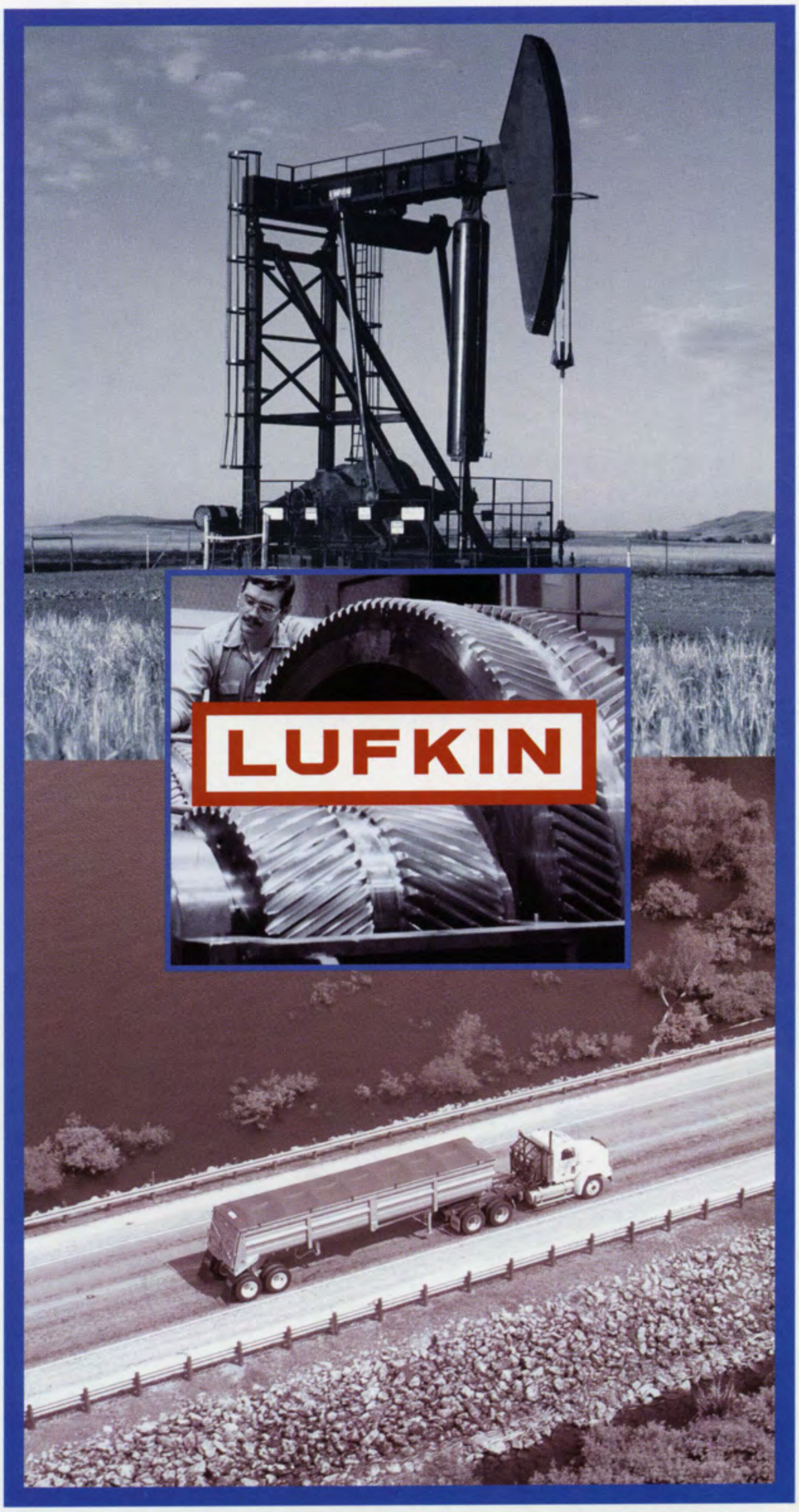


1993 ANNUAL REPORT

CORPORATE PROFILE

The Company sells power transmission products, oil field pumping units, commercial castings products and highway trailers throughout the world. The Company has vertically integrated all vital technologies required to design, manufacture and market its products. Lufkin's common stock is traded on The Nasdaq Stock Market (National Market) under the symbol LUFK.

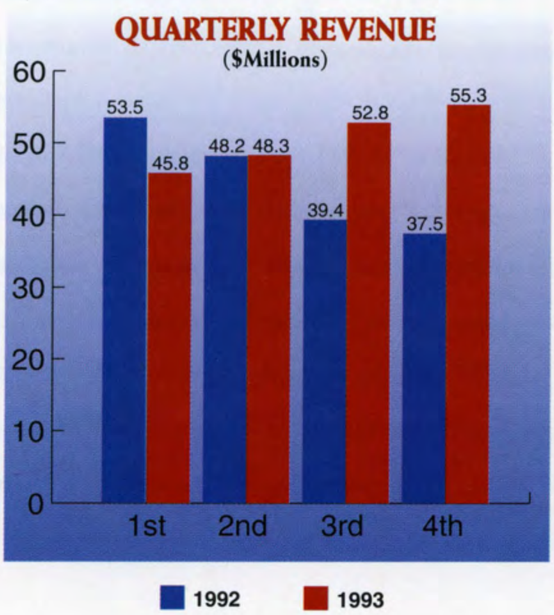
NOTICE OF ANNUAL MEETING

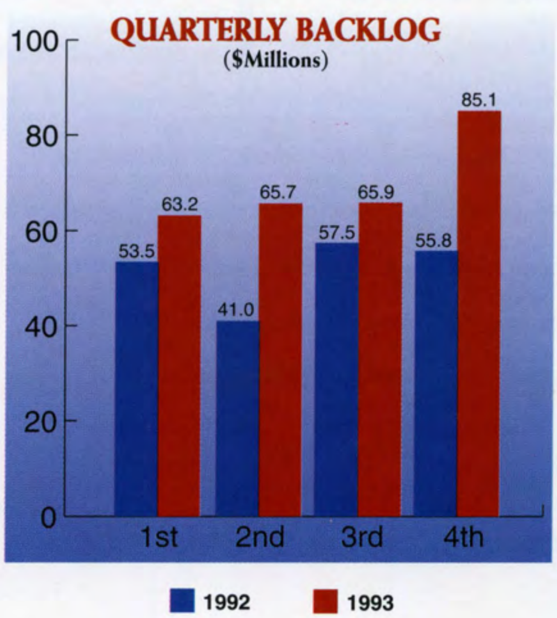
The Annual Meeting of Shareholders of Lufkin Industries, Inc. will be held at the Lufkin Civic Center, 601 North Second Street, Lufkin, Texas on May 18, 1994, at 9:00 a.m. local time.

