional $10.0 million discretionary line of credit. Borrowings under the Bank Facility bear interest, at the Company's option, at either the greater of (i) the prime rate, (ii) the base CD rate plus an applicable margin or (iii) the Federal Funds Effective Rate plus an applicable margin or the London Interbank Offered Rate ("LIBOR") plus an applicable margin, depending on certain ratios as defined in the agreement. As of December 31, 2002, no amounts were outstanding of the $27.5 million of the revolving line of credit under the terms of the Bank Facility.

The Company currently has a stock repurchase plan under which the Company is authorized to spend up to $17.1 million for repurchases of its common stock. Pursuant to this plan, the Company has repurchased a total of 826,870 shares of its common stock at an aggregate purchase price of $16.9 million. No shares were repurchased during the year ended December 31, 2002. Repurchased shares are added to treasury stock and are available for general corporate purposes including the funding of the Company's stock option plans. As of December 31, 2002, the Company held 364,462 shares of treasury stock at an aggregate cost of approximately $7.5 million. Authorizations of approximately $0.2 million remained at December 31, 2002.

The Company had no significant lease or contractual obligations as of December 31, 2002, that would negatively impact cash requirements in subsequent periods.

The Company believes that its cash flows from operations and its available borrowing capacity under its credit agreements will be sufficient to fund its operations, including planned capital expenditures, dividend payments and stock repurchases, through December 31, 2003.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement No. 143, "Accounting for Asset Retirement Obligations." This standard requires asset retirement costs to be capitalized as part of the cost of the related tangible long-lived asset and subsequently allocated to expense using a systematic and rational method over the useful life of the asset. The statement is effective for fiscal years beginning after June 15, 2002. The transition adjustment resulting from the adoption of this statement will be reported as a cumulative effect of a change in accounting principle. The Company adopted Statement No. 143 as of January 1, 2003, and it did not have an impact on the Company's consolidated financial position or results of operations.

In April 2002, the Financial Accounting Standards Board issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB of FASB Statement No. 13, and Technical Corrections." This standard rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," an amendment of APB Opinion No. 30, and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements," which amended SFAS 4, as these two standards required that all gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item. Consequently, such gains and losses will now be classified as extraordinary only if they meet the criteria for extraordinary treatment set forth in APB Opinion 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," an amendment of Chapter 5 of ARB No. 43 and an interpretation of APB Opinions 17 and 30, because the discrete event to which that statement relates is no longer relevant. In addition, SFAS 145 amends SFAS No. 13, "Accounting for Leases," to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as such transactions. Furthermore, the statement makes certain technical corrections, which the FASB deemed to be non-substantive, to a number of existing accounting pronouncements. The provisions of SFAS 145 related to the rescission of SFAS 4 and 64 are effective for fiscal years beginning after May 15, 2002. The provisions related to the amendment of SFAS 13 are effective for transactions occurring after May 15, 2002. All other provisions of SFAS 145 are effective for financial statements issued on or after May 15, 2002. The Company adopted Statement No. 145 as of January 1, 2003, and it did not have an impact on the Company's consolidated financial position or results of operations.

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As of December 31, 2002, the Company had no reportable derivatives. A note payable, described in Footnote 4, had been designated as a hedge against the Company's investment in its French operations, but had been fully paid as of December 31, 2002. The changes in the fair value of this instrument were recorded in accumulated other comprehensive income.

Revenue recognition: Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable and collectibility is reasonably assured. The Company also recognizes Bill-and-Hold transactions when the product is completed and is ready to be shipped and the risk of loss on the product has been transferred to the customer.

Amounts billed for shipping are classified as sales and costs incurred for shipping are classified as cost of sales in the consolidated income statement.

Stock-based compensation: The Company has elected to follow the accounting provisions of APB No. 25, "Accounting for Stock Issued to Employees," for stock-based compensation and to furnish the pro-forma disclosures required under SFAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosures." APB No. 25 requires no recognition of compensation expense for most stock-based compensation arrangements.

Recently issued accounting pronouncements: In June 2001, the Financial Accounting Standards Board issued Statement No. 143, "Accounting for Asset Retirement Obligations." This standard requires asset retirement costs to be capitalized as part of the cost of the related tangible long-lived asset and subsequently allocated to expense using a systematic and rational method over the useful life of the asset. The statement is effective for fiscal years beginning after June 15, 2002. The transition adjustment resulting from the adoption of this statement will be reported as a cumulative effect of a change in accounting principle. The Company adopted Statement No. 143 as of January 1, 2003, and it did not have an impact on the Company's consolidated financial position or results of operations.

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In June 2002, the Financial Accounting Standards Board issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with restructurings, discontinued operations, plant closings or other exit or disposal activities when incurred rather than at the date a plan is committed to. The statement is effective for exit or disposal activities initiated after December 31, 2002. The Company plans to adopt this statement as of the effective date and will implement its provisions on a prospective basis.

In October 2002, the Financial Accounting Standards Board issued Statement No. 147, "Acquisitions of Certain Financial Institutions," which applies to all acquisitions of financial institutions except those between two or more mutual enterprises, which is being addressed in a separate project. Statement 147 supersedes the specialized accounting guidance in paragraph 5 of SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and amends FASB Interpretation No. 9, "Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method"; therefore, if certain criteria in Statement 147 are met, the amount of the unidentifiable intangible asset will be reclassified to goodwill upon adoption of this statement. Restatement of previously issued financial statements will be required. Those transition provisions are effective as of October 1, 2002; however, early application is permitted. Statement 147 also amends the scope of Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include long-term customer-relationship intangible assets such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. The Company adopted Statement No. 145 and it did not have an impact on the Company's consolidated financial position or results of operations.

In December 2002, the Financial Accounting Standards Board issued Statement No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure." This statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternate methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. Statement No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value methods, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25. As allowed by SFAS No. 123, the Company has elected to continue to utilize the accounting method prescribed by APB Opinion No. 25 and has adopted the disclosure requirements of SFAS No. 148 as of December 31, 2002.

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In June 2002, the Financial Accounting Standards Board issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with restructurings, discontinued operations, plant closings or other exit or disposal activities when incurred rather than at the date a plan is committed to. The statement is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted Statement No. 145 as of January 1, 2003, and it did not have an impact on the Company's consolidated financial position or results of operations.

In October 2002, the Financial Accounting Standards Board issued Statement No. 147, "Acquisitions of Certain Financial Institutions," which applies to all acquisitions of financial institutions except those between two or more mutual enterprises, which is being addressed in a separate project. Statement 147 supersedes the specialized accounting guidance in paragraph 5 of SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and amends FASB Interpretation No. 9, "Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method"; therefore, if certain criteria in Statement 147 are met, the amount of the unidentifiable intangible asset will be reclassified to goodwill upon adoption of this statement. Restatement of previously issued financial statements will be required. Those transition provisions are effective as of October 1, 2002; however, early application is permitted. Statement 147 also amends the scope of Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include long-term customer-relationship intangible assets such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. The Company adopted Statement No. 145 as of January 1,2003, and it did not have an impact on the Company's consolidated financial position or results of operations.

