FORM 10-K

LUFKIN INDUSTRIES INC - LUFK

Exhibit:

Filed: March 26, 1997 (period: December 31, 1996)

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

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, 1996   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, 1997 is $132,928,000.

6,558,383 shares of the Company's Common Stock were outstanding on December 31, 1996.

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, 1996, 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 7, 1997, 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 highway 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 1996, foreign sales accounted for approximately 19 percent of the Company's total 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 1,900 people at December 31, 1996, including approximately 1,340 that were paid on an hourly basis. The Company has an open shop contract, which runs to October 3, 1999, 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, 1997:

Name	Position with Company	Age	Officer Since
D. V. Smith	Chairman, President & Chief Executive Officer	54	1993
J. W. Barber	Vice President	64	1994
J. F. Glick	Vice President	44	1994
J. R. Partridge	Vice President	61	1986
M. A. Penn	Vice President	56	1983
E. G. Pittman	Vice President	63	1976
S. H. Semlinger	Vice President	43	1992
C. J. Haley, Jr.	Secretary-Treasurer	54	1973
L. M. Hoes	Vice President	50	1996
P. G. Perez	Vice President	51	1996

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, Mr. Glick, Mr. Hoes and Mr. Perez 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. Mr. Hoes was first employed by the Company in May, 1996 to serve as Vice President and General Manager of the Oil Field Products Division. Prior to joining the Company, Mr. Hoes was employed as Vice President of Manufacturing for Cooper Cameron Inc. in Houston, Texas, as Vice President