FINANCIAL HIGHLIGHTS

(Thousands of dollars, except per share amounts)

	December 31, 1993	December 31, 1992
Sales	$202,225	$178,565
Operating expenses	200,836	194,159
Restructuring costs	-	24,339
Earnings (loss) before accounting change	2,549	(27,253)
Net earnings (loss)	2,549	(34,759)
Earnings (loss) per share:		
Before accounting change	.38	(4.01)
Accounting change	-	(1.11)
Total	.38	(5.12)
Total assets	179,416	173,921
Working capital	67,614	69,136

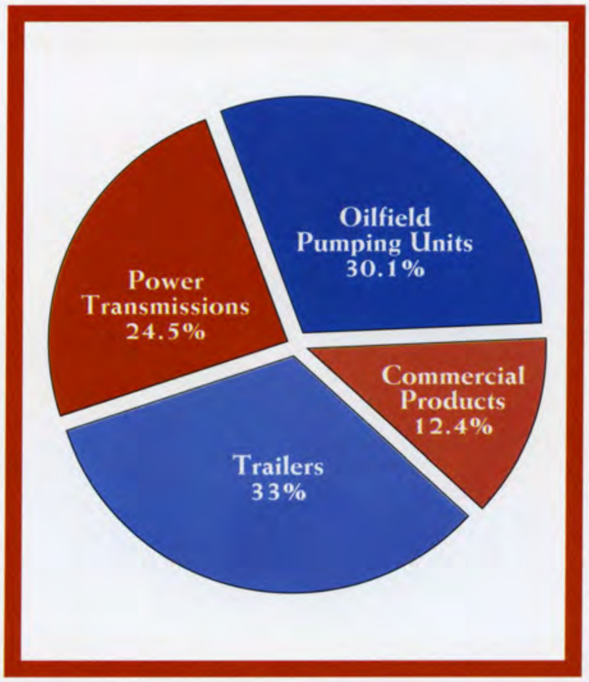




LETTER TO SHAREHOLDERS

The past year has been one of change and challenge as we continue to build on the strengths of Lufkin. We are very pleased with our overall progress and, in particular, our return to profitability for the year. Our profitable year reflects the Company's restructuring to improve operations and productivity, the increased activity in our major product lines and our decision to resume operating the Trailer Division as a continuing operation.

Sales for 1993 were $202,225,000 compared with $178,565,000 a year ago. Pumping unit products sales increased to $58,579,000 from $55,116,000 a year ago; power transmission products sales were $47,561,000 from $43,580,000; commercial casting product sales rose to $24,169,000 from $20,028,000; and trailer sales increased to $64,155,000 from $51,929,000 a year ago. Net income for the year ended December 31, 1993 was $2,549,000, or $0.38 per share, compared with a net loss of $34,759,000, or $5.12 per share, last year. Lufkin's backlog at December 31, 1993, was $85.1 million compared with $55.8 million at the end of 1992.



During the past year, several difficult steps were taken to improve our competitive position. One step was to close two domestic facilities. These were the Chanute, Kansas, manufacturing plant and our Buck Creek fabrication and assembly plant located near Lufkin, Texas. The operations of both plants have been combined into our facilities in Lufkin. We believe these closings, which are a part of our consolidation strategy, will help us achieve further cost reductions and manufacturing efficiencies.

As part of these actions, a corresponding reduction of employment levels has been achieved, and the Company accomplished a reorganization of the management structure. Also during the past year, we announced plans to exit from the industrial supply business. This area is not a central part of our overall business, and the departure from it will allow management to focus more of its time on our core segments.

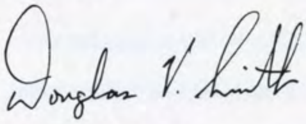
At the end of 1993, the decision was made to continue the operations of the Trailer Division, which had been previously reported as a discontinued operation while the Company sought a buyer for this business. This decision was made after considering the offers to purchase the division and opportunities in the trailer industry. The division has recently shown positive cash flow and is now operating at a profit. The profitability reflects the improved market presently being experienced in the U.S. trucking industry and the significant cost reductions attained by the division itself. Though the trailer industry remains very competitive, we are committed to the industry and our investment to enlarge our customer base.

A great amount of time has been expended this past year analyzing the strategic direction for the Company. We have completed these initial efforts and have begun implementation. Our first order is to focus on remaining competitive and profitable within our present product lines. We will continue to improve our operations by achieving further manufacturing and operational efficiencies resulting in increased productivity. Other opportunities are under study, but we believe growth and profitability exists in the power transmission products, commercial casting products and trailers. Lufkin's oil field pumping units have been under great pressure due to the lower price of oil, but we remain the best-known player worldwide. Our competitive position will allow us to capitalize as markets improve.

Part of our review of our major product lines was a formal assessment of each of our market opportunities and the appropriate actions required. Planning at the division level has resulted in new marketing efforts and the development of new product designs. The intent is to strengthen our market presence both in the U.S. and internationally and to broaden our product offerings. We are confident that the recommendations from our strategic planning review will continue to produce favorable results.

As we look into the future, the outlook for Lufkin depends on our ability to manage within the very competitive U.S. manufacturing industry. We intend to focus on our existing core business lines of power transmission, oil field products, commercial casting products and trailers and further aggressively develop the domestic and international market for these products. Where appropriate, our product lines will be supplemented with complementary products, possibly through acquisitions. The Board of Directors and Management of Lufkin appreciate the interest and support of our shareholders. We will continue to work to improve investment returns in the future as we build on the strengths of Lufkin's past.