In December 2002, the Financial Accounting Standards Board issued Statement No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure." This statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternate methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. Statement No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value methods, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25. As allowed by SFAS No. 123, the Company has elected to continue to utilize the accounting method prescribed by APB Opinion No. 25 and has adopted the disclosure requirements of SFAS No. 148 as of December 31, 2002.

Critical Accounting Policies and Estimates

The discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company evaluates its estimates on an ongoing basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in preparation of its consolidated statements.

The Company extends credit to customers in the normal course of business. Management performs ongoing credit evaluations of our customers and adjusts credit limits based upon payment history and the customer's current credit worthiness. An allowance for doubtful accounts has been established to provide for estimated losses on receivable collections. The balance of this allowance is determined by regular reviews of outstanding receivables and historical experience. As the financial condition of customers change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable and collectibility is reasonably assured. The Company also recognizes Bill-and-Hold transactions when the product is completed and is ready to be shipped and the risk of loss on the product has been transferred to the customer.

The Company has made significant investments in inventory to service its customers. On a routine basis, the Company uses estimates in determining the level of reserves required to state inventory at the lower of cost or market. Management's estimates are primarily influenced by market activity levels, production requirements, the physical condition of products and technological innovation. Changes in any of these factors may result in adjustments to the carrying value of inventory. Also, the Company accounts for a significant portion of its inventory under the LIFO method. The LIFO reserve can be impacted by changes in the LIFO layers and by inflation index adjustments.

Long-lived assets, including goodwill, held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be reasonable. The Company assesses the recoverability of long-lived assets by determining whether the carrying value can be recovered through projected discounted cash flows, based on expected future operating results. Future adverse market conditions or poor operating results could result in the inability to recover the current carrying value and thereby possibly requiring an impairment charge in the future.

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Deferred tax assets and liabilities are recognized for the differences between the book basis and tax basis of the net assets of the Company. In providing for deferred taxes, management considers current tax regulations, estimates of future taxable income and available tax planning strategies. Changes in state, federal and foreign tax laws as well as changes in the financial position of the Company could also affect the carrying value of deferred tax assets and liabilities. If management estimates that some or all of any deferred tax assets will expire before realization or that the future deductibility is not probable, a valuation allowance would be recorded.

The Company is subject to claims and legal actions in the ordinary course of business. The Company maintains insurance coverage for various aspects of its businesses and operations. The Company retains a portion of the insured losses that occur through the use of deductibles. Management regularly reviews estimates of reported and unreported insured and non-insured claims and legal actions and provides for losses through reserves. As circumstances develop and additional information becomes available, adjustments to loss reserves may be required.

The Company sells certain of its products to customers with a product warranty that provides repairs at no cost to the customer or the issuance of credit to the customer. The length of the warranty term depends on the product being sold, but ranges from one year to five years. The Company accrues its estimated exposure to warranty claims based upon historical warranty claim costs as a percentage of sales multiplied by prior sales still under warranty at the end of any period. Management reviews these estimates on a regular basis and adjusts the warranty provisions as actual experience differs from historical estimates or other information becomes available.

The Company offers a defined benefit plan and other benefits upon the retirement of its employees. Assets and liabilities associated with these benefits are calculated by third-party actuaries under the rules provided by various accounting standards, with certain estimates provided by management. These estimates include the discount rate, expected rate of return of assets and the rate of increase of compensation and health claims. On a regular basis, management reviews these estimates by comparing them to actual experience and those used by other companies. If a change in an estimate is made, the carrying value of these assets and liabilities may have to be adjusted.

Forward-Looking Statements and Assumptions

This Annual Report on Form 10-K contains forward-looking statements and information, within the meaning of the Private Securities Litigation Reform Act of 1995, that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to certain events and are subject to certain assumptions, risks and uncertainties, many of which are outside the control of the Company. These risks and uncertainties include, but are not limited to, (i) oil prices, (ii) capital spending levels of oil producers, (iii) availability and prices for raw materials and (iv) general industry and economic conditions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. The Company undertakes no obligations to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

The Company does not utilize financial instruments for trading purposes. The Company's financial instruments include cash, accounts receivable, accounts payable, invested funds and debt obligations. The book value of accounts receivable, short-term debt and accounts payable are considered to be representative of their fair market value because of the short maturity of these instruments. The Company believes the carrying values of its long-term debt obligations approximate fair values because the interest rates on these obligations are comparable to what the Company believes it could currently obtain for debt with similar terms and maturities. The Company's accounts receivable are not concentrated in one customer or industry and are not viewed as an unusual credit risk.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

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REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited the accompanying balance sheet of Lufkin Industries, Inc. (the "Company) as of December 31, 2002 and the related statements of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lufkin Industries, Inc. as of December 31, 2001, and for the two years then ended, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 8, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets upon adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets."

As discussed above, the consolidated financial statements of the Company as of December 31, 2001, and for each of the two years in the period ended December 31, 2001, were audited by other auditors who have ceased operations. As described in Notes 1 and 7, these financial statements have been revised to include the transitional disclosures required by SFAS No. 142, which was adopted by the Company as of January 1, 2002, and have also been adjusted to provide for a reclassification between current and non-current other assets. Our audit procedures with respect to the disclosures in Notes 1 and 7, with respect to 2001 and 2000 included (a) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including related tax effects) recognized in those periods related to goodwill to the Company's underlying records obtained from management, (b) reviewing the underlying records obtained from management associated with the reclassification, (c) testing the mathematical accuracy of either the reclassification or the reconciliation of adjusted net income to reported net income, and the related earnings-per-share amounts, and (d) recalculating the change in working capital as presented in the Statement of Cash Flows for the period ended December 31, 2000. In our opinion, the transitional disclosures and the noted reclassification for 2001 and 2000 in Note 1 and 7 are appropriate. However we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

Deloitte & Touche, LLP

March 5, 2003

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Below is a copy of the report previously issued by Arthur Andersen LLP, the Company's former independent public accountants, in connection with the Company's Annual Report for the year ended December 31, 2001. Arthur Andersen is unable to issue an updated report. Certain financial statements covered by this opinion have not been included in the accompanying financial statements.

