FORM 10-K

LUFKIN INDUSTRIES INC - LUFK

Exhibit:

Filed: March 29, 1996 (period: December 31, 1995)

Annual report which provides a comprehensive overview of the company for the past year

Part I

Part II

Part III

Part IV

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, 1995 Commission file number 0-2612

LUFKIN INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Texas	75-0404410
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 South Raguet, Lufkin, Texas	75901
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 409/634-2211

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. [ ]

The aggregate market value of the Company's voting stock held by non-affiliates as of January 31, 1996 is $107,892,910.

6,776,273 shares of the Company's Common Stock were outstanding on December 31, 1995.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the sections entitled "Financial Review", "Letter to the Shareholders", "Management's Discussion and Analysis", "Product Line Information" and the consolidated financial statements of the Company's Annual Report to Shareholders for the year ended December 31, 1995, are incorporated by reference in Parts I, II and IV, hereof and are included as Exhibit 13.

The sections entitled "Voting Securities", "Directors and Nominees for Director" and "Executive Compensation" of the Company's definitive Proxy Statement for its annual meeting of shareholders on May 15, 1996, are incorporated by reference in Part III hereof and are included as Exhibit 99.

Part I

Item 1. Business

The Company was incorporated under the laws of Texas on March 4, 1902 and since that date, has maintained its principal office and manufacturing facilities in Lufkin, Texas. The Company designs, manufactures, sells, and services various types of oil field pumping units, power transmission products, foundry castings and trailers. Lufkin manufactures four basic types of pumping units: an air-balanced unit; a beam-balanced unit; a crank-balanced unit; and a Mark II Unitorque unit. The basic differences between the four types relate to the counterbalancing system. The depth of a well and the desired fluid production determine the type of counterbalancing configuration that is required. There are numerous sizes and combinations of Lufkin oil field pumping units within the four basic types. The Company's power transmission products (speed increasers and reducers) are designed, manufactured and sold primarily for use in industrial applications such as petrochemical, refining, rubber, plastics and steel and for use in marine propulsion applications. The Company produces numerous sizes and combinations of gears. The Company's foundry castings are primarily customer designed components manufactured by Lufkin for use in customer products. Lufkin also produces various sizes and styles of trailers, including vans, platforms, and dumps.

The Company manufactures most of the component parts used in its Machinery Division products and purchases the raw materials and outside manufactured parts from a variety of suppliers on an order basis. The Trailer Division generally assembles various component parts manufactured by others. The inventory consists primarily of raw materials and component parts which are generally assembled into finished products to fill specific customer orders. These finished products are sold primarily by the Company's own employees.

Oil field pumping units are the Company's primary products sold for export. These sales, other than to Canada, are made principally through foreign sales representatives, licensees and distributors. During 1995, foreign sales accounted for approximately 16 percent of the Company's total net sales.

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

The Company employed approximately 1,980 people at December 31, 1995, including approximately 1,420 that were paid on an hourly basis. The Company has an open shop contract, which runs to October 6, 1996, with three AFL-CIO labor unions. The Company considers its employee relations to be satisfactory.

Additional information required by Item 1 is included in the sections entitled "Management's Discussion and Analysis", "Letter to the Shareholders", and "Product Line Information" of the Annual Report, portions of which sections are incorporated herein by reference and included as part of Exhibit 13.

Item 2. Properties

The Company's major manufacturing facilities are located in and near Lufkin, are owned in fee and include approximately 150 acres and a foundry, machine shop, structural shops, assembly shops and warehouses. The Company also has a plant in Nisku, Canada which produces structural parts for pumping units. These parts are then assembled with parts shipped from Lufkin and are delivered to the Company's Canadian customers.

Item 3. Legal Proceedings

None

Item 4. Submission of Matters to a Vote of Shareholders

None

Item 4A. Executive Officers of the Registrant

The following information is submitted with respect to the executive officers of the Company as of March 1, 1996:

Name	Position with Company	Age	Officer Since
D. V. Smith	Chairman, President & Chief Executive Officer	53	1993
J. W. Barber	Vice President	63	1994
J. H. Finney, Jr.	Vice President	63	1992
J. F. Glick	Vice President	43	1994
J. R. Partridge	Vice President	60	1986
M. A. Penn	Vice President	55	1983
E. G. Pittman	Vice President	62	1976
S. H. Semlinger	Vice President	42	1992
C. J. Haley, Jr.	Secretary-Treasurer	53	1973

There is no significant family relationship either by blood or by marriage among the officers of the Company.

All of the executive officers of the Company, with the exception of Mr. Smith, Mr. Barber and Mr. Glick have been employed by the Company for more than five years in the same or similar positions. Mr. Smith was first employed by the Company in January 1993 to serve as President and Chief Executive Officer. For the five year period prior to his employment with the Company, Mr. Smith was employed and served as Vice President of Manufacturing of Cooper Industries (1989-93) and as Vice President of Oil Tool Division of Cameron Iron Works (1982-89). Both companies are based in Houston, Texas. Mr. Barber was first employed by the Company in July 1990 to serve as sales manager for trailer products. Mr. Barber was previously employed by Fruehauf Trailers as Vice President of Welded Products in Detroit, Michigan. Mr. Glick was first employed by the Company in September 1994 to serve as Vice President and General Manager of the Power Transmission Division. Prior to joining the Company, Mr. Glick served as Director of Manufacturing, U.K. and Ireland, with Cooper Oil Tools and as Plant Manager of Cooper Oil Tools in Leeds, England. The executive officers of the Company serve at the pleasure of the Board of Directors of the Company. The term of office for all officers expires at the next annual meeting of the Board of Directors of the Company.

Part II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The information required by Item 5 is included in the section entitled "Financial Review" of the Annual Report, which section is incorporated herein by reference and included as part of Exhibit 13.

Item 6. Selected Financial Data

FIVE YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(In millions, except per share data)	1995	1994	1993	1992	1991
Sales	$248.9	$217.3	$202.2	$178.6	$247.1
Earnings (loss) from operations	8.9	(1.2)*	2.5	(27.3)**	6.9
Earnings (loss) per share	1.31	(.18)*	.38	(4.01)**	1.01
Total assets	186.3	176.8	182.5	176.3	220.6
Cash dividends per share	.60	.60	.60	1.35	1.60

*Includes pretax charges of $11.2 million for special inventory writedowns.

**Includes a $24.3 million restructuring charge. The Company adopted SFAS No. 109 effective January 1, 1992, but this change had no effect on the Company's financial statements. In addition, the Company adopted SFAS No. 106 effective January 1, 1992. The cumulative effect of the change in accounting for post-retirement benefits including the applicable income tax benefit was a charge to income of $7.5 million or $1.11 per share.

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

The information required by Item 7 is included in the section entitled "Management's Discussion and Analysis" of the Company's Annual Report, portions of which section are incorporated herein by reference and included as part of Exhibit 13.

Item 8. Financial Statements and Supplementary Data

The information required by Item 8 is included in the consolidated financial statements and related notes and the "Report of Independent Public Accountants" of the Company's Annual Report, which consolidated financial statements and related notes and report of independent public accountants are incorporated herein by reference and included as part of Exhibit 13.

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

None

Part III

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 relating to the directors of the Company is included in the section entitled "Directors and Nominees for Director" on pages 2 through 5 of the definitive Proxy Statement for the annual meeting of Company shareholders on May 15, 1996 ("Proxy Statement"), which section is incorporated herein by reference and included as part of Exhibit 99. The information relating to the executive officers of the Company is provided in

Item 4A of Part I of this Annual Report.