Sincerely,



Douglas V. Smith

President and Chief Executive Officer

FOCUS AND OUTLOOK

As a world-class, diversified manufacturer with decades of experience, Lufkin is applying state-of-the-art technology to meet the needs of its customers worldwide. This has been accomplished by directing attention on four major product lines: high-performance power transmission products, oil field pumping units, commercial casting products and highway trailers.

Power Transmission

Lufkin designs and builds power transmission equipment, primarily gearboxes. The Company's precision-made products are used in a wide variety of applications; for example, in winches for the forest industry, gears and gear housing for low speed industrial applications for the pulp and paper industries, high horse-power reduction gears used for power generation and petrochemical industries and heavy duty propulsion gears used in marine transportation. Lufkin can produce gears in sizes up to 192 inches in diameter, in weights from 300 pounds to 250 tons and for power requirements from 20 to 85,000 horsepower.

In support of its high-performance gear products, Lufkin has continued to make significant investments in the latest CAD/CAM technology. This has helped to assure the most efficient design and production in manufacturing. Our ability to precisely calibrate, measure and test assures quality gear manufacturing. Our commitment to the highest degree of standards distinguishes Lufkin's engineering capabilities from those of its competitors.

Over the years, Lufkin also has earned an excellent reputation for gear products, engineering support and after-market services. Our international sales force is technically trained to better match customer requirements with Lufkin products. After the sale, we intend to deliver superior service for our gears. Lufkin offers customers timely repair services designed to minimize equipment downtime for our customers. The Company also maintains an extensive inventory of gear-related parts. The combination of comprehensive service and superior value makes Lufkin a formidable worldwide competitor.

The future emphasis of Lufkin's gear business will continue to be focused on high and low speed parallel shaft gear products for the domestic, European and Pacific Basin markets. Targeted markets for high-speed gears include industries that use energy transforming equipment such as compressors, pumps and generators. Demand for Lufkin's gears in these markets will be affected by the expanded use of natural gas in the power generation, petroleum and plastic industries and the added environmental restrictions most industries face. These forces are expected to will increase the demand for the high level of performance that Lufkin's gears deliver.

Our markets for low speed gears include the rubber, plastic, sugar, steel and paper industries. Price, breadth of product offering and the ability to deliver custom-designed products are key factors in selling low-speed gears to customers in these industries. Demand for low-speed gears in the future will be driven by the growth in the industries Lufkin presently serves as well as the increased use of gears caused by the expanded use of natural gas, the added environmental requirements and the increased industrial activity that will be required to rebuild the U.S. infrastructure.

Oil Field Pumping Units

Throughout the world, Lufkin's oil field pumping units are known as the industry standard in beam-type pumping. These pumping units incorporate many possible design configurations to meet whatever production demands. Types of units produced include conventional, beam balanced, air-balanced, low profile, slant hole and trailer mounted. All Lufkin units are characterized as extremely adaptable and easy to install. Lufkin also offers smaller capacity pumping units through its Churchill line.

Lufkin's success in the world's market for pumping units has been achieved in part by our meticulous production engineering which utilizes machining cells and a conveyor system for mechanical handling. The manufacturing process utilizes a straight-line, continuous flow operation that reduces manufacturing time and improves efficiency. Lufkin also has local manufacturing capability in many of our international markets which allows us to meet specific country content requirements.

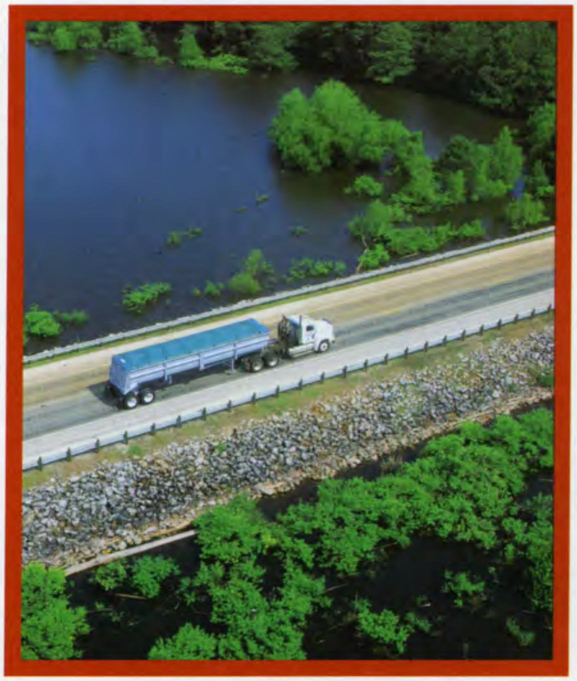
While the domestic market for pumping units has been driven during the last few years by the weak price for oil, Lufkin has a well-established position in the major areas of oil production in the world, including North and South America, Europe and Asia. The ability to deliver quality products, the availability of on-site installation and necessary technical support and the capability to respond to customers' needs in a timely fashion will allow Lufkin to capitalize on its strengths as the oil market improves.

Commercial Castings

From gray iron to ductile iron, Lufkin's commercial casting capabilities span the spectrum of castings specifications worldwide. Lufkin uses both green sand and no-bake technologies, and our castings are used in many industrial applications. The Company has the capability to produce over 300 tons of iron castings a day from our three casting facilities. These castings can range in size up to a maximum of 40,000 pounds. All of Lufkin's products meet the highest standards of quality and are competitively priced. Customers for Lufkin's commercial casting products include those in the construction equipment, water works, pump and compressor industries. Lufkin has targeted the more technically demanding ductile and gray iron castings used in the valve, compressor and machine tool industries as ones with good growth prospects and is positioning itself to capitalize on these opportunities.