To the Shareholders of Lufkin Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Lufkin Industries, Inc. (a Texas corporation) and subsidiaries (collectively, the Company) as of December 31, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lufkin Industries, Inc., and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Houston, Texas
February 8, 2002

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CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001
(Thousands of dollars, except share and per share data)

Assets	2002	2001
Current assets:		
Cash and cash equivalents	$ 27,608	$ 18,087
Invested funds	-	5,863
Receivables, net	33,872	35,956
Income taxes receivable	713	673
Inventories	31,633	34,824
Deferred income tax assets	948	2,179
Other current assets	462	811
Total current assets	95,236	98,393
Property, plant and equipment, net	81,231	81,296
Prepaid pension costs	54,720	49,437
Goodwill, net	10,322	10,045
Other assets, net	6,846	6,898
Total assets	$ 248,355	$ 246,069

Liabilities and Shareholders' Equity	2002	2001
Current liabilities:		
Current portion of long-term notes payable	$ 259	$ 6,598
Accounts payable	12,003	10,680
Accrued liabilities:		
Payroll and benefits	5,833	6,636
Accrued warranty expenses	1,858	2,275
Taxes payable	4,036	4,487
Other	6,826	6,373
Total current liabilities	30,815	37,049
Deferred income tax liabilities	27,471	26,658
Postretirement benefits	10,956	11,024
Long-term notes payable, net of current portion	164	339
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, no par value, 2,000,000 shares authorized, none issued or outstanding	-	-
Common stock, par $1 per share; 60,000,000 shares authorized; 6,892,381 shares issued	6,892	6,892
Capital in excess of par	18,477	18,200
Retained earnings	162,838	158,973
Treasury stock, 364,462 shares and 502,348 shares, respectively, at cost	(7,524)	(10,350)
Accumulated other comprehensive income:		
Cumulative translation adjustment	(1,734)	(2,716)
Total shareholders' equity	178,949	170,999
Total liabilities and shareholders' equity	$ 248,355	$ 246,069

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 2002, 2001 and 2000
(Thousands of dollars, except per share data)

	2002	2001	2000
Sales	$ 228,724	$ 278,907	$ 254,603
Cost of sales	181,886	210,858	210,353
Gross profit	46,838	68,049	44,250
Selling, general and administrative expenses	33,428	35,045	32,120
Operating income	13,410	33,004	12,130
Investment income	607	437	412
Interest expense	(285)	(873)	(1,413)
Other income (expense), net	35	(268)	113
Earnings before income taxes	13,767	32,300	11,242
Income tax provision	5,232	12,758	4,272
Net earnings	$ 8,535	$ 19,542	$ 6,970
Net earnings per share:			
Basic	$ 1.29	$ 3.12	$ 1.11
Diluted	$ 1.26	$ 3.03	$ 1.11

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY & COMPREHENSIVE INCOME

Years ended December 31, 2002, 2001 and 2000
(Thousands of dollars, except share and per share data)

	Common Stock		Capital In Excess Of Par	Retained Earnings	Treasury Stock	Cumulative Translation Adjustment	Comprehensive Income (Loss)
	Shares	Amount					
Balance, Dec. 31, 1999	6,892,381	$ 6,892	$ 18,066	$ 141,491	$ (12,019)	$ (2,021)	
Comprehensive income:							
Net earnings				6,970			$ 6,970
Other comprehensive income, net of tax							
Foreign currency translation adjustment						(224)	(224)
Comprehensive income							6,746
Cash dividends, $.72 per share				(4,549)			
Purchases of treasury stock (110,314 shares)					(2,009)		
Stock grant (1,334 shares)			3		27		
Exercise of stock options (1,500 shares)					24		
Balance, Dec. 31, 2000	6,892,381	6,892	18,069	143,912	(13,977)	(2,245)	
Comprehensive income:							
Net earnings				19,542			19,542
Other comprehensive income, net of tax							
Foreign currency translation adjustment						(471)	(471)
Comprehensive income							19,071
Cash dividends, $.72 per share				(4,481)			
Stock grant (1,089 shares)			1		23		
Exercise of stock options (176,319 shares)			130		3,604		
Balance, Dec. 31, 2001	6,892,381	6,892	18,200	158,973	(10,350)	(2,716)	
Comprehensive income:							
Net earnings				8,535			8,535
Other comprehensive income, net of tax							
Foreign currency translation adjustment						982	982
Comprehensive income							$ 9,517
Cash dividends, $.72 per share				(4,670)			
Stock grant (1,089 shares)							
Exercise of stock options (137,886 shares)			277		2,826		
Balance, Dec. 31, 2002	6,892,381	$ 6,892	$ 18,477	$ 162,838	$ (7,524)	$ (1,734)	

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2002, 2001 and 2000
(Thousands of dollars)

	2002	2001	2000
Cash flows from operating activities:			
Net earnings	$ 8,535	$ 19,542	$ 6,970
Adjustments to reconcile net earnings to net cash			
Provided by operating activities:			
Depreciation and amortization	11,417	11,523	10,895
Deferred income tax provision	1,789	4,536	2,689
Pension income	(5,283)	(5,945)	(6,387)
Postretirement benefits	(67)	51	(144)
(Gain) loss on disposition of property, plant and equipment	(22)	406	468
Increase (decrease) in cash flows from changes in working capital excluding effects of acquisitions:			
Receivables, net	2,674	4,538	(5,947)
Income taxes receivable	(39)	565	1,322
Inventories	3,576	18	(2,683)
Other current assets	298	(67)	(195)
Accounts payable	399	(2,321)	3,437
Accrued liabilities	(941)	1,852	3,482
Net cash provided by operating activities	22,336	34,698	13,907
Cash flows from investing activities:			
Additions to property, plant and equipment	(10,410)	(7,909)	(6,225)
Proceeds from disposition of property, plant and equipment	293	212	448
Decrease in invested funds	5,863	2	-
Increase in other assets	(8)	(6)	(362)
Net cash used in investing activities	(4,262)	(7,701)	(6,139)
Cash flows from financing activities:			
Proceeds from (payments of) short-term debt, net	-	(7,790)	2,590
Payments of long-term notes payable	(6,731)	(1,721)	(2,725)
Dividends paid	(4,670)	(4,481)	(4,549)
Proceeds from exercise of stock options	2,628	3,174	24
Purchases of treasury stock	-	-	(2,009)
Net cash used in financing activities	(8,773)	(10,818)	(6,669)
Effect of translation on cash and cash equivalents	220	(95)	(161)
Net increase in cash and cash equivalents	9,521	16,084	938
Cash and cash equivalents at beginning of year	18,087	2,003	1,065
Cash and cash equivalents at end of year	$ 27,608	$ 18,087	$ 2,003

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Corporate Organization and Summary of Significant Accounting Policies

Lufkin Industries, Inc. and its consolidated subsidiaries (collectively, the "Company") manufacture and sell oil field pumping units, power transmission products and highway trailers throughout the world.

Principles of consolidation: The consolidated financial statements include the accounts of Lufkin Industries, Inc. and its consolidated subsidiaries after elimination of all significant inter-company accounts and transactions.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Foreign currencies: Assets and liabilities of foreign operations are translated into U.S. dollars at the exchange rate in effect at the end of each accounting period, with any resulting gain or loss shown in accumulated other comprehensive income in the shareholders' equity section of the balance sheet. Income statement accounts are translated at the average exchange rates prevailing during the period. Any gains or losses on transactions denominated in another foreign currency are generally included in income as incurred.

Cash equivalents: The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Invested funds: The Company's invested funds, which consisted of government securities, were classified as held-to-maturity securities and were carried at cost. Substantially all of the Company's invested funds at December 31, 2001, were restricted for payment of certain of the Company's notes payable.