Item 11. Executive Compensation

The information required by Item 11 is included in the section entitled "Executive Compensation" on pages 6 through 9 of the Proxy Statement, which section is incorporated herein by reference and included as part of Exhibit 99.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is included in the sections entitled "Voting Securities" and "Election of Directors" on pages 1 through 5 of the Company's Proxy Statement, which sections are incorporated herein by reference and included as part of Exhibit 99.

Item 13. Certain Relationships and Related Transactions

None

Part IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as part of the report

1. Consolidated Financial Statements (incorporated by reference to the Annual Report)

Report of Independent Public Accountants
Consolidated Balance Sheet

Consolidated Statement of Earnings
Consolidated Statement of Stockholders'
 Equity
Consolidated Statement of Cash Flows
Notes to Consolidated Financial Statements

2. Financial statement schedules

Schedules Omitted--All schedules for which provision is made in the applicable regulations of the Securities and Exchange Commission have been omitted because they are not applicable or not required or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits

(3) Articles of Incorporation, as amended, and Bylaws, as amended, were included as exhibit 3 to Form 10-K of the registrant for the year ended December 31, 1990, which exhibits are 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 28.1 to the Company's registration statement on Form S-8 dated September 24, 1990 (File No. 33-36976), which plan is incorporated herein by reference.

(13) Portions of the Annual Report to Shareholders for the year ended December 31, 1995 are included as an exhibit to this report for the information of the Securities and Exchange Commission.

(22) Schedule listing subsidiaries of the registrant

(24) Consent of Independent Public Accountants

(27) Financial Data Schedule

(99) Portions of the definitive proxy statement of Lufkin Industries, Inc., for the annual meeting of shareholders on May 15, 1996 are included as an exhibit to this report for the information of the Securities and Exchange Commission.

*Compensatory plan.

(b) Reports on Form 8-K filed during the fourth quarter of 1995

None

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 February 21, 1996.

LUFKIN INDUSTRIES, INC.

BY /s/ C. James Haley, Jr.

C. James Haley, Jr., Secretary-Treasurer
Principal Financial and Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on February 21, 1996, below 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/ S. W. Henderson, III

S. W. Henderson, III, Director

By /s/ L. R. Jalenak, Jr.

L. R. Jalenak, Jr., Director

By /s/ H. H. King

H. H. King, Director

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

M. E. Kurth, Jr., Director

By /s/ W. T. Little

W. T. Little, Director

By /s/ B. H. O'Neal

B. H. O'Neal, Director

By /s/ F. B. Stevenson

F. B. Stevenson, Director

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

H. J. Trout, Jr., Director

By /s/ W. W. Trout, Jr.

W. W. Trout, Jr., Director

By /s/ T. E. Wiener

T. E. Wiener, Director
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EXHIBIT 13. PORTIONS OF LUFKIN INDUSTRIES, INC. ANNUAL REPORT TO SHAREHOLDERS

LUFKIN INDUSTRIES, INC.
LETTER TO SHAREHOLDERS

To Our Shareholders:

For the year ended December 31, 1995, Lufkin Industries, Inc. continued to increase its competitive position while achieving positive results. Net sales were $248.9 million for 1995, a 14.6% increase over the $217.3 million reported for the year ended December 31, 1994.

Net income for 1995 was $8.9 million, or $1.31 per share, compared with a net loss of $1.2 million, or ($0.18) per share, for the same period a year ago. The net loss for the year ended December 31, 1994, included $11.2 million of pre-tax charges for special inventory write-downs taken during the second and third quarters of 1994. Without these special inventory provisions and their related LIFO benefits, Lufkin would have reported net earnings of $5.3 million, or $.78 per share, for 1994.

Sales of our power transmission, oil field, foundry castings, and trailer product lines all showed increases in 1995 compared with 1994. Sales of power transmission products increased 9% to $60.1 million compared with $55.3 million in 1994. Power transmission product sales benefitted from stronger industrial markets, particularly outside the U.S. Foundry castings sales were $31.8 million, up 5% from a year ago. Lufkin continued to expand its market share in engineered castings and maintain its strong presence in the forklift counterweight market. Oil field products sales rose by 13% in 1995 to $46.4 million from $40.9 million in 1994. Over the last two years we have focused on reducing operating costs through consolidating operations into our Lufkin, Texas, facility. The more efficient operations and our strong international presence have provided the Company with greater flexibility to meet the needs of our customers worldwide.

Trailer products sales in 1995 were $110.5 million, an increase of 26% compared with $87.8 million in 1994. While 1995 was a record year for our Trailer Division, we observed some softening of the U.S. economy throughout the second half of 1995 and a decline in trailer orders. Lufkin reacted to these changing market conditions by enacting steps late in the year to adjust the workforce to the anticipated 1996 market conditions. The workforce reductions returned the division to the 1994 production and employment levels, which by historical standards represented a very good year for the division. We remain committed to a strong Trailer Division, and we will continue to make capital improvements, carry on an aggressive sales effort, and promote the division's new "plate" trailer, which made its debut on December 10, 1995.

Economic and market conditions also contributed to a slowdown in new orders for trailer products which impacted our backlog. These conditions reduced our backlog for trailers at year end to $40.2 million from $75.6 million a year ago. The backlog for power transmission products was $36.0 million compared with $21.1 million at December 31, 1994, for oil field equipment it was $8.1 million compared with $8.5 million last year, and was $15.8 million for foundry castings compared with $4.2 million, at December 31, 1994. At December 31, 1995, our total backlog was $100.1 million compared with $109.4 million at December 31, 1994.

Lufkin ended fiscal 1995 with a very strong balance sheet. At December 31, 1995, the Company had total assets of $186.3 million and its working capital was $74.9 million. Shareholders' equity at year end was over $142.5 million, and the book value was $21.04 per share. Lufkin had no outstanding debt at year end.

Our primary goal for 1995 was to improve financial performance by building on our present operations. We believe we were successful in achieving this goal.

For 1996 we will continue to leverage the improvements in our operations. We will support this general goal with activities that include:

. Increasing capital expenditures where appropriate returns can be realized
. Increasing our support for aftermarkets through the expansion and realignment of our distribution system
. Seeking acquisition opportunities that are complementary to our present businesses
. Continuing to enhance and standardize existing products while developing new products for specific markets
. Continuing to reduce costs through quality improvement, operational consolidation and by timely response to changing markets

Our reputation for industry-leading quality in all our products is the base for our plans to enter additional global markets. Our strong financial position provides us with the means to pursue expansion, improvement and acquisition. We feel that we are positioned for further improvement in our financial results.

Sincerely,

/s/ Douglas V. Smith

Douglas V. Smith
President and Chief Executive Officer

POWER TRANSMISSION

As a leading manufacturer of power transmission equipment, Lufkin's products are used in a variety of industrial applications worldwide. The Company's precision-made gears range in weights from 300 pounds to 250 tons, in power levels from 20 to 85,000 horsepower and in size up to 16 feet in diameter. Lufkin's power transmission products are primarily parallel shaft, enclosed gear drives and cover all performance requirements.

In 1995, Lufkin continued to focus on expanding the markets for our power transmission products. The Company participated in several new markets both domestically and abroad. Lufkin products are gaining market share internationally as our reputation for quality and superior performance characteristics becomes better known. Lufkin's ability to provide global support for customers with high value-added products--both with new equipment as well as in the aftermarket--is a key factor in expanding Lufkin's markets for power transmission equipment.

During 1995 demand for Lufkin gears was very strong. Gears for power generation equipment showed increased demand, particularly in China and Southeast Asia, as demand for electric power in these markets continues to grow. In the petro-chemical processing industry, Lufkin's gears continue to experience increased use as this industry benefits from lower cost of feed stock supply. In the cement and mining industries, demand for Lufkin's low-speed units grew as a result of the increased level of activity associated with general economic growth.