Trailers

During the past year, Lufkin made the strategic decision to terminate its efforts to seek a buyer for its trailer division operations and related assets and to operate the division as a continuing operation. In 1991, the Company had classified the Trailer Division's operations as a discontinued operations in its financial statements and began efforts to sell this business. Since that time, the trailer operations have exhibited positive cash flow and a growing backlog of business. The decision to operate the division as a part of our continuing operations demonstrates our belief in the promising immediate future for the Trailer Division.



While serving many aspects of the ground transportation market, the Trailer Division is one of Lufkin's most recognizable divisions. The products Lufkin manufactures include many sizes and styles of vans, platforms and high capacity, light-weight dump trailers. Lufkin trailers are known for their quality construction, reliability and innovation of design.

Outlook

The over-riding goal for the future is to profitably build on the past. Emphasis on quality, technology and customer service will be the cornerstones for our future. Lufkin's established and respected reputation for reliability and quality products will be strengthened through emphasis on process, involvement and accountability. During the past year, the Company was certified to ISO 9001, an international quality standard increasingly used to specify suppliers. The Lufkin Quality Process remains the central mechanism for improving the support of our customers and for improving productivity.

To maintain Lufkin's commitment to quality, future plans will continue to focus on improving the well engineered and designed products that Lufkin produces by utilizing the latest technology. Lufkin will also seek additional cost efficient means to maximize its manufacturing capabilities and deliver on-time and competitively priced products by capitalizing more on its vertical integrated manufacturing.

As always, the Company will continue to listen to its customers and offer the most complete assistance through installation and start-up delivered by highly trained employees that provide on-going support. Lufkin will strive to better assist customers in utilizing the Company's dependable and reliable products. A successful future will occur based on the greatest strength Lufkin possesses–its employees. With their product knowledge, skill, technical expertise, experience and dedication, Lufkin will be able to meet the future needs of its customers while increasing long-term shareholder value.

FINANCIAL REVIEW

Common Stock Information

	1993			1992		
	Stock Price			Stock Price		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$20.00	$14.50	$.15	$27.75	$24.25	$.40
Second	17.50	15.00	.15	32.50	23.50	.40
Third	19.00	14.75	.15	27.50	18.50	.40
Fourth	21.75	16.75	.15	20.50	14.00	.15

The Company's common stock is traded on The Nasdaq Stock Market (National Market) under the symbol LUFK and as of February 28, 1994, there were approximately 925 record holders of its common stock.

The Company has paid cash dividends for 54 consecutive years. Total dividend payments were $4,075,000 in 1993 and $9,170,000 in 1992.

Quarterly Financial Data (Unaudited)

In millions, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1993				
Net sales	$ 45.8	$ 48.3	$ 52.8	$ 55.3
Gross margin	4.4	4.7	7.0	10.0
Net earnings (loss)	(1.2)	(1.1)	1.3	3.5
Earnings (loss) per share	$ (0.17)	$(0.16)	$ .19	$ .52
1992				
Net sales	$ 53.5	$ 48.2	$ 39.4	$ 37.5
Gross margin	10.1	6.0	1.7	(5.8)
Net earnings (loss):				
Before accounting change	2.2	(0.4)	(2.3)	(26.8) *
Accounting change	-	-	-	(7.5) **
	$ 2.2	$ (0.4)	$ (2.3)	$ (34.3)
Earnings (loss) per share				
Before accounting change	$ 0.33	$ (.06)	$(0.33)	$ (3.95) *
Accounting change	-	-	-	(1.11) **
	$ 0.33	$ (.06)	$(0.33)	$ (5.06)

* Fourth quarter 1992 net loss before accounting change includes a $24.3 million (pre-tax) charge for restructuring costs.

** Fourth quarter 1992 net income includes a $7.5 million charge (net of tax) for a change in accounting for post retirement benefits.

Additional Financial Information

Stockholders may obtain additional information for the year ended December 31, 1993 from the Company's Form 10-K Report filed with the Securities and Exchange Commission. A copy of such report may be obtained without charge by written request to the Secretary, Lufkin Industries, Inc., P.O. Box 849, Lufkin, Texas 75901.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of operations

Net sales for 1993 were $202.2 million compared to $178.6 and $247.1 million for 1992 and 1991, respectively. The Company reported operating earnings of $2.5 million for 1993. In 1992 and 1991, the Company had an operating loss of $27.3 million and earnings of $6.9 million, respectively. Net income for 1993 was $2.5 million, compared to a net loss in 1992 of $34.8 million and net income of $6.9 million in 1991.

During 1993, the Company experienced significant improvements in its operating results compared to 1992. Two major factors influenced these improved results. First, the Company substantially completed the restructuring programs previously announced, the effect of which was recorded in the fourth quarter of 1992. Second, the Company reversed its earlier decision to dispose of its Trailer Division which was reported as a discontinued operation in 1992 and 1991. Accordingly, the financial statements for 1992 and 1991 have been restated to combine the results of the trailer operations with the remaining operations of the Company. The Trailer Division reported positive earnings in 1993, breakeven results in 1992 and an operating loss in 1991.

In 1993, the Company experienced revenue growth in all of its major product groups. The annual percentage increase (decrease) of the Company's product groups for the three years ended December 31, 1993 were as follows:

	Annual increase (decrease)		
	1993	1992	1991
Oil field pumping units	6%	(56%)	86%
Power transmission products	9	(7)	4
Commercial products	21	31	(1)
Industrial supplies	(2)	5	(12)
Trailers	24	(3)	(9)
Total company	13%	(28%)	27%

The sales mix of the Company's products for the three years ended December 31, 1993 were as follows:

	Percent of total sales		
	1993	1992	1991
Oil field pumping units	29%	31%	50%
Power transmission products	23	25	19
Commercial products	12	11	6
Industrial supplies	4	4	3
Trailers	32	29	22
Total company	100%	100%	100%

Through its restructuring efforts in 1993, the Company reduced its manufacturing overhead and improved the contribution margins of key products while experiencing a product mix change to smaller, less profitable oil field pumping units. The restructuring efforts encompassed the closing of underutilized facilities, consolidation of various manufacturing operations into the Lufkin, Texas facility, and significant headcount reductions.