Inventories: The Company reports its inventories by using the last-in, first-out (LIFO) and the first-in, first-out (FIFO) methods less reserves necessary to report inventories at the lower of cost or estimated market. Inventory costs include material, labor and factory overhead. On a routine basis, the Company uses estimates in determining the level of reserves required to state inventory at the lower of cost or market. Management's estimates are primarily influenced by market activity levels, production requirements, the physical condition of products and technological innovation. Changes in any of these factors may result in adjustments to the carrying value of inventory. In July, 1998, the Company began capitalizing certain maintenance and supplies inventories to better match the estimated cost of such inventories with the related equipment produced. Such inventories were capitalized and were amortized over the three years of their estimated use and had the effect of increasing net earnings by $0.3 million ($0.05 per diluted share) and $0.7 million ($0.12 per diluted share) in 2001 and 2000, respectively.

Property, plant and equipment (P. P. & E.): 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 periodically reviews its P. P. & E. for possible impairment whenever events or changes in circumstance might indicate that the carrying amount of an asset may not be recoverable. Depreciation for financial reporting purposes is provided on a straight-line method based upon the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. The following is a summary of the Company's P. P. & E. useful lives:

	Useful Life (In Years)
Land	-
Land improvements	10.0 – 25.0
Buildings	12.5 – 40.0
Machinery and equipment	3.0 – 12.5
Furniture and fixtures	5.0 – 12.5
Computer equipment and software	3.0 – 7.0

Goodwill and other intangible assets: In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 eliminated the amortization of goodwill and intangible asserts with indefinite lives and requires that such assets be tested for impairment at least annually. During the first quarter of 2002, the Company completed the impairment testing by testing the fair value of each reporting unit to its carrying amount. Since the fair value of each reporting unit exceeded the carrying value, no impairment was recorded.

The Company amortizes intangible assets with finite lives over the years expected to be benefited.

Income taxes: Deferred income tax assets or liabilities are recorded based on the difference between the financial statement and income tax bases of assets and liabilities using enacted tax rates. See Footnote 2 for more detail.

Financial instruments: The Company's financial instruments include cash, accounts receivable, accounts payable and debt obligations. The book value of accounts receivable, short-term debt and accounts payable are considered to be representative of their fair value because of the short maturity of these instruments. The Company believes the carrying value of its long-term debt approximates fair value because the interest rates of this debt are comparable to what the Company believes it could currently obtain for debt with similar terms and maturities.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment of SFAS No. 133, as of the quarter ended March 31, 2001. These statements establish accounting and reporting standards that require every derivative instrument, including certain derivative instruments embedded in other contracts, to be recorded on the balance sheet as either an asset or a liability measured at its fair value.

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Product warranties: The Company sells certain of its products to customers with a product warranty that provides repairs at no cost to the customer or the issuance of credit to the customer. The length of the warranty term depends on the product being sold, but ranges from one year to five years. The Company accrues its estimated exposure to warranty claims based upon historical warranty claim costs as a percentage of sales multiplied by prior sales still under warranty at the end of any period. Management reviews these estimates on a regular basis and adjusts the warranty provisions as actual experience differs from historical estimates or other information becomes available.

Other: Certain prior year amounts have been reclassified to conform with the current year presentation. Included in these reclassifications is a reclassification to other current assets from other long-term assets totaling $811,000. The respective reclassification was made to better reflect the underlying nature and timing of the respective assets consistent with the Company's current classification of such items. The reclassification had no change on the Company's total assets of $246,069,000 as previously reported, and effectively increased the Company's working capital by $811,000.

(2) Receivables

The following is a summary of the Company's receivable balances:

(Thousands of dollars)	2002	2001
Accounts receivable	$ 33,777	$ 36,506
Notes receivable	335	268
	34,112	36,774
Allowance for doubtful accounts	(240)	(818)
Net receivables	$ 33,872	$ 35,956

(3) Property, Plant & Equipment

The following is a summary of the Company's P. P. & E. balances:

(Thousands of dollars)	2002	2001
Land	$ 2,693	$ 2,556
Land improvements	6,690	6,693
Buildings	61,358	59,976
Machinery and equipment	173,703	165,427
Furniture and fixtures	3,898	3,726
Computer equipment and software	12,747	12,546
Total property, plant and equipment	261,089	250,924
Less accumulated depreciation	(179,858)	(169,628)
Total property, plant and equipment, net	$ 81,231	$ 81,296

Depreciation expense related to property, plant and equipment was $11.3 million, $11.0 million and $10.5 million in 2002, 2001 and 2000, respectively.

(4) Earnings per Share

Earnings per share amounts are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The weighted average number of shares used to compute basic and diluted earnings per share for 2002, 2001 and 2000 is illustrated below:

(Thousands of dollars, except share and per share data)	2002	2001	2000
Numerator:			
Numerator for basic and diluted earnings per share-net earnings	$ 8,535	$ 19,542	$ 6,970
Denominator:			
Denominator for basic earnings per share-weighted-average shares	6,610,312	6,270,505	6,256,974
Effect of dilutive securities: employee stock options	150,328	148,436	32,748
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions	6,760,640	6,418,941	6,289,722
Basic earnings per share	$ 1.29	$ 3.12	$ 1.11
Diluted earnings per share	$ 1.26	$ 3.03	$ 1.11

Options to purchase a total of 312,896, 120,986 and 562,874 shares of the Company's common stock were excluded from the calculation of fully diluted earnings per share for 2002, 2001 and 2000, respectively, because their effect on fully diluted earnings per share for the period were antidilutive.

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(5) Income Taxes

Net deferred income tax assets and liabilities are comprised of the following:

(Thousands of dollars)	2002	2001
Current deferred income tax assets		
Gross assets	$ 3,469	$ 2,746
Gross liabilities	(2,521)	(567)
Total current deferred income tax assets, net	948	2,179
Noncurrent deferred income tax liabilities		
Gross assets	10,498	8,429
Gross liabilities	(37,969)	(35,087)
Total noncurrent deferred income tax liabilities, net	(27,471)	(26,658)
Net deferred income tax liabilities	$ (26,523)	$ (24,479)

The tax effects of significant temporary differences representing deferred income tax assets and liabilities are as follows:

(Thousands of dollars)	2002	2001
Inventories	$ (957)	$ (456)
Prepaid pension costs	(19,621)	(18,101)
Payroll and benefits	233	773
Accrued warranty expenses	610	767
Postretirement benefits	4,076	4,066
Tax credit carryforwards	-	253
Depreciation	(11,987)	(12,378)
Net operating loss	-	-
Other, net	1,123	597
Net deferred income tax liabilities	$ (26,523)	$ (24,479)

The income tax provision for 2002, 2001 and 2000 consisted of the following:

(Thousands of dollars)	2002	2001	2000
Current	$ 3,187	$ 8,222	$ 1,583
Deferred	2,044	4,536	2,689
Total	$ 5,231	$ 12,758	$ 4,272

A reconciliation of the income tax provision as computed at the statutory U.S. income tax rate and the income tax provision presented in the consolidated financial statements is as follows:

(Thousands of dollars)	2002	2001	2000
Tax provision computed at statutory rate	$ 4,818	$ 11,305	$ 3,935
Tax effect of:			
Expenses for which no benefit was realized	447	591	353
State taxes net of federal benefit	236	777	254
Other, net	(270)	85	(270)
Provision for income taxes	$ 5,231	$ 12,758	$ 4,272

Cash payments for income taxes totaled $3,787,000, $5,791,000 and $597,000 for 2002, 2001 and 2000, respectively.