Demand for gears in 1995 was also strong in the steel and rubber industries. As production of automobiles and industrial products increased in the U.S. and Europe, the demand for Lufkin's products has also increased. The sugar refining industry continues to expand its use of Lufkin's gears as it modernizes operations to meet the demand for sugar in the developing countries of the world.

Our operational initiatives aimed at enhancing quality and reducing costs have yielded positive results. The Company maintains a strong commitment to ongoing investments in technology, training, and manpower utilization. These factors and our diversified applications experience should allow Lufkin to continue its role as an industry leader.

OIL FIELD

Over 580,000 oil wells were in operation worldwide at year-end. Approximately 96% of these wells require some form of artificial lift, and many need the type of beam-pumping unit Lufkin manufactures. Nevertheless, the domestic market for pumping units showed little growth in 1995 and remains at the lowest point of the past 50 years. We observe that drilling rig counts are down and large oil companies are focused on cost containment.

As a result, Lufkin has focused its efforts on further developing its international markets. We believe the markets with potential are in South America where privatization of state-owned oil industries is taking place; in Canada, where there have been government incentives to drill for natural gas and oil; and in forming alliances with oil companies to assist developing countries establish their oil production industries. In our view, the outlook for growth in the international markets remains promising.

Much of Lufkin's increase in revenue during 1995 came from the sale of pre-owned pumping units and increases in the aftermarket segments. The Company's well-established position in the major oil producing areas of the world continues to enable the Company to maintain its presence in all major markets. Our ongoing design and manufacturing improvements have enabled Lufkin to remain cost competitive.

The Company's pumping units are extremely adaptable to meet customers' various production demands, and our local manufacturing in five plants of our international markets provides Lufkin with the ability to meet specific country content requirements. Our ability to deliver quality products, the availability of on-site installation with necessary technical support, and our capability to respond to customers' needs in a timely fashion provides Lufkin with a distinct competitive advantage.

The worldwide supply and demand factors for oil are being brought into closer alignment, as there is less surplus of oil and demand continues to grow. As a major supplier of pumping units worldwide, Lufkin is ready to meet the needs as the oil market improves.

TRAILERS

Lufkin's Trailer Division had a very strong year in 1995 with sales and production at record levels. These results were on top of the strong performance reported in 1994. Historically, the market for trailers has been cyclical and is sensitive to not only general economic conditions, but to those specific factors that are

characteristic of the transportation industry. In 1995, Lufkin began to position itself for the anticipated down turn in the market by bringing its workforce in line with anticipated demand levels for 1996. These actions have strengthened the division's overall competitive position.

As a diversified manufacturer, Lufkin produces many different sizes and styles of vans, platforms, and high capacity, light-weight dump trailers. The Company's trailers are known for their quality construction, reliability, innovation of design, and competitive price, all of which are important to Lufkin's diverse customer base.

During 1995, Lufkin introduced a new trailer product, our Lufkin plate trailer. The plate trailer has enhanced our line of freight vans, and increased production is scheduled for 1996. The combination of an aluminum and steel platform trailer which we introduced in 1994 continued to be well received and to gain market acceptance.

The outlook for Lufkin trailers in 1996 is anticipated to be a good year by historical standards although down from our 1995 record levels. New manufacturing capacity established during recent years will enable Lufkin to meet our customers' needs. We believe the long term trends will be impacted by companies choosing to outsource their transportation needs, more trailers being used as warehouses for short-term storage, and a general aging of trailer fleets as many trailers are operating well beyond their normal replacement cycles. These conditions all bode well for the Trailer Division's future.

FOUNDRY CASTINGS

Lufkin's foundry operations experienced strong demand for commercial castings during 1995. Growth in sales of foundry castings resulted from the strength of the domestic economy coupled with some industry capacity limitations. Our foundry operated at near capacity levels during the past year and set a new cupola tonnage record of over 67,000 charged tons.

Lufkin's casting capabilities include low to medium volume ductile and gray iron castings which are used as components for numerous original equipment manufacturers (OEM). In our foundry, over 300 tons of iron is poured each production day for castings ranging in size from 100 pounds to over 30,000 pounds.

The Company's sales and marketing efforts are directed to manage a diversified customer base which is mainly focused on heavy equipment manufacturing. These customers include such industrial sectors as construction equipment, material handling equipment, machine tools, valve and water works, pump and compressor, as well as heavy truck producers. Lufkin's castings can become critical components in such diverse areas as municipal water systems, U.S. Naval surface ships or submarines, gas-powered turbines, or large horizontal CNC machining centers.

During the coming year, Lufkin's efforts will continue to focus on adding more technically demanding engineered castings, which will provide more value-added opportunities. These additional efforts will be achieved while also maintaining the Foundry's position as an important supplier to Lufkin's Power Transmission and Oil Field product groups.

COMMON STOCK INFORMATION

	1995			1994		
	Stock Price			Stock Price		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$18.50	$16.63	$.15	$19.50	$16.50	$.15
Second	20.00	18.00	.15	20.00	17.63	.15
Third	23.50	18.50	.15	20.75	18.00	.15
Fourth	23.50	18.50	.15	18.75	15.50	.15

The Company's common stock is traded on The Nasdaq Stock Market (National Market) under the symbol LUFK and as of February 29, 1996, there were approximately 840 record holders of its common stock.

The Company has paid cash dividends for 56 consecutive years. Total dividend payments were $4,071,000 and $4,075,000 in 1995 and 1994, respectively.

QUARTERLY FINANCIAL DATA (UNAUDITED)

In millions, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1995				
Net sales	$59.0	$58.6	$62.9	$68.4
Gross margin	6.7	8.4	8.3	8.8
Net earnings	1.6	2.4	2.1	2.8
Earnings per share	.24	.36	.31	.40
1994				
Net sales	$49.1	$53.9	$55.9	$58.4
Gross margin	5.7	4.9 (a)	(3.7) (a)(b)	9.2 (b)
Net earnings (loss)	.4	.5 (a)	(5.1) (a)(b)	3.0 (b)
Earnings (loss) per share	.06	.07(a)	(.75)(a)(b)	.44(b)

(a) Gross margins in the second and third quarters of 1994 were reduced by special inventory provisions of $1.0 million and $12.7 million, respectively. The net after tax effect of these special write-downs was $.7 million or $.10 per share in the second quarter and $8.4 million or $1.23 per share in the third quarter.

(b) Includes LIFO benefits of $2.5 million and $2.9 million in the third and fourth quarters, respectively. The net after tax effect of these LIFO benefits was $1.7 million or $.25 per share in the third quarter and $1.9 million or $.28 per share in the fourth quarter.

ADDITIONAL FINANCIAL INFORMATION

Shareholders may obtain additional information for the year ended December 31, 1995, 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 75902-0849.

LUFKIN INDUSTRIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Lufkin Industries, Inc. and Subsidiaries

RESULTS OF OPERATIONS

Net sales for 1995 were $248.9 million compared to $217.3 million and $202.2 million for 1994 and 1993, respectively. The Company reported net operating income of $10.5 million for 1995. In 1994 and 1993, the Company had an operating loss of $3.1 million and operating income of $1.7 million, respectively. For 1995, the Company reported net income of $8.9 million, compared to a net loss of $1.2 million and net income of $2.5 million for 1994 and 1993, respectively. The 1994 results included an $11.2 million pre-tax charge for special inventory write-downs.