During 1993, world oil prices fell to a fifty year low. U.S. drilling activities continued at low levels. The Company observed some movement towards the Company's smaller Churchill and Econoline Pumping Units. International markets continued to be spotty partially due to the disruptive transition within the former Soviet Union and the surplus of world oil supplies. In spite of these market conditions, the Company was able to grow its oil field business 6% over 1992 levels. Improved sales in the Company's Argentina markets were a key contributor to the growth. Oil field bookings for 1993 were $56 million and the year-end backlog was $6.8 million, compared to $9.0 million at December 31, 1992.

Power transmission sales, totaling $47.6 million, were up 9% and 2% over 1992 and 1991, respectively. This increase reflects the release of capital orders by the Company's customers in response to the improving U.S. economy. In 1993, the Company booked new orders of $48.2 million compared to $42.8 million in 1992.

Included in these new orders was increased participation in the power generation, sugar mill and plastics markets. The year-end backlog was $22.1 million compared to $21.6 million at December 31, 1992. During 1993, the Power Transmission group realized an 11% increase in sales from its Gear Repair facility which had revenues of $7.2 million compared to $6.5 million in 1992, its first full year of operation. Also during 1993, the Company completed the expansion of its testing facilities, expanded its gear grinding capacities, expanded its engineering and applications capabilities, continued to expand its worldwide market presence through its Dutch sales office and updated the long range strategic plan for the Power Transmission Division.

Commercial product sales were up 21% to $24.2 million in 1993 as compared to $20.0 million and $15.3 million in 1992 and 1991, respectively. This continued strong growth reflects the Company's strategic plan to expand its presence in the foundry castings market. During 1993, the Company booked $27.0 million in new orders and ended 1993 with a $4.9 million backlog compared to $2.3 million at the end of 1992.

The Company's Industrial Supplies product group experienced a 2% decline in 1993 revenues of $7.8 million compared to 1992 revenues of $7.9 million. Since this is not one of the Company's core product groups, the Company announced in 1993, that it will exit this business during 1994.

In January, 1994, the Company concluded that it would not sell its Trailer Division which had been reported as discontinued during 1992 and 1991. This decision was based on a combination of several factors. First, the Company had been unable to locate a satisfactory buyer for this division. Second, trailer markets and the near term outlook from its operations had strengthened. Third, the Company's restructured trailer operations reported reduced manufacturing overhead, increased contribution margins and increased production capacity without capital expenditures. During 1993, the Company had Trailer revenues of $64.2 million compared to $51.9 million and $53.5 million in 1992 and 1991, respectively. This represented a 24% increase over 1992 levels. Also during 1993, the Company booked $93.0 million in new trailer orders and ended the year with a $51.3 million backlog. Through its restructuring efforts, the Company is better positioned to appropriately respond to future changes in this market.

The Company's 1993 gross profit, as a percent of sales, increased from 7% in 1992 to 13% in 1993. The 1991 gross profit percentage was 15%. The 1991 revenues included a significant volume of Russian pumping units not repeated in 1992 or 1993. The 1993 gross profit was $26.1 million compared to $11.9 million and $37.0 million for 1992 and 1991, respectively. The $14.2 million increase in gross profit between 1992 and 1993 consisted of $6.4 million for the favorable impact of the increased revenues, reduced fixed costs of $5.8 million and reduced variable costs of $2.0 million.

Selling, General and Administrative expenses (S.G. & A.) decreased by 10% to $24.7 million, compared to $27.5 million and $31.3 million in 1992 and 1991, respectively. The major components of the 1993 S.G. & A. reductions were reduced sales commissions to overseas representatives, reduced salaries and benefits and outside services.

Other expenses decreased in 1993 by $1.9 million as compared to 1992 and 1991. Recovery of previously written off receivable balances represented the major components of this reduction. Investment income decreased by $0.7 million or 21% compared to the $3.3 million reported in 1992. This decrease reflects the reduced interest income on reduced installment notes receivable. With the relatively low level of annual inflation in the last several years, the Company believes that the impact of inflation on sales and expenses has been modest.

Liquidity and capital resources

At December 31, 1993, the Company had working capital of $67.6 million compared to $69.1 million in 1992 and $96.4 million in 1991. The Company provided $24.6 million net cash from operating activities during 1993. This compares to net cash provided from operations of $26.0 million and $11.2 million in 1992 and 1991, respectively. The Company spent $5.9 million on capital additions in 1993 compared to $9.4 million and $18.4 million in 1992 and 1991, respectively. The Company believes that existing working capital will be sufficient to satisfy its 1994 requirements. In recent years, the expansion of the Company's facilities has been financed with internally generated funds and the Company plans to finance future improvements of its facilities in this manner. No significant commitments were outstanding at December 31, 1993.

CONSOLIDATED BALANCE SHEET

Lufkin Industries, Inc. and Subsidiaries

December 31, 1993 and 1992
(Thousands of dollars)

Assets	1993	1992
Current assets:		
Cash	$ 816	$ 49
Temporary investments	19,539	11,519
Receivables, net	37,603	41,424
Inventories	32,332	33,612
Total current assets	90,290	86,604
Property, plant and equipment:		
Land and improvements	8,974	9,190
Buildings	51,493	53,087
Machinery and equipment	165,327	165,919
Total property, plant and equipment	225,794	228,196
Less accumulated depreciation	(161,538)	(156,245)
Total property, plant and equipment - net	64,256	71,951
Prepaid pension costs	14,156	10,881
Assets held for sale	3,164	-
Other assets	7,550	4,485
Total	$179,416	$173,921

Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 9,865	$ 5,541
Accrued liabilities:		
Payrolls and benefits	4,683	4,720
Accrued warranty expenses	2,941	2,200
Property taxes	2,786	2,270
Commissions and other	2,401	2,737
Total current liabilities	22,676	17,468
Deferred income taxes payable	1,622	-
Post retirement benefits liability	11,627	11,372
Stockholders' equity:		
Common stock, par $1 per share; 20,000,000 shares authorized; 6,792,381 shares issued	6,792	6,792
Capital in excess of par	15,372	15,372
Retained earnings	122,127	123,653
Cumulative translation adjustment	(800)	(736)
Total stockholders' equity	143,491	145,081
Total	$179,416	$173,921