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(6) Inventories

Inventories used in determining cost of sales were as follows:

(Thousands of dollars)	2002	2001
Gross inventories @ FIFO:		
Finished goods	$ 4,656	$ 4,030
Work in process	6,210	6,177
Raw materials & component parts	39,174	42,624
Total gross inventories @ FIFO	50,040	52,831
Less reserves:		
LIFO	17,682	17,565
Valuation	725	442
Total inventories as reported	$ 31,633	$ 34,824

Gross inventories on a FIFO basis shown above that were accounted for on a LIFO basis were $37,257,000 and $39,866,000 at December 31, 2002 and 2001, respectively.

During 2002 and 2001, LIFO inventories were reduced in certain LIFO pools and these reductions resulted in a liquidation of LIFO inventory quantities carried at lower costs in prior years. The impact of the reductions reduced net income in 2002 by approximately $34,000, net of taxes ($0.00 per diluted share), and increased net income in 2001 by approximately $328,000, net of taxes ($0.05 per diluted share.)

(7) Goodwill & Acquired Intangible Assets

Balances and related amortization expense for goodwill and acquired intangible assets are as follows:

Acquired Intangible Assets

(Thousands of dollars)	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Non-Compete Agreements		
As of December 31, 2001	$ 500	$ (386)
As of December 31, 2002	$ 500	$ (462)
Unamortized intangible assets:		
None		
Aggregate Amortization Expense:		
For the year ended 12/31/00	$ 76	
For the year ended 12/31/01	$ 76	
For the year ended 12/31/02	$ 76	
Estimated Amortization Expense:		
For the year ended 12/31/03	$ 38	
For the year ended 12/31/04	-	
For the year ended 12/31/05	-	
For the year ended 12/31/06	-	
For the year ended 12/31/07	-	

The Company also has multi-year non-compete agreements with certain individuals that are paid and expensed on an annual basis and thus are not recorded as pre-paid assets. These agreements expire in 2003 and 2004. Expenses related to these non-compete agreements were $64,000, $64,000 and $60,000 for the years 2002, 2001 and 2000, respectively. Estimated expenses for these agreements are $51,000 and $4,000 in the years 2003 and 2004, respectively.

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Goodwill

Had the non-amortization provisions of SFAS No. 142 been in effect in years prior to the adoption year of 2002, the impact on earnings at December 31, 2002, 2001 and 2000 would have been:

(Thousands of dollars, except per share amounts)	2002	2001	2000
Reported net earnings	$ 8,535	$ 19,542	$ 6,970
Add back: Goodwill Amortization	-	229	136
Adjusted net earnings	$ 8,535	$ 19,771	$ 7,106
Basic earnings per share:			
Reported net earnings	$ 1.29	$ 3.12	$ 1.11
Add back: Goodwill Amortization	-	0.04	0.03
Adjusted net earnings	$ 1.29	$ 3.16	$ 1.14
Diluted earnings per share:			
Reported net earnings	$ 1.26	$ 3.03	$ 1.11
Add back: Goodwill Amortization	-	0.04	0.03
Adjusted net earnings	$ 1.26	$ 3.06	$ 1.14

The changes in the carrying amount of goodwill for the year ended December 31, 2002, are as follows:

(Thousands of dollars)	Oil Field	Power Transmission	Trailer	Total
Balance as of 12/31/01	$ 8,492	$ 1,553	$ -	$ 10,045
Goodwill acquired during year	-	-	-	-
Impairment losses	-	-	-	-
Goodwill written off related to sale of business unit	-	-	-	-
Foreign currency translation	-	276	-	276
Balance as of 12/31/02	$ 8,492	$ 1,829	$ -	$ 10,321

Goodwill impairment tests were performed in the first quarter of 2002 and no impairment losses were recorded.

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(8) Debt Obligations

During the fourth quarter of 2002, the Company completed and signed a three-year $27.5 million credit facility with a domestic bank (the "Bank Facility") consisting of an unsecured revolving line of credit that provides for up to $17.5 million of committed borrowings along with an additional $10.0 million discretionary line of credit. Borrowings under the Bank Facility bear interest, at the Company's option, at either the greater of (i) the prime rate, (ii) the base CD rate plus an applicable margin or (iii) the Federal Funds Effective Rate plus an applicable margin or the London Interbank Offered Rate ("LIBOR") plus an applicable margin, depending on certain ratios as defined in the agreement. As of December 31, 2002, no amounts were outstanding of the $27.5 million of the revolving line of credit under the terms of the Bank Facility.

The Company's long-term notes payable at December 31, 2002 and 2001 consisted of the following:

(Thousands of dollars, except payment amounts)	2002	2001
Notes payable to individuals, interest of 6.65%, due in quarterly installments ranging from $9,000 to $19,000 with balloon payments at maturity ranging from $996,000 to $2,162,000 maturing July 2002, unsecured	$ -	$ 5,106
Notes payable to banks denominated in euros, interest ranging from 3.7% to 4.9%, due in quarterly installments ranging from $8,000 to $44,000 secured by certain assets, maturing through 2004	423	667
Note payable to bank denominated in euros, interest equal to the Eurocurrency rate plus 1.75%, unsecured, quarterly installments of approximately $300,0000, matured December 2002.	-	1,164
Less-current maturities of long-term notes payable	(259)	(6,598)
Total	$ 164	$ 339

The Company had designated the note payable denominated in euros that matured in December 2002 as a hedge against its investment in its French operations.

Under the terms of the notes payable to individuals, invested funds in the amount of $5,106,000 at December 31, 2001, were restricted for the payment of these notes.

Principal payments of long-term notes payable as of December 31, 2002 are as follows:

(Thousands of dollars)	
Year ending December 31,	
2003	$ 259
2004	164
2005	-
2006	-
2007	-
Total	$ 423

Cash payments for interest totaled $315,000, $838,000 and $1,347,000 in 2002, 2001 and 2000, respectively.

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(9) Stock Option Plans

The Company has two stock option plans, the 2000 plan for employees and the 1996 plan for non-employee directors, that provide for the granting of options to outside directors and key employees to purchase an aggregate of not more than 1,050,000 shares of the Company's common stock at fair market value on the date of grant. Options become exercisable from the initial grant date to four years after the grant date. The options expire ten years from the date of grant. Outstanding options may be canceled and reissued under terms specified in the plans. The 1990 plan, which originally was authorized to grant 1,100,000 options, will remain in effect until all awards granted under this plan have been satisfied or expire. As of December 31, 2002, 535,333 options remained outstanding and 494,833 options remained exercisable from the 1990 plan.