During 1995, the Company experienced revenue growth in all of its product groups. The annual percentage increase (decrease) in revenues for the Company's product groups for the three years ended December 31, 1995 were as follows:

	Annual increase (decrease) in revenues		
	1995	1994	1993
Oil field pumping units	13%	(30)%	6%
Power transmission products	9	16	9
Foundry castings	5	25	21
Trailers	26	37	24
Total company	15%	7%	13%

The sales mix of the Company's products for the three years ended December 31, 1995 was as follows:

	Percent of total sales		
	1995	1994	1993
Oil field pumping units	19%	19%	29%
Power transmission products	24	25	23
Foundry castings	13	14	12
Trailers	44	41	32
Other	-	1	4
Total company	100%	100%	100%

The Company experienced a 13% increase in its 1995 oil field revenues compared to 1994. Oil field revenues in 1995 were $46.4 million compared to $40.9 million and $58.6 million in 1994 and 1993, respectively. During 1995, the Company booked new orders of $47.3 million compared to $42.9 million in 1994. At December 31, 1995, the backlog for oil field products was $8.1 million compared to $8.5 million at the end of 1994.

Power transmission sales for 1995 increased 9% to $60.1 million. Sales for 1994 and 1993 were $55.3 million and $47.6 million, respectively. Power transmission bookings for 1995 were $75.5 million and the year end backlog was $36.0 million, compared to 1994 bookings of $54.0 million and a year end backlog of $21.1 million. The strong performance in power transmission bookings and revenues reflects the realization of expanded international sales efforts and continued growth of the Company's gear repair operations.

Sales of foundry castings increased 5% in 1995 to $31.8 million from $30.2 million in 1994. Foundry castings sales were $24.2 million in 1993. New order bookings totaled $34.0 million in 1995 compared to $30.3 million in 1994. The Company's foundry castings backlog at year end was $15.8 million compared to $4.2 million in 1994. During 1995, the Company continued to expand on its program to improve its product mix towards higher margin custom engineered castings as well as maintain its strong position in the forklift counterweight market.

Trailer product sales of $110.5 million were up 26% over 1994 sales primarily due to the increase in sales volume. Trailer sales were $87.8 million and $64.2 million for 1994 and 1993, respectively. The Company booked new orders totaling $79.0 million in 1995 compared to $112.4 million in 1994. At December 31, 1995 the trailer backlog was $40.2 million compared to $75.6

million at December 31, 1994. Due to the cyclical natrue of the trailer business, backlogs at December 31, 1995 decreased from backlog levels at December 31, 1994. Because of these cyclical market factors, management believes that trailer sales will likely decrease in the year ending December 31, 1996 as compared to 1995.

Gross profit margins before special inventory write-downs have remained steady at 13% for the years ended December 31, 1995, 1994 and 1993. The 1995 sales mix reflected an increase in trailer sales, which tend to be a lower margin product, as compared to 1994 and 1993. Gross margins, as a percent of revenues, did not follow this movement due primarily to improvements in power transmission margins and product mix and the continued emphasis of the Company's cost awareness and cost reduction programs.

RESULTS OF OPERATIONS (CONTINUED)

The Company's Selling, General and Administrative (S.G. & A.) expenses were $22.2 million in 1995 compared to $20.7 million and $24.7 million in 1994 and 1993, respectively. The increase in 1995 S. G. & A. expenses reflected primarily the expansion of the Company's selling efforts and market presence in key markets in western Europe and Singapore. In addition, foundry castings selling expenses increased with efforts to change the product mix from high volume/lower margin counterweights to higher margin custom engineered castings.

Net operating income for 1995 was $10.5 million compared to a loss of $3.1 million for 1994 and net operating income of $1.7 million for 1993. The Trailer Division's net operating income as a percentage of sales was 7% for both 1995 and 1994, up from 3% for 1993. This change reflects the increase in trailer sales volumes as well as the Company's emphasis on cost containment, particularly in the area of fixed costs. The Machinery Division's net operating income as a percentage of sales before special inventory write-downs was 2% for 1995 compared to 1% in 1994 and less than 1% in 1993. The increase in net operating income as a percentage of sales for 1995 compared to 1994 was due primarily to increased sales volumes and improved product mix, partially offset by increases in S. G. & A. expenses.

Other income decreased to $.5 million in 1995 from $1.6 million in 1994. Other income for 1994 reflected a $1.4 million gain on the sale of the Company's Churchill manufacturing facility and related equipment in Chanute, Kansas. In 1993, other income was $.3 million. The Company's investment income for 1995 increased to $3.1 million from $1.3 million in 1994 and $2.6 million in 1993. The 1995 increase was due primarily to favorable investment market conditions resulting in increased interest income and capital gains earned on investments.

For 1995, net income was reduced by approximately $1.0 million ($.15 per share) as a result of using the LIFO method as compared to using the FIFO method of accounting for certain inventories. During 1994, LIFO inventories were reduced and these reductions resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years. The impact of these LIFO inventory liquidations reduced the net loss in 1994 by approximately $3.6 million ($.53 per share). In 1993, net income was increased by approximately $.5 million ($.07 per share) as a result of using the LIFO method.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1995, the Company had working capital of $74.9 million compared to $70.8 million in 1994 and $71.6 million in 1993. The Company generated $7.4 million net cash from operating activities in 1995. The net cash provided from operating activities in 1994 and 1993 was $20.7 million and $21.1 million, respectively.
Accounts receivable rose 28% to $36.2 million at the end of 1995 compared to $28.3 million at the end of 1994. The increase in receivables was due primarily to strong sales volumes experienced in the latter half of the fourth quarter of 1995. Depreciation expense declined to $7.1 million in 1995 from $7.9 million in 1994 and $9.9 million in 1993. The decrease in depreciation expense is due primarily to the Company's 1994 sales of its Machinery Division's Churchill manufacturing facility in Chanute, Kansas and its Industrial Supplies unit, as well as the result of assets becoming fully depreciated. Dividends of $.60 per share (totaling $4.1 million) were paid in 1995, 1994 and 1993. The Company believes that existing working capital will be sufficient to satisfy its 1996 requirements. In recent years, capital expenditures have 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, 1995.

LUFKIN INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEET
Lufkin Industries, Inc. and Subsidiaries

December 31, 1995 and 1994
(Thousands of dollars)

ASSETS	1995	1994
Current assets:		
Cash	$ 277	$ 207
Temporary investments	33,040	36,716
Receivables, net	36,204	28,262
Inventories	24,737	21,919
Deferred income tax assets	3,853	4,522
Total current assets	98,111	91,626
Property, plant and equipment:		
Land and improvements	8,784	8,801
Buildings	52,555	52,076
Machinery and equipment	172,437	167,387
Total property, plant and equipment	233,776	228,264
Less accumulated depreciation	(172,953)	(167,558)
Total property, plant and equipment, net	60,823	60,706
Prepaid pension costs	20,936	17,784
Other assets	6,426	6,658
Total	$ 186,296	$ 176,774

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,430	$ 10,661
Accrued liabilities:		
Payroll and benefits	5,084	4,574
Accrued warranty expenses	2,032	2,265
Taxes payable	2,849	2,158
Commissions and other	1,774	1,137
Total current liabilities	23,169	20,795
Deferred income tax liabilities	8,500	6,172
Post retirement benefits liability	12,035	11,843
Shareholders' 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	15,367	15,372
Retained earnings	121,692	116,845
Treasury Stock, 16,108 shares, at cost	(311)	-
Cumulative translation adjustment	(948)	(1,045)
Total shareholders' equity	142,592	137,964
Total	$ 186,296	$ 176,774