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF EARNINGS

Lufkin Industries, Inc. and Subsidiaries

Year ended December 31, 1993, 1992 and 1991
(Thousands of dollars, except per share data)

	1993	1992	1991
Sales	**$202,225**	$178,565	$247,077
Costs and expenses:			
Cost of sales	**176,099**	166,620	210,042
Selling, general and administrative expenses	**24,737**	27,539	31,332
Restructuring costs	-	24,339	-
Other expense (income), net	**(347)**	1,552	1,510
Total costs and expenses	**200,489**	220,050	242,884
Operating income (loss)	**1,736**	(41,485)	4,193
Investment income	**2,558**	3,255	5,866
Earnings (loss) before income taxes	**4,294**	(38,230)	10,059
Income taxes (benefits)	**1,745**	(10,977)	3,192
Earnings (loss) before cumulative effect of a change in accounting for post retirement benefits	**2,549**	(27,253)	6,867
Cumulative effect of a change in accounting for post-retirement benefits including applicable income tax benefit of $3,866	-	(7,506)	-
Net earnings (loss)	**$ 2,549**	$(34,759)	$ 6,867

	1993	1992	1991
Earnings (loss) per share:			
Net earnings (loss) before cumulative effect of change in accounting	**$ .38**	$ (4.01)	$ 1.01
Cumulative effect of change in accounting	-	(1.11)	-
Net earnings (loss) per share	**$ .38**	$ (5.12)	$ 1.01

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 1993, 1992 and 1991
(Thousands of dollars, except share data)

	Common Stock		Capital In Excess Of Par	Retained Earnings	Cumulative Translation Adjustment
	Shares	Amount			
Balance December 31, 1990	6,792,096	$6,792	$15,364	$171,583	$ -
Net earnings				6,867	
Cash dividends, $1.60 per share				(10,868)	
Stock issued pursuant to employee stock option plan	285		8		
Balance December 31, 1991	6,792,381	6,792	15,372	167,582	-
Net loss				(34,759)	
Cash dividends, $1.35 per share				(9,170)	
Foreign currency translation adjustment					(736)
Balance December 31, 1992	6,792,381	6,792	15,372	123,653	(736)
Net earnings				2,549	
Cash dividends, $.60 per share				(4,075)	
Foreign currency translation adjustment					(64)
Balance December 31, 1993	6,792,381	$6,792	$15,372	$122,127	$ (800)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, 1993, 1992 and 1991
(Thousands of dollars)

	1993	1992	1991
Cash flow from operating activities:			
Net earnings (loss)	$ 2,549	$ (34,759)	$ 6,867
Adjustments to reconcile earnings (loss) to net cash provided by operating activities:			
Depreciation	9,890	11,613	11,552
Restructuring charges	-	21,002	-
Deferred income tax provision (benefit)	1,622	(14,843)	1,088
Post retirement benefits	255	11,372	-
Changes in assets and liabilities:			
Receivables	3,821	31,887	(4,202)
Inventories	1,280	(3,495)	(3,501)
Accounts payable	4,324	(2,762)	(2,065)
Accrued liabilities	884	5,955	1,464
Net cash provided by operating activities	24,625	25,970	11,203
Cash flows from investing activities:			
Additions to property, plant and equipment	(5,885)	(9,373)	(18,428)
Retirement of property, plant and equipment	483	472	1,582
(Increase) decrease in other assets	(6,297)	(1,132)	4,404
Net cash used by investing activities	(11,699)	(10,033)	(12,442)
Cash flows from financing activities:			
Dividends paid	(4,075)	(9,170)	(10,868)
Proceeds from exercise of stock options	-	-	8
Net cash used by financing activities	(4,075)	(9,170)	(10,860)
Effect of translation on cash and temporary investments	(64)	(736)	-
Net increase (decrease) in cash and temporary investments	8,787	6,031	(12,099)
Cash and temporary investments, at beginning of year	11,568	5,537	17,636
Cash and temporary investments, at end of year	$20,355	$ 11,568	$ 5,537

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of major accounting policies

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions. As more fully described in Note 2, prior periods have been restated to reflect the Trailer Division as continuing operations.

Temporary Investments: Effective December 31, 1993, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Under this statement, the Company's temporary investments have been classified as trading securities, which requires that the investments be carried at market value and all realized and unrealized gains and losses be recognized currently in other operating income. The adoption of SFAS 115 had no material effect on the Company's consolidated financial position or results of operations.

Receivables: The following is a summary of the Company's receivable balances (thousands of dollars):

	1993	1992
Accounts receivable	**$29,296**	$23,627
Notes receivable	**7,736**	17,060
Income taxes receivable	**1,171**	1,612
	38,203	42,299
Allowance for doubtful accounts	**(600)**	(875)
Net receivables	**$37,603**	$41,424

Installment notes due after one year which equalled $2,958,000 at December 31, 1993 and $9,038,000 at December 31, 1992 are included in current assets.

Inventories: The Company uses the last-in, first-out (LIFO) and the first-in, first-out (FIFO) methods of determining inventory cost, which does not exceed market. Inventory costs include material, labor and factory overhead.

Property, plant and equipment: The Company records investments in these assets at cost. Improvements are capitalized, while repair and maintenance costs are charged to operations as incurred. Gains or losses realized on the sale or retirement of these assets are reflected in income. Depreciation for financial reporting purposes is provided on a straight-line method based upon the estimated useful lives of the assets. In 1992, restructuring charges of $21,002,000 were reported as additional accumulated depreciation to reflect the write down of certain assets. Expenditures for maintenance and repairs were $8,240,000 in 1993, $7,644,000 in 1992 and $11,229,000 in 1991.

Earnings per share: Earnings per share amounts are based on the weighted average number of shares of common stock outstanding during the period. The weighted average number of shares used to compute earnings per share was 6,801,131 shares, 6,795,968 shares and 6,792,381 shares for 1993, 1992 and 1991, respectively.