The following table summarizes activity under the Company's stock option plans:

	2002	2001	2000
Options outstanding, beginning of year	949,691	997,853	916,793
Granted (per share)			
2000 ($14.625 to $18.250)			139,175
2001 ($18.375 to $25.960)		145,457	
2002 ($22.575 to $28.900)	154,404		
Exercised (per share)			
2000 ($15.875)			(1,500)
2001 ($14.000 to $21.750)		(176,319)	
2002 ($14.000 to $25.455)	(137,886)		
Forfeited (per share)			
2000 ($14.000 to $38.000)			(56,615)
2001 ($14.000 to $38.000)		(17,300)	
2002 ($17.500 to $39.375)	(3,161)		
Options outstanding, end of year	963,048	949,691	997,853

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding at 12/31/02	Wtd. Avg. Contractual Remaining Life	Wtd. Avg. Exercise Price	Number Exercisable at 12/31/02	Wtd. Avg. Contractual Remaining Life	Wtd. Avg. Exercise Price
$14.000-$18.375	382,157	7.0 years	$16.06	289,620	6.8 years	$15.95
$20.000-$22.575	257,067	5.3 years	$21.61	226,798	4.8 years	$21.48
$22.750-$33.375	242,776	8.5 years	$26.65	83,526	6.5 years	$28.05
$35.250-$39.875	81,048	4.9 years	$37.73	81,048	4.9 years	$37.73
$14.000-$39.875	963,048	6.7 years	$22.03	680,992	5.9 years	$21.87

The Company accounts for its stock option plans under APB Opinion No. 25 under which no compensation cost has been recognized. Had compensation cost for these plans been accounted for consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net earnings and earnings per share would have been reduced to the following pro forma amounts, (in thousands except per share data):

		2002	2001	2000
Net earnings, as reported		$ 8,535	$ 19,542	$ 6,970
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(750)	(689)	(740)
Pro forma net earnings		$ 7,785	$ 18,853	$ 6,230
Earnings per share:				
Basic earnings per share	As reported	$ 1.29	$ 3.12	$ 1.11
	Pro forma	$ 1.18	$ 3.01	$ 1.00
Diluted earnings per share	As reported	$ 1.26	$ 3.03	$ 1.11
	Pro forma	$ 1.15	$ 2.94	$ 0.99

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The effects of applying SFAS No. 123 to the pro forma disclosure amounts may not be indicative of future amounts. SFAS No. 123 does not apply to options awarded prior to 1995, and additional awards in future years are anticipated. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

2002 Grants	Expected dividend yield	2.49% - 3.19%
	Expected stock price volatility	38.31% - 38.59%
	Risk free interest rate	4.08% - 5.06%
	Expected life of options	10 years
2001 Grants	Expected dividend yield	2.80% - 3.80%
	Expected stock price volatility	35.74% - 37.91%
	Risk free interest rate	4.68% - 5.43%
	Expected life of options	8-10 years
2000 Grants	Expected dividend yield	4.00% - 4.9%
	Expected stock price volatility	34.81% - 35.55%
	Risk free interest rate	5.60% - 6.92%
	Expected life of options	10 years

Options granted during 2002 had a weighted average fair value of $9.41 per option and a weighted average exercise price of $25.15 per option. At December 31, 2002, 601,835 options authorized remained available to be granted.

(10) Stock Repurchase Plan

The Company has a stock repurchase plan under which the Company has been authorized to spend up to $17,100,000 for repurchases of its common stock. The Company repurchased no shares in 2002 or 2001 but repurchased 110,314 shares at an aggregate cost of $2,009,000 in 2000. Repurchased shares are added to treasury stock and are available for general corporate purposes including the funding of the Company's stock option plans. Authorizations of approximately $152,000 remained at December 31, 2002.

(11) Capital Stock

The Company has adopted a "Shareholder Rights Plan" (the "Plan") designed to protect against unsolicited attempts to acquire control of the Company that the Board believes are not in the best interest of the shareholders. The Plan provides for the possible issuance of a dividend of one common stock purchase right for each outstanding share of common stock. Under certain conditions, each right may be exercised to purchase one share of common stock at an exercise price of $75, subject to adjustment. Under certain circumstances, the rights entitle holders to purchase the common stock of the Company or an acquiring company having a value of twice the exercise price of the rights. The rights would become exercisable, or transferable apart from the common stock, ten days after a person or group acquired 20% or more, or announced or made a tender offer for 30% or more, of the outstanding common stock. Under certain circumstances, all rights owned by an acquiring person would be null and void. The rights expire on May 31, 2006, and may be redeemed by the Company at any time prior to the occurrence of certain events at $.05 per right.

The Company is also authorized to issue 2,000,000 shares of preferred stock, the terms and conditions to be determined by the Board of Directors in creating any particular series.

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(12) Retirement Benefits

The Company has noncontributory pension plans covering substantially all employees. The benefits provided by these plans are measured by length of service, compensation and other factors, and are currently funded by trusts established under the plans. Funding of retirement costs for these plans complies with the minimum funding requirements specified by the Employee Retirement Income Security Act, as amended. Plan investment assets are invested primarily in equity securities, United States government securities and cash equivalents.

The following tables illustrate the change in benefit obligation, change in plan assets and funded status of the pension plans:

(Thousands of dollars)	2002	2001	2000
Change in projected benefit obligation:			
Projected benefit obligation, beginning of year	$ 128,436	$ 119,323	$ 113,060
Service cost	3,607	3,222	2,942
Interest cost	8,379	8,399	8,071
Amendments	8	-	1,252
Actuarial (gain) loss	(2,687)	3,849	227
Benefits paid	(6,537)	(6,357)	(6,229)
Projected benefit obligation, end of year	$ 131,206	$ 128,436	$ 119,323
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 186,037	$ 188,521	$ 181,438
Actual return on plan assets	(12,175)	3,873	13,312
Benefits paid	(6,537)	(6,357)	(6,229)
Fair value of plan assets, end of year	$ 167,325	$ 186,037	$ 188,521
Funded status:			
Excess of fair value of plan assets over projected benefit obligation	$ 36,119	$ 57,601	$ 69,198
Unrecognized net actuarial (gain)/loss	21,961	(3,962)	(20,670)
Unrecognized prior service cost	1,910	1,995	2,088
Unrecognized net transition asset	(5,270)	(6,197)	(7,124)
Prepaid pension costs	$ 54,720	$ 49,437	$ 43,492
Components of net periodic pension cost (income):			
Service cost	$ 3,607	$ 3,222	$ 2,942
Interest cost	8,379	8,399	8,071
Expected return on plan assets	(16,435)	(16,632)	(16,005)
Amortization of unrecognized (gain) loss	(834)	(934)	(1,395)
Net periodic pension cost (income)	$ (5,283)	$ (5,945)	$ (6,387)
Weighted-average assumptions at year-end:			
Discount rate	7.00%	7.25%	7.50%
Expected return on plan assets	9.00%	9.00%	9.00%
Rate of compensation increase	5.00%	5.00%	5.00%

The Company also has qualified defined contribution retirement plans covering substantially all of its employees. The Company makes contributions of 75% of employee contributions up to a maximum employee contribution of 6% of employee earnings. Employees may contribute up to an additional 6% (in 1% increments) which is not subject to match by the Company. All obligations of the Company are funded through December 31, 2002. The Company's expense for these plans totaled $1,852,000, $1,948,000 and $1,715,000 in 2002, 2001 and 2000, respectively.