See notes to consolidated financial statements

LUFKIN INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF EARNINGS
Lufkin Industries, Inc. and Subsidiaries

Years ended December 31, 1995, 1994 and 1993
(Thousands of dollars, except per share data)

	1995	1994	1993
Sales	$248,909	$217,273	$202,225
Costs and expenses:			
Cost of sales	216,733	189,999	176,099
Selling, general and administrative expenses	22,171	20,725	24,737
Special inventory provisions	-	11,224	-
Other income, net	(481)	(1,610)	(347)
Total costs and expenses	238,423	220,338	200,489
Operating income (loss)	10,486	(3,065)	1,736
Investment income	3,118	1,266	2,558
Earnings (loss) before income taxes	13,604	(1,799)	4,294
Income taxes (benefits)	4,686	(592)	1,745
Net earnings (loss)	$ 8,918	$ (1,207)	$ 2,549
Net earnings (loss) per share	$1.31	$(.18)	$.38

See notes to consolidated financial statements

LUFKIN INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Lufkin Industries, Inc. and Subsidiaries

Years ended December 31, 1995, 1994, and 1993
(Thousands of dollars, except share and per share data)

	Common Stock Shares	Common Stock Amount	Capital In Excess Of Par	Retained Earnings	Treasury Stock	Cumulative Translation Adjustments
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)
Net loss				(1,207)		
Cash dividends, $.60 per share				(4,075)		
Foreign currency translation adjustment						(245)
Balance December 31, 1994	6,792,381	6,792	15,372	116,845		(1,045)
Net earnings				8,918		
Cash dividends, $.60 per share				(4,071)		
Foreign currency translation adjustment						97
Purchases of Treasury Stock (20,108 shares)					(384)	
Exercise of Stock Options (4,000 shares)			(5)		73	
Balance December 31, 1995	6,792,381	$6,792	$15,367	$121,692	$ (311)	$(948)

See notes to consolidated financial statements

LUFKIN INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Lufkin Industries, Inc. and Subsidiaries

Years ended December 31, 1995, 1994 and 1993
(Thousands of dollars)

	1995	1994	1993
Cash flow from operating activities:			
Net earnings (loss)	$ 8,918	$(1,207)	$ 2,549
Adjustments to reconcile earnings (loss) to net cash provided by operating activities:			
Depreciation	7,050	7,895	9,890
Deferred income tax provision	2,997	28	1,622
Pension income	(3,151)	(3,628)	(3,275)
Post retirement benefits	192	216	255
(Gain) or loss on sales of property, plant and equipment	(247)	(1,299)	72
Changes in assets and liabilities:			
Receivables	(7,942)	9,341	3,821
Inventories	(2,818)	11,239	921
Accounts payable	769	796	4,324
Accrued liabilities	1,605	(2,677)	884
Net cash provided by operating activities	7,373	20,704	21,063
Cash flows from investing activities:			
Additions to property, plant and equipment	(7,646)	(5,238)	(5,885)
Proceeds from disposition of property, plant and equipment	725	5,356	411
(Increase) decrease in other assets	232	66	(2,663)
Net cash provided (used) by investing activities	(6,689)	184	(8,137)
Cash flows from financing activities:			
Dividends paid	(4,071)	(4,075)	(4,075)
Proceeds from exercise of stock options	68	-	-
Purchase of 20,108 shares of treasury stock	(384)	-	-
Net cash used by financing activities	(4,387)	(4,075)	(4,075)
Effect of translation on cash and temporary investments	97	(245)	(64)
Net increase (decrease) in cash and temporary investments	(3,606)	16,568	8,787
Cash and temporary investments, at beginning of year	36,923	20,355	11,568
Cash and temporary investments, at end of year	$33,317	$36,923	$20,355

See notes to consolidated financial statements

LUFKIN INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Lufkin Industries, Inc. and Subsidiaries

(1) SUMMARY OF MAJOR ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Lufkin Industries, Inc. and Subsidiaries (the Company) after elimination of all significant intercompany accounts and transactions.

USE OF ESTIMATES: The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of certain estimates by management in determining the Company's assets, liabilities, revenue and expenses.

TRANSLATION OF 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 and income statement accounts are translated at the average exchange rates prevailing during the period.

TEMPORARY INVESTMENTS: The Company's temporary investments consisting of highly liquid government and corporate debt securities have been classified as trading securities which are carried at market value. All realized and unrealized gains and losses are recognized currently in investment income.

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

(Thousands of dollars)	1995	1994
Accounts receivable	$34,645	$25,024
Notes receivable	2,159	3,838
	36,804	28,862
Allowance for doubtful accounts	(600)	(600)
Net receivables	$36,204	$28,262

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.

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. Accelerated depreciation methods are used for tax purposes. Expenditures for maintenance and repairs were $10,902,000 in 1995, $8,924,000 in 1994 and $8,240,000 in 1993.

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 earnings per share was 6,823,776 shares, 6,792,381 shares and 6,801,131 shares for 1995, 1994 and 1993, respectively.

OTHER: Certain prior year amounts have been reclassified to conform with the current year presentation.

(2) INCOME TAXES

The Company follows Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes". Under SFAS No. 109, deferred 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. The net deferred income tax liability is comprised of the following:

(Thousands of dollars)	1995	1994
Current deferred tax assets		
Gross assets	$ 5,300	$ 4,648
Gross liabilities	(1,447)	(126)
Total, net	3,853	4,522
Noncurrent deferred income tax liabilities		
Gross assets	6,715	6,851
Gross liabilities	(15,215)	(13,023)
Total, net	(8,500)	(6,172)
Net deferred income tax liabilities	$ (4,647)	$ (1,650)

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

(Thousands of dollars)	1995	1994
Inventory	$ 1,732	$ 3,092
Prepaid pension costs	(7,336)	(6,055)
Accrued warranty expenses	711	770
Post retirement benefits	4,212	4,027
Capital loss and tax credit carry forwards	2,509	2,077
Depreciation	(7,053)	(6,588)
Other, net	578	1,027
Net deferred income tax liabilities	$(4,647)	$(1,650)

The income tax provision (benefit) for 1995, 1994, and 1993 consisted of the following:

(Thousands of dollars)	1995	1994	1993
Current	$1,689	$(620)	$ 123
Deferred	2,997	28	1,622
Total	$4,686	$(592)	$1,745

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

(Thousands of dollars)	1995	1994	1993
Tax provision (benefit) computed at statutory rate	$4,693	$(612)	$1,460
Tax effect of:			
Expenses for which no benefit was realized	271	-	300

Tax-exempt interest and dividend income exclusion	(170)	(72)	(52)
Other, net	(108)	92	37
Actual provision (benefit)	$4,686	$(592)	$1,745

Cash payments for income taxes were $2,292,000, $235,000, and $801,000 for 1995, 1994 and 1993, respectively.

For income tax reporting purposes at December 31, 1995, the Company has capital loss carry forwards of approximately $579,000 which expire in 1997 and alternative minimum tax carry forwards of $2,307,000 which can be carried forward indefinitely.

(3) INVENTORIES

Inventories used in determining cost of sales were as follows:

(Thousands of dollars)	1995	1994
Finished goods	$ 6,845	$ 7,995
Work in process	6,050	4,911
Raw materials	11,842	9,013
Total	$24,737	$21,919

Inventories accounted for on a LIFO basis were $19,258,000 and $15,514,000 and on a FIFO basis were $5,479,000 and $6,405,000 at December 31, 1995 and 1994, respectively. Had the FIFO method been used in determining all inventory values, inventories would have been $18,194,000 and $16,581,000 higher at December 31, 1995 and 1994, respectively.