Other: Certain items have been reclassified in the 1992 and 1991 consolidated financial statements to conform with 1993 classifications.

(2) Restatement of trailer operations

During 1991, the Company decided to sell its Trailer Division and thus reported the net assets and operating results of this division as discontinued operations in 1992 and 1991. By December 31, 1993, the Company completed a successful cost restructuring program, trailer orders and backlogs had increased and no suitable buyer had been identified. As a result, during January 1994, the Company concluded that it would continue operating this division. The accompanying consolidated financial statements for 1992 and 1991 have been restated to reflect the operations of the Trailer Division as continuing.

The following table highlights selected financial data during the years that the Trailer Division was reported as a discontinued operation:

(Thousands of dollars)	1992	1991
Total assets	$22,770	$26,620
Total liabilities	3,596	2,994
Net assets	19,174	23,626
Revenues	51,929	53,492
Operating income (loss), net of tax	$ -	$ (2,102)

Charges of $3,071,000 were recorded against 1993 operating income to reflect certain Trailer Division assets at their estimated net realizable value. These 1993 charges were recorded prior to the Company's decision to continue the operations of this division. The charges consisted of two major components. First, fixed assets and inventories were written down by $2,300,000 reflecting the current estimate of the net realizable value of these assets. Second, warranty reserves were increased by $700,000 to provide for additional estimated claims.

(3) Income taxes

During the fourth quarter of 1992, the Company changed its method of accounting for income taxes to adopt Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes," effective January 1, 1992. Previously, the Company was using SFAS No. 96 for income tax accounting. This change had no effect on the Company's consolidated financial statements. Under SFAS No. 109, deferred tax assets or liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the enacted tax rates. The net deferred tax liability is comprised of the following (thousands of dollars):

	1993	1992
Current deferred tax assets		
Gross assets	$ 3,683	$ 2,607
Gross liabilities	(213)	(143)
Less: Valuation allowance	-	(100)
Total, net	3,470	2,364
Noncurrent deferred taxes payable		
Gross assets	7,148	8,653
Gross liabilities	(12,240)	(11,017)
Total, net	(5,092)	(2,364)
Net deferred income taxes payable	$ (1,622)	$ -

The tax effect of significant temporary differences representing deferred tax assets and liabilities are as follows (thousands of dollars):

	1993	1992
Accounting change for post retirement benefits	$ 3,953	$ 3,866
Prepaid pension costs	(4,805)	(3,691)
Net operating loss and tax credit carry forwards	2,501	3,787
Depreciation	(6,721)	(6,165)
Other, net	3,450	2,203
Net deferred income taxes payable	$(1,622)	$ -

The income tax provision (benefit) for 1993, 1992, and 1991 consisted of the following (thousands of dollars):

	1993	1992	1991
Current	$1,309	$ -	$ 264
Deferred	436	(10,977)	2,928
Accounting change for post retirement benefits	-	(3,866)	-
Total	$1,745	$(14,843)	$ 3,192

Tax effect of a reconciliation of the provision (benefit) for income taxes to the statutory United States tax rate is as follows (thousands of dollars):

	1993	1992	1991
Tax computed at statutory rate	$1,460	$(16,865)	$3,420
Tax effect of:			
Expenses for which no benefit was realized	300	2,100	-
Tax-exempt interest and dividend income exclusion	(52)	(116)	(134)
Other, net	37	38	(94)
Actual provision (benefit)	$1,745	$(14,843)	$3,192

Cash payments for income taxes were $801,000, $1,036,000, and $2,383,000 for 1993, 1992 and 1991, respectively.

For income tax reporting purposes, the Company has a net operating loss carry forward at December 31, 1993 of approximately $456,000 which is available to reduce future U.S. taxable income. These carry forwards expire in the year 2007. The Company also has unused foreign tax credits of approximately $353,000 which begin expiring in 1995, and unused alternative minimum tax carry forwards of $1,692,000 which can be carried forward indefinitely.

(4) Inventories

Inventories used in determining cost of sales were as follows (thousands of dollars):

	1993	1992
Finished goods	**$13,123**	$15,261
Work in process	**6,773**	8,305
Raw materials	**12,436**	10,046
Total	**$32,332**	$33,612

Inventories accounted for on a LIFO basis were $22,530,000 and $19,991,000 and on a FIFO basis were $9,802,000 and $13,621,000 at December 31, 1993 and 1992, respectively. Had the FIFO method been used in determining all inventory values, inventories would have been $23,146,000 and $23,838,000 higher at December 31, 1993 and 1992, respectively.

(5) Employee stock option plan

The Company's 1990 Stock Option Plan provides for the granting of options to key employees to purchase an aggregate of not more than 400,000 shares of the Company's stock at fair market value on the date of grant. One fourth of granted options generally become exercisable after one year and each year thereafter. The options may not be exercised after ten years from the date of grant. Outstanding options may be cancelled and reissued under terms specified in the plan.

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

	1993	1992	1991
Outstanding, beginning of year	**172,715**	82,715	73,200
Granted (per share)			
1991 ($28.50)	-	-	9,800
1992 ($17.50)	-	90,000	-
1993 ($15.31 to $21.375)	**122,000**	-	-
Exercised (per share):			
1991 ($30.00)	-	-	(285)
Forfeited	**(34,000)**	-	-
Outstanding, end of year	**260,715**	172,715	82,715

At December 31, 1993, there were 83,336 options exercisable at a price of $15.31 to $30.00 per share.

(6) Capital stock

In May 1987, the Board of Directors adopted a "Shareholder Rights 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 $100, 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, 1996, and may be redeemed by the Company at any time prior to the occurrence of certain events at $.05 per right.

The Company is authorized to issue 2.0 million shares of Preferred Stock, the terms and conditions to be determined by the Board of Directors in creating any particular series.

(7) 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. Plan investment assets are invested primarily in equity securities, United States government securities and cash equivalents.