The Company sponsors two defined benefit postretirement plans that cover both salaried and hourly employees. One plan provides medical benefits, and the other plan provides life insurance benefits. Both plans are contributory, with retiree contributions adjusted periodically. The Company accrues the estimated costs of the plans over the employee's service periods.

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The following tables illustrate the change in benefit obligation, change in plan assets and funded status of the postretirement plans:

(Thousands of dollars)		2002		2001		2000
Accumulated postretirement benefit obligation:						
Retirees	$	5,185	$	5,367	$	5,748
Fully eligible active plan participants		1,360		1,151		1,073
Other active plan participants not yet eligible		2,982		3,083		2,722
Total accumulated postretirement benefit obligation	$	9,527	$	9,601	$	9,543
Change in accumulated postretirement benefit obligation:						
Accumulated postretirement benefit obligation, beginning of year	$	9,601	$	9,543	$	10,049
Service cost		170		183		159
Interest cost		625		654		677
Participant contributions		1,321		1,239		1,069
Actuarial (gain) loss		(77)		(63)		(432)
Benefits paid		(2,113)		(1,955)		(1,979)
Accumulated postretirement benefit obligation, end of year	$	9,527	$	9,601	$	9,543
Fair value of plan assets	$	-	$	-	$	-
Funded status:						
Excess of total accumulated postretirement benefit obligation over fair value of plan assets	$	9,527	$	9,601	$	9,543
Unrecognized net actuarial gain		1,429		1,423		1,429
Accrued postretirement benefit cost	$	10,956	$	11,024	$	10,972
Components of net periodic postretirement benefit cost:						
Service cost	$	170	$	183	$	159
Interest cost		625		654		677
Amortization of net actuarial gain		(70)		(69)		(71)
Net periodic postretirement benefit cost	$	725	$	768	$	765
Weighted average assumptions at year-end:						
Discount rate		7.00%		7.25%		7.50%

The Company's postretirement health care plan is unfunded. For measurement purposes, the submitted claims medical trend was assumed to be 9.25% in 1997. Thereafter, the Company's obligation is fixed at the amount of the Company's contribution for 1997.

(13) Commitments and Contingencies

Legal proceedings: A class action complaint was filed in the United States District Court for the Eastern District of Texas on March 7, 1997, by an employee and a former employee which alleged race discrimination in employment. Certification hearings were conducted in Beaumont, Texas in February of 1998 and in Lufkin, Texas in August of 1998. The District Court in April of 1999 issued a decision that certified a class for this case, which includes all persons of a certain minority employed by the Company from March 6, 1994, to the present. The Company appealed this class certification decision by the District Court to the 5th Circuit United States Court of Appeals in New Orleans, Louisiana. This appeal was denied on June 23, 1999. The Company is defending this action vigorously. Furthermore, the Company believes that the facts and the law in this action support its position and is confident that it will prevail if this case is tried on its merits.

In the case of Echometer and James N. McCoy vs. Lufkin Industries, Inc., the plaintiff filed suit in U.S. District Court alleging infringement of a Data Processing and Display for Echo Sounding Patent. The Company has vigorously defended its position that its fluid level product does not infringe the plaintiff's patent. Trial for this case is scheduled for May 2003.

There are various other claims and legal proceedings arising in the ordinary course of business pending against or involving the Company wherein monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect its consolidated financial position or results of operations.

Product warranties: The change in the aggregate product warranty liability for the year ended December 31, 2002, is as follows:

($000's)		
Beginning balance	$	2,276
Claims paid		(1,608)
Additional warranties issued		1,110
Revisions in estimates		80
Other		-
Ending Balance	$	1,858

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(14) Concentrations of Credit Risk

The Company's concentration with respect to trade accounts receivable is limited. The large number of customers and diversified customer base across the three segments significantly reduces the Company's credit risk. The Company also has strict policies regarding the granting of credit to customers and does not offer credit terms to those customers that do not meet certain financial criteria and other guidelines.

(15) Business Segment Information

The Company operates with three business segments--Oil Field, Power Transmission and Trailer. As stated in the Management's Discussion and Analysis section, the Foundry segment has been combined with the Oil Field segment to reflect current business operations. Prior period data has been adjusted to reflect this change. The three operating segments are supported by a common corporate group. The accounting policies of the segments are the same as those described in the summary of major accounting policies. Corporate expenses and certain assets are allocated to the operating segments primarily based upon third party revenues. The following is a summary of key business segment and product group information:

(Thousands of dollars)	2002	2001	2000
Sales:			
Oil Field	$ 118,700	$ 182,271	$ 118,097
Power Transmission	70,455	62,498	62,923
Trailer	39,569	34,138	73,583
Total sales	$ 228,724	$ 278,907	$ 254,603
Sales by geographic region:			
United States	$ 167,719	$ 195,169	$ 194,221
Europe	12,704	14,752	10,642
Canada	12,368	19,281	12,664
Latin America	23,941	26,009	26,476
Other	11,992	23,696	10,600
Total sales	$ 228,724	$ 278,907	$ 254,603
Earnings (loss) before income taxes:			
Oil Field	$ 11,131	$ 33,306	$ 11,181
Power Transmission	5,001	4,348	1,171
Trailer	(2,861)	(5,545)	(610)
Corporate	495	191	(500)
Total earnings (loss) before income taxes	$ 13,766	$ 32,300	$ 11,242
Assets:			
Oil Field	$ 111,915	$ 117,901	$ 113,730
Power Transmission	69,210	66,331	65,272
Trailer	30,288	25,823	31,182
Corporate	36,942	36,014	25,261
Total assets	$ 248,355	$ 246,069	$ 235,445
Capital expenditures:			
Oil Field	$ 6,799	$ 6,508	$ 4,613
Power Transmission	3,265	1,051	1,004
Trailer	212	147	471
Corporate	134	203	137
Total capital expenditures	$ 10,410	$ 7,909	$ 6,225
Depreciation/Amortization:			
Oil Field	$ 4,620	$ 4,510	$ 4,054
Power Transmission	4,484	4,611	4,447
Trailer	629	713	759
Corporate	1,684	1,689	1,635
Total depreciation/amortization	$ 11,417	$ 11,523	$ 10,895

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

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PART III

Item 10. Directors and Executive Officers of the Registrant

Pursuant to General Instructions G(3), information on directors and executive officers of the registrant will be filed in an amendment to Form 10-K or incorporated by reference from the Company's Definitive Proxy Statement to be filed pursuant to Regulation 14A.

Item 11. Executive Compensation

Pursuant to General Instructions G(3), information on executive compensation will be filed in an amendment to Form 10-K or incorporated by reference from the Company's Definitive Proxy Statement to be filed pursuant to Regulation 14A.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Pursuant to General Instructions G(3), information on security ownership of certain beneficial owners and management will be filed in an amendment to Form 10-K or incorporated by reference from the Company's Definitive Proxy Statement to be filed pursuant to Regulation 14A.