For 1995, net income was reduced by approximately $1,048,000 ($.15 per share) as a result of using the LIFO method as compared to using the first-in, first-out method of accounting for certain inventories. During 1994, LIFO inventories were reduced and these reductions resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years. The impact of these LIFO inventory liquidations reduced the net loss in 1994 by approximately $3,600,000 ($.53 per share). In 1993, net income was increased by approximately $450,000 ($.07 per share) as a result of using the LIFO method.

(4) 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 900,000 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:

	1995	1994	1993
Options outstanding, beginning of year	355,465	260,715	172,715
Granted (per share)			
1993 ($15.31 to $21.375)		-	122,000
1994 ($15.875 to $18.625)		94,750	-
1995 ($19.00 to $20.00)	97,500	-	-
Exercised (per share)			
1995 ($15.31 to $17.50)	(4,000)		
Forfeited (per share)			
1993 ($17.50 to $30.00)	-	-	(34,000)
1995 ($30.00)	(1,000)	-	-
Options outstanding, end of year	447,965	355,465	260,715

At December 31, 1995, there were 227,403 options exercisable at prices ranging from $15.31 to $30.00 per share.

(5) 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

(5) CAPITAL STOCK (CONTINUED)

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.

(6) 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 as an asset in the Company's consolidated balance sheet, and major assumptions used to determine these amounts.

(Thousands of dollars)	1995	1994	1993
Components of pension income:			
Service cost	$ 1,780	$ 2,092	$ 2,269
Interest cost	5,698	5,334	5,334
Actual return on plan assets	(27,424)	97	(7,178)
Net (amortization) and deferral	16,795	(11,151)	(3,700)
Net pension income	$ (3,151)	$ (3,628)	$ (3,275)
Plan assets at fair value	$128,361	$105,902	$110,752
Actuarial present value of projected benefit obligations:			
Accumulated benefit obligations			
Vested	(72,644)	(56,406)	(58,120)
Nonvested	(9,164)	(5,358)	(6,446)
Provision for future salary increases	(7,703)	(8,259)	(11,569)
Plan assets over projected benefit obligations	38,850	35,879	34,617
Unrecognized transition gain	(11,756)	(12,683)	(13,609)
Other unrecognized gain	(4,393)	(3,161)	(3,888)
Unrecognized prior service credits	(1,765)	(2,251)	(2,964)
Net prepaid pension costs	$ 20,936	$ 17,784	$ 14,156
Major assumptions at year end:			
Discount rate	7.50%	8.25%	7.25%
Rate of assumed increase in compensation levels	5%	5%	5%
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. During the year, the Company makes contributions of 75% of employee contributions up to a maximum of 6% of employee earnings. All obligations of the Company are funded through December 31, 1995. The Company's expense for these plans totaled $1,560,000, $1,444,000 and $1,456,000 in 1995, 1994 and 1993, 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. Under SFAS No. 106 "Employers' Accounting for Post-retirement Benefits Other than Pensions", the Company accrues the estimated costs of the plans over the employee's service periods.

(6) RETIREMENT BENEFITS (CONTINUED)

The following table sets forth the plans' combined funded status reconciled with the amount shown in the Company's balance sheet at December 31, 1995 and 1994:

(Thousands of dollars)	1995	1994
Accumulated post retirement benefit obligation:		
Retirees	$ 7,701	$ 9,208
Fully eligible active plan participants	951	883
Other active plan participants not yet eligible	2,133	1,932
Total accumulated post retirement benefit obligation	10,785	12,023
Unrecognized net actuarial gain (loss)	1,250	(180)
Accrued post retirement benefit cost	$12,035	$11,843
Net periodic cost of post retirement benefit:		
Service cost	$ 135	$ 168
Interest cost	923	882
Net periodic post retirement benefit cost	$ 1,058	$ 1,050

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 11% in 1995, 10% in 1996, and 9.25% in 1997. Thereafter, the Company's obligation is fixed at the amount of the Company's contribution for 1997. 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, 1995 by approximately $166,000 and the aggregate of the service and interest costs components of net periodic post retirement cost for the year ended December 31, 1995 by $24,000. In determining the accumulated post retirement obligation, weighted-average discount rates of 7.50% in 1995 and 8.25% in 1994 were used.

(7) BUSINESS SEGMENT INFORMATION

The Company manufactures, sells and services various types of oil field pumping units, power transmission products, foundry castings and trailers. 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)	1995	1994	1993
NET SALES:			
Machinery Division			
Oil field pumping units	$ 46,449	$ 40,938	$ 58,579
Power transmission products	60,131	55,334	47,561
Foundry castings	31,792	30,165	24,169
Other	-	3,051	7,761
Trailer Division	110,537	87,785	64,155
Total net sales	$248,909	$217,273	$202,225
NET SALES BY GEOGRAPHIC REGION:			
United States	$208,989	$183,147	$165,446
Europe	3,362	2,916	7,262
Canada	10,870	8,273	7,520
Latin America	16,411	14,765	14,473
Other	9,277	8,172	7,524
Total net sales	$248,909	$217,273	$202,225

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EXHIBIT (22)

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, Inc.	Barbados	Same
Lufkin Industries Europe, Bv.	The Netherlands	Same

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EXHIBIT (24)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated February 20, 1996, incorporated by reference in this Form 10-K, into the Lufkin Industries, Inc. previously filed Form S-8 Registration Statements File No. 33-36976 and File No. 33-62021.

ARTHUR ANDERSEN LLP

/s/ ARTHUR ANDERSEN LLP

Houston, Texas

March 25, 1996
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LUFKIN INDUSTRIES, INC.
P.O. BOX 849
601 SOUTH RAGUET
LUFKIN, TEXAS 75902

PROXY STATEMENT

GENERAL INFORMATION

The accompanying proxy is solicited by the Board of Directors of Lufkin Industries, Inc. (the "Company") for use at the Annual Meeting of Shareholders to be held on May 15, 1996, and any adjournments thereof. The annual meeting will be held at 9:00 a.m. Lufkin Time, at the Lufkin Civic Center, 601 North Second, Lufkin, Texas. When such proxy is properly executed and returned, the shares it represents will be voted at the meeting in accordance with the directions noted thereon; or if no direction is indicated, it will be voted in favor of the proposals set forth in the notice attached hereto. Any shareholder giving a proxy has the power to revoke it by oral or written notice to the Secretary of the Company at any time before it is voted.

A shareholder entitled to vote for the election of directors can withhold authority to vote for all nominees for directors or can withhold authority to vote for certain nominees for directors. Abstentions from either the proposal to elect directors, the proposal to approve the appointment of independent certified public accountants or the proposal to approve the 1996 Nonemployee Directors Stock Option Plan are treated as votes against the particular proposal. Broker non-votes on any of such matters are treated as shares as to which voting power has been withheld by the beneficial holders of those shares and, therefore, as shares not entitled to vote on the proposal as to which there is the broker non-vote.

The cost of solicitation of these proxies will be borne by the Company. In addition to solicitation by mail, certain directors, officers, and regular employees of the Company may solicit proxies by telephone and personal interview.

The approximate date on which this Proxy Statement will first be sent to shareholders is April 5, 1996.

VOTING SECURITIES

At the close of business on March 29, 1996, which is the record date for the determination of shareholders of the Company entitled to receive notice of and to vote at the annual meeting or any adjournments thereof, the Company had outstanding 6,751,383 shares of common stock, $1.00 par value (the "Common Stock"). Each share of Common Stock is entitled to one vote upon each of the matters to be voted on at the meeting.