The following tables provide the detail of the components of pension income and expense, the funded status of the plans and amounts of prepaid pension cost recognized in the Company's consolidated balance sheet, and major assumptions used to determine these amounts.

(Thousands of dollars)	**1993**	1992	1991
Components of pension income:			
Service cost	**$ 2,269**	$ 2,207	$ 1,946
Interest cost	**5,334**	5,184	4,872
Actual return on plan assets	**(7,178)**	(6,353)	(17,981)
Net amortization and deferral	**(3,700)**	(4,208)	8,709
Net pension income	**$ (3,275)**	$ (3,170)	$ (2,454)
Plan assets at fair value	**$110,752**	$108,035	$105,971
Actuarial present value of projected benefit obligations:			
Accumulated benefit obligations			
Vested	**(58,120)**	(50,074)	(47,455)
Nonvested	**(6,446)**	(6,014)	(5,627)
Provision for future salary increases	**(11,569)**	(14,039)	(12,604)
Plan assets over projected benefit obligations	**34,617**	37,908	40,285
Unrecognized transition gain	**(13,609)**	(14,536)	(15,462)
Unrecognized gain	**(3,888)**	(8,630)	(12,728)
Unrecognized prior service cost	**(2,964)**	(3,861)	(4,386)
Net prepaid pension cost	**$14,156**	$10,881	$ 7,709
Major assumptions at year end:			
Discount rate	**7.25%**	8%	8%
Rate of increase in compensation levels	**5%**	6%	6%
Expected long-term rate of return on plan assets	**9%**	9%	9%

The Company also has defined contribution retirement plans covering substantially all of its employees. The Company makes contributions of 75% of employee contributions during the year. All obligations of the Company are funded through December 31, 1993. Pension expense for these plans totaled $1,456,000, $1,295,000 and $1,394,000 in 1993, 1992 and 1991, respectively.

The Company sponsors two defined benefit post retirement 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. Prior to 1992, the costs of these plans were charged to expense when paid. Effective January 1, 1992, the Company adopted SFAS No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions." This standard requires that the Company accrue the estimated costs of these plans over the employee service period. The accumulated obligation at January 1, 1992 was approximately $11,000,000 and this estimated amount, net of tax benefit, was recorded as the cumulative effect of an accounting change in the 1992 Consolidated Statement of Earnings.

The following table sets forth the plans' combined funded status reconciled with the amount shown in the Company's balance sheet at December 31, 1993 (thousands of dollars):

	1993	1992
Accumulated post retirement benefit obligation:		
Retirees	$ 9,400	$ 8,500
Fully eligible active plan participants	1,176	1,038
Other active plan participants not yet eligible	2,320	1,823
Total accumulated post retirement benefit obligation	12,896	11,361
Unrecognized net actuarial gain	(1,269)	11
Accrued post retirement benefit cost	$11,627	$11,372
Net periodic cost of post retirement benefit:		
Service cost	$ 108	$ 113
Interest cost	931	912
Net periodic post retirement benefit cost	$1,039	$1,025

The Company's post retirement health care plan is unfunded and there are no plan assets. For measurement purposes, the submitted claims medical trend was assumed to be 12% in 1993, grading down to 5.5% in years 2006 and thereafter. The medicare paid claims trend was assumed to be 10% in 1993, grading down to 5.5% in years 2006 and thereafter. A one percentage point increase in each year's healthcare costs trend rate would increase the accumulated post retirement benefit obligations as of December 31, 1993 by approximately $276,000 and the aggregate of the service and interest costs components of net periodic post retirement cost for the year ended December 31, 1993 by $25,000. In determining the accumulated post retirement obligation, weighted-average discount rates of 7.25% in 1993 and 8% in 1992 were used. The Company revised the rate of increase in compensation levels from 6% in 1992 and 1991 to 5% for 1993.

(8) Business segment information

The Company manufactures, sells and services various types of oil field pumping units, power transmission products, commercial castings and fabrications, and trailers. The Company also sells industrial supplies. Corporate expenses are allocated to industry segments primarily based upon outside revenues. The following is a summary of key business segment and product group information:

(Thousands of dollars)	1993	1992	1991
Net sales:			
Machinery Division			
Oil field pumping units	$ 58,579	$ 55,116	$124,123
Power transmission products	47,561	43,580	46,595
Commercial products	24,169	20,028	15,301
Industrial supplies	7,761	7,912	7,566
Trailer Division	64,155	51,929	53,492
Total net sales	$202,225	$178,565	$247,077
Net sales by geographic region:			
United States	$165,446	$133,704	$162,005
Europe	7,262	21,838	39,703
Canada	7,520	5,544	7,744
Latin America	14,473	9,292	29,375
Other	7,524	8,187	8,250
Total net sales	$202,225	$178,565	$247,077

	1993	1992	1991
Operating income (loss):			
Machinery Division	**$ 1**	$(41,485)	$ 7,377
Trailer Division	**1,735**	-	(3,184)
Total operating income (loss)	**$1,736**	$(41,485)	$ 4,193
Assets:			
Machinery Division	**$105,709**	$101,703	$140,639
Trailer Division	**19,270**	22,770	26,620
General corporate	**54,437**	49,448	51,704
Total assets	**$179,416**	$173,921	$218,963
Capital expenditures:			
Machinery Division	**$ 5,255**	$ 9,103	$ 17,155
Trailer Division	**283**	195	772
General corporate	**347**	75	501
Total capital expenditures	**$ 5,885**	$ 9,373	$ 18,428
Depreciation:			
Machinery Division	**$ 7,378**	$ 9,859	$ 9,692
Trailer Division	**1,909**	965	1,028
General corporate	**603**	789	832
Total depreciation	**$ 9,890**	$ 11,613	$ 11,552

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of Lufkin Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Lufkin Industries, Inc. (a Texas corporation) and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion based on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lufkin Industries, Inc., and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in notes 3 and 7 to the consolidated financial statements, effective January 1, 1992, the Company changed its methods of accounting for income taxes and post retirement benefits other than pensions.

ARTHUR ANDERSEN & CO.

Houston, Texas
February 16, 1994

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