Item 13. Certain Relationships and Related Transactions

Pursuant to General Instructions G(3), information on certain relationships and related transactions will be filed in an amendment to Form 10-K or incorporated by reference from the Company's Definitive Proxy Statement to be filed pursuant to Regulation 14A.

Item 14. Controls and Procedures

Based on their evaluation of the disclosure controls and procedures as of a date within 90 days of the filing of this report on Form 10-K, the Chief Executive Officer of the Company, Douglas V. Smith, and the Chief Financial Officer of the Company, R. D. Leslie, have concluded that the disclosure controls and procedures (as defined in Rules 13a-14(c) promulgated under the Securities Exchange Act of 1934) are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect such controls subsequent to the date of their evaluation.

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PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as part of the report

1. Consolidated Financial Statements

   Report of Independent Public Accountants
   Consolidated Balance Sheets
   Consolidated Statements of Earnings
   Consolidated Statements of Shareholders' Equity
   Consolidated Statements of Cash Flows
   Notes to Consolidated Financial Statements

2. Financial Statement Schedules

   Schedule II- Valuation and Qualifying Accounts

3. Exhibits

   (3.1) Articles of Incorporation, as amended, included as Exhibit 3 to Form 10-K of the registrant for the year ended December 31, 1990, which exhibit is incorporated herein by reference.

   (3.2) Articles of Amendment to Fourth Restated Articles of Incorporation, included as Exhibit 3.1 to Form 8-K of the registrant filed December 10, 1999, which exhibit is incorporated herein by reference.

   (3.3) Restated Bylaws, included as Exhibit 3.2 to Form 8-K of the registrant filed December 10, 1999, which exhibit is incorporated herein by reference.

   (10.1) Shareholder Rights Agreement, dated as of May 4, 1987, was included as Exhibit 1 to Form 8-A of the registrant dated May 13, 1987, which agreement is incorporated herein by reference.

   (10.2)* Company's 1990 Stock Option Plan was included as Exhibit 4.3 to the Company's registration statement on Form S-8 dated August 23, 1995(File No. 33-62021), which plan is incorporated herein by reference.

   (10.3)* Company's 1996 Nonemployee Director Stock Option Plan was included as Exhibit 4.3 to the Company's registration statement on Form S-8 dated June 28, 1996 (File No. 333-07129), which plan is incorporated herein by reference.

   (21) Schedule listing subsidiaries of the registrant

   (23) Consent of Independent Public Accountants

   (99.1) Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

   (99.2) Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Compensatory plan.

(b) Reports on Form 8-K filed during the fourth quarter of 2002:

None

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SCHEDULE II

Lufkin Industries, Inc.
Valuation & Qualifying Accounts
(in thousands of dollars)

Description	Balance at Beginning of Year	Additions: Charged To Expense	Additions: Charged to Other Accounts	Deductions	Balance at End of Year
Allowance for Doubtful Accounts:					
Year Ended December 31, 2002	$ 818	$ -	$ -	$ 578	$ 240
Year Ended December 31, 2001	605	213	-	-	818
Year Ended December 31, 2000	605	-	-	-	605
Inventory: Valuation Reserves:					
Year Ended December 31, 2002	$ 442	$ 422	$ -	$ 139	$ 725
Year Ended December 31, 2001	1,219	-	82	859	442
Year Ended December 31, 2000	1,996	649	-	1,426	1,219
Inventory: LIFO Reserves:					
Year Ended December 31, 2002	$ 17,565	$ 117	$ -	$ -	$ 17,682
Year Ended December 31, 2001	19,449	-	-	1,884	17,565
Year Ended December 31, 2000	20,419	-	-	970	19,449
Property, Plant & Equipment Reserve:					
Year Ended December 31, 2002	$ 549	$ -	$ -	$ -	$ 549
Year Ended December 31, 2001	549	-	-	-	549
Year Ended December 31, 2000	549	-	-	-	549
Health Trust Receivable Reserve:					
Year Ended December 31, 2002	$ 460	$ 50	$ -	$ 510	$ -
Year Ended December 31, 2001	-	460	-	-	460
Year Ended December 31, 2000	-	-	-	-	-

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Lufkin Industries, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 26, 2003.

LUFKIN INDUSTRIES, INC.

BY /s/ R. D. Leslie
R. D. Leslie, Vice President/Treasurer/Chief Financial Officer
Principal Financial and Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 26, 2003, by the following persons on behalf of Lufkin Industries, Inc. and in the capacities indicated.

By /s/ D. V. Smith
D. V. Smith, President and Chief Executive Officer

By /s/ R. T. Blakely, III
R. T. Blakely, III, Director

By /s/ S. W. Henderson, III
S. W. Henderson, III, Director

By /s/ J. T. Jongebloed
J. T. Jongebloed, Director

By /s/ M. E. Kurth, Jr.
M. E. Kurth, Jr., Director

By /s/ J. H. Lollar
J. H. Lollar, Director

By /s/ B. H. O'Neal
B. H. O'Neal, Director

By /s/ H. J. Trout, Jr.
H. J. Trout, Jr., Director

By /s/ T. E. Wiener
T. E. Wiener, Director

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Douglas V. Smith, the Chief Executive Officer of Lufkin Industries, Inc., a Texas corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lufkin Industries, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were *significant changes* in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ Douglas V. Smith
Douglas V. Smith
Chief Executive Officer

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CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, R. D. Leslie, the Chief Financial Officer of Lufkin Industries, Inc., a Texas corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lufkin Industries, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ R. D. Leslie
R. D. Leslie
Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit Number	Description
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*Compensatory plan.

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EXHIBIT (21)

LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	Jurisdiction of Incorporation	Name Under Which such Subsidiary Does Business
Lufkin Industries Canada, Ltd.	Province of Alberta, Canada	Same
P. T. Lufkin Indonesia	Republic of Indonesia	Same
Lufkin Industries FSC, Corp	Barbados	Same
Lufkin Japan, L. L. C.	Japan	Same
Lufkin France, EURL	France	Same
Lufkin Oilfield Services Egypt	Egypt	Same

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CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in each of Registration Statements No. 33-36976 and No. 333-07129 of Lufkin Industries, Inc. (the "Company") on Form S-8 of our report dated March 5, 2003, appearing in the Annual Report on Form 10-K of the Company for the year ended December 31, 2002. The consolidated financial statements of the Company as of and for the year ended December 31, 2002, (which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the adoption of a new accounting principle and (ii) the application of procedures relating to certain other disclosures and reclassifications of financial statement amounts related to the 2001 and 2000 consolidated financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures and reclassifications) appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2002.

DELOITTE & TOUCHE LLP

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 26, 2003

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EXHIBIT (99.1)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lufkin Industries, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas V. Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Douglas V. Smith

Douglas V. Smith
Chief Executive Officer
March 26, 2003

This certification is made solely for the purpose of 18 U.S.C. §1350, and not for any other purpose.

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EXHIBIT (99.2)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lufkin Industries, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R.D. Leslie, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ R. D. Leslie

R.D. Leslie
Chief Financial Officer
March 26, 2003

This certification is made solely for the purpose of 18 U.S.C. §1350, and not for any other purpose.

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LUFKIN

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