Quest Advisory Corp. is the beneficial owner of 427,272 shares of the Company's Common Stock and Quest Management Company is the beneficial owner of 13,800 shares of the Company's Common Stock. Together these two related entities own beneficially 6.5% of the Company's Common Stock.

- --

PROPOSAL 1. ELECTION OF DIRECTORS

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The Board of Directors has nominated and urges you to vote FOR the election of the four directors who have been nominated to serve a three-year term of office in the 1999 class of directors. Proxies solicited hereby will be so voted unless shareholders specify otherwise in their proxies. The affirmative vote of the holders of a majority of the Common Stock present in person or by proxy at the meeting and entitled to vote is required for approval of this Proposal.

The Company's Fourth Restated Articles of Incorporation (the "Articles") divide the Board of Directors, with respect to terms of office, into three classes, designated as Class I, Class II and Class III. Each class of directors is to be elected to serve a three-year term and is to consist of, as nearly as possible, one-third of the members of the entire Board. In accordance with the Company's Bylaws, the Company's Board of Directors is currently fixed at 11 members.

The term of office of each of the Class II Directors expires at the time of the 1996 Annual Meeting of Shareholders, or as soon thereafter as their successors are elected or qualified. Mr. Jalenak, Mr. King, Mr. Smith and Mr. Trout have been nominated to serve an additional three-year term as Class II Directors. Each of the nominees has consented to be named in this Proxy Statement and to serve as a director, if elected.

It is intended that the proxies solicited hereby will be voted FOR the election of the nominees for director listed below, unless authority to do so has been withheld. If, at the time of the 1996 Annual Meeting of Shareholders, any of the nominees should be unable or decline to serve, the discretionary authority provided in the proxy will be used to vote for a substitute or substitutes designated by the Board of Directors. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required.

DIRECTORS AND NOMINEES FOR DIRECTOR

The nominees for Class II Directors, if elected, whose term of office as directors will expire in 1999, and certain additional information with respect to each of them, are as follows:

L. R. Jalenak, Jr., formerly Chairman of the Board of Cleo Inc., a Gibson Greetings Company, is a director of Perrigo Company and Dyersburg Corp. He also serves as an Independent Trustee for First Funds (a family of mutual funds). Age 65. Mr. Jalenak has been a director since 1990 and also serves on the Compensation Committee and Audit Committee.

Henry H. King, President of Henry H. King & Associates. Age 63. Mr. King has been a director since 1990 and also serves on the Executive Committee and the Compensation Committee.

Douglas V. Smith, President, Chief Executive Officer and Chairman of the Board of the Company. Age 53. Mr. Smith was elected President and Chief Executive Officer of the Company in January 1993 and Chairman of the Board in May 1995. He was also elected as a director in January 1993. He previously served as Vice President--Worldwide Manufacturing for Cooper Oil Tool Division of Cooper Industries (Houston, Texas).

W. W. Trout, Jr., retired Vice President of the Company. Age 64. Mr. Trout has been a director of the Company since 1968.

The Class III Directors, whose present term of office as directors will continue after the meeting and expire in 1997, and certain additional information with respect to each of them, are as follows:

Simon W. Henderson, III, manager of his own investments. Age 62. Mr. Henderson has been a director of the Company since 1971 and currently serves as a member of the Compensation Committee, the Executive Committee and the Nominating Committee.

Melvin E. Kurth, Jr., manager of his own investments. Age 65. Mr. Kurth has been a director of the Company since 1968 and currently serves as a member of the Audit Committee and the Nominating Committee.

W. T. Little, a management consultant. Age 62. Mr. Little has been a self-employed management consultant for the last five years. He became a director of the Company in 1968.

The Class I Directors, whose present term of office as directors will continue after the meeting and expire in 1998, and certain additional information with respect to each of them, are as follows:

Bob H. O'Neal, President, Chief Executive Officer and a Director of Stewart & Stevenson Services, Inc. Age 61. Mr. O'Neal became a director in 1992 and currently serves on the Compensation Committee and the Nominating Committee. In May 1995, an indictment was returned by a Federal Grand Jury accusing Stewart & Stevenson Services, Inc., a former consultant and four of its employees, including Mr. O'Neal, of one count of major fraud against the United States, four counts of false statements and one count of conspiracy to commit major fraud, make false statements and interfere with the administration of a foreign military sale.

Frank B. Stevenson, formerly Chairman of the Board, President and Chief Executive Officer of the Company. Age 68. He became a director of the Company in 1983 and currently serves on the Audit Committee.

H. J. Trout, Jr., manager of his own investments since 1990. Age 51. Mr. Trout has been a director of the Company since 1980 and serves as a member of the Executive Committee and the Nominating Committee.

Thomas E. Wiener, attorney. Age 55. Mr. Wiener became a director of the Company in 1987 and currently serves on the Audit Committee and the Executive Committee.

Mr. W. W. Trout, Jr., is the first cousin of H. J. Trout, Jr.

The following table reflects the beneficial ownership of the Company's Common Stock as of December 31, 1995, with respect to (i) each person who is known by the Company to own beneficially more than 5% of the outstanding shares of the Company's Common Stock; (ii) the directors and nominees for director; (iii) each executive officer named in the Summary Compensation Table; and (iv) the Company's directors and officers as a group.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED BENEFICIALLY	PERCENT OF CLASS
Quest Advisory Corp./1/ Quest Management Company/1/	441,072	6.5
James W. Barber(2)	6,900	*
John F. Glick(2)	1,750	*
Simon W. Henderson, III	86,033	1.3
L. R. Jalenak, Jr.	1,400	*
Henry H. King	2,128	*
Melvin E. Kurth, Jr.	112,740	1.7
W. T. Little	101,916	1.5
Bob H. O'Neal	500	*
Ernest G. Pittman(2)	9,950	*
Scott H. Semlinger(2)	13,270	*
Douglas V. Smith(2)	56,000	*
Frank B. Stevenson	4,150	*
H. J. Trout, Jr.	320,984	4.7
W. W. Trout, Jr.	24,949	*
Thomas E. Wiener	69,836	1.0
Directors and officers as a group(2)	857,691	12.4

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* Indicates ownership of less than one percent of the outstanding shares of Common Stock of the Company.

1. Pursuant to a Schedule 13G filed with the Company, Quest Advisory Corp. and Quest Management Company may be deemed to be controlled by Charles M. Royce. Quest Advisory Corp. has sole voting power and sole dispositive power with respect to 427,272 shares and Quest Management Company has sole voting power and sole dispositive power with respect to 13,800 shares.

2. Includes shares subject to presently exercisable options.

Each director and nominee for director listed above possessed sole voting and investment powers as to all the shares listed as being beneficially owned by such person, except Melvin E. Kurth, Jr. who has a limited term interest in the income of 26,712 of the listed shares which are held in trust for the benefit of himself and his sons, W. T. Little who shares voting and investment powers as to 48,000 of the listed shares, H. J. Trout, Jr. who has a remainder interest as to 272,980 of the listed shares which are held in a trust for his mother for which he is trustee and Thomas E. Wiener who shares voting and dispositive powers as to 48,864 of the listed shares.

The Board of Directors has a standing Audit Committee. The Audit Committee is currently comprised of Messrs. L. R. Jalenak, Jr., M. E. Kurth, Jr., F.B. Stevenson and T. E. Wiener. The Audit Committee's functions include making recommendations concerning the engagement of independent auditors, reviewing with the independent auditors the plan and results of the auditing engagement, reviewing the scope and results of the Company's procedures for internal auditing, reviewing professional services provided by the independent auditors, reviewing the independence of the independent auditors, considering the range of audit and nonaudit fees and reviewing the adequacy of the Company's internal accounting controls.

The Board of Directors also has a standing Compensation Committee which is currently comprised of Messrs. S. W. Henderson, III, L. R. Jalenak, Jr., H. H. King and B. H. O'Neal. The functions performed by the Compensation Committee include: reviewing executive salary and bonus structure; reviewing the Company's stock option plan (and making grants thereunder); setting bonus goals; and approving salary and bonus awards to key executives.

The Board of Directors also has a standing Nominating Committee which is currently comprised of Messrs. M. E. Kurth, S. W. Henderson III, B. H. O'Neal and H. J. Trout, Jr.

During 1995, the Audit Committee had two meetings; the Compensation Committee had four meetings; the Executive Committee had one meeting and the Board of Directors had four meetings. During 1995 each continuing member of the Board of Directors attended 75% or more of the meetings of the Board of Directors and the committees of which he was a member.

During 1995, the directors received $850 for each meeting of the Board of Directors or committee meeting that they attended in addition to a quarterly payment of $2,250.

Each director and officer of the Company filed on a timely basis all reports required pursuant to Section 16 of the Securities Exchange Act of 1934, except Messrs. James W. Barber, John F. Finney, Jr., John F. Glick, C. James Haley, Jr., James R. Partridge, Michael A. Penn, Ernest G. Pittman, and Scott H. Semlinger filed one late Form 4 with respect to the grant of employee stock options.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors of Lufkin Industries, Inc. (the "Committee") is pleased to present the 1995 report on executive compensation. This Committee report documents the components of the Company's executive officer compensation program and describes the basis on which the compensation program determinations were made by the Committee with respect to the executive officers of the Company, including the executive officers that are named in the compensation tables. The Committee meets regularly and is comprised entirely of nonemployee directors. The duty of the Committee is to review compensation levels of members of management, as well as administer the Company's various incentive plans including its annual bonus plan and its stock option plan. The Committee reviews with the Board of Directors in detail all aspects of compensation for all of the Company's senior officers.

The Committee has retained the services of a national compensation consulting firm, to assist the Committee in connection with the performance of its various duties. Such firm provides advice to the Committee with respect to how compensation paid by the Company to its senior officers compares to compensation paid by other companies. Members of the Committee also review compensation surveys provided the by the consulting firm and others.

EXECUTIVE COMPENSATION PROGRAM PHILOSOPHY

The design of the Company's executive compensation program is based on three fundamental principles. First, compensation must support the concept of pay for performance, that is, compensation awards are directly related to the financial results of the Company, to increasing shareholders value, and to individual contributions and accomplishments. As a result, much of an executive officer's compensation is "at risk" with annual bonus compensation, at target levels, amounting to approximately 35% of total cash compensation.

The second principle of the program is that it should offer compensation opportunities competitive with those provided by other comparable industrial companies. It is essential that the Company be able to retain and reward its executives who are critical to the long-term success of the Company's diversified and complex businesses.

The final principle is that the compensation program must provide a direct link between the long-term interests of the executives and the shareholders. Through the use of stock-based incentives, the Committee focuses the attention of executives on managing the Company from the perspective of an owner with an equity stake.

COMPENSATION PLAN COMPONENTS

Base Salary. The Committee established base salary levels for the Company's executive officers that are generally comparable to similar executive positions in companies of similar size and complexity as the Company. The Company obtains comparative salary information from published market surveys and from a national compensation consulting firm. The comparative data is from industrial companies of a comparable size in revenue. The Company's salaries are moderately below the competitive market at the fiftieth percentile in these comparisons. The Committee approves all salary changes for the Company's officers and bases individual salary changes on a combination of factors such as the performance of the executive, salary level relative to the competitive market, the salary increase budget for the Company and the recommendation of the Chief Executive Officer. In accordance with its review process, the Committee approved base salary increases for those officers whose salary level and individual performance warranted an adjustment. Base salary increases approved for those officers in 1995 averaged 3.8%.

Incentive Compensation. The Company's performance, or that of a division or business unit, as the case may be, for purposes of compensation decisions is measured under the annual bonus plan against goals established at the start of the year by the Committee. In each instance, the goals consisted in most part of making budgeted sales and expense levels, as well as subjective individual performance goals. Such goals were generally met in 1995.

Chief Executive Officer Compensation. Mr. Smith's base salary for 1995 was $255,000 and his annual bonus was $100,000. These amounts were determined by the Compensation Committee as a part of a three year employment contract that began on January 1, 1995 and will expire on December 31, 1998. Factors that influenced the Committee's recommendation to amend the CEO contract were the Company's improved operating results and the reorganizational plans that were successfully implemented. The Committee believes that the contract is competitive and that the employment contract is critical to attract and retain the best qualified executives.

Stock Options. During 1995, the Committee also made stock option grants to the CEO and to each of the senior officers of the Company. Each of those officers received stock options which were based on his responsibilities and relative position in the Company. In 1995, 37,700 shares of stock options were granted to the Company's officers which compares to 33,000 shares granted to officers in 1994. The Committee's policy is to make stock option grants annually and for the purpose of tying a portion of the employees compensation to the long-term performance of the Company's Common Stock. By making such grants, the Committee feels that these grants help senior officers' interests coincide with those of the shareholders.

No member of the Committee is a former or current officer or employee of the Company or any of its subsidiaries. The following members of the Compensation Committee have delivered the foregoing report.

H. H. King, Chairman
S. W. Henderson, III
L. R. Jalenak, Jr.
B. H. O'Neal

The foregoing report and the performance graph and related description included in this proxy statement shall not be deemed to be filed with the Securities and Exchange Commission except to the extent the Company specifically incorporates such items by reference into a filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's common stock to the NASDAQ Market Value Index and to the Media General Oilfield Services Index (which includes the Company) for the last five years. The graph assumes that the value of the investment in the Company's common stock and each index was $100 at December 31, 1990.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

[GRAPH APPEARS HERE]

	DECEMBER 31,					
	1990	1991	1992	1993	1994	1995
Lufkin Industries, Inc.	100	105.50	83.71	77.92	84.03	106.04
NASDAQ Market Value Index.........	100	95.50	95.16	111.08	99.30	146.77
Media General Oilfield Services Index............................	100	128.38	129.64	155.50	163.26	211.77

EXECUTIVE COMPENSATION

The following table sets forth information with respect to the Chief Executive Officer and the four most highly compensated executive officers of the Company as to whom the total annual salary and bonus for the year ended December 31, 1995, exceeded $100,000:

SUMMARY COMPENSATION TABLE

	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS(1)	STOCK OPTIONS (SHARES)	ALL OTHER COMPENSATION(2)
Douglas V. Smith........	1995	$255,000	$100,000	15,000	$13,786
President and	1994	225,000	50,000	--	12,590
Chief Executive Officer	1993	213,121	50,000	50,000	9,590
John F. Glick...........	1995	140,811	47,650	3,500	6,453
Vice President					
James W. Barber.........	1995	118,545	54,000	3,500	7,481
Vice President	1994	95,153	45,000	4,000	5,404
Scott H. Semlinger......	1995	124,008	31,255	3,500	6,381
Vice President	1994	113,136	17,000	4,000	5,926
	1993	108,514	22,500	5,000	5,193
E.G. Pittman............	1995	109,500	40,310	2,800	5,078
Vice President	1994	103,597	--	4,000	5,725
	1993	97,962	20,000	5,000	4,744

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(1) Annual bonus amounts are earned and accrued during the years indicated, and paid in the first quarter of the following year.

(2) The All Other Compensation consists of the Company's contribution to the Thrift Plan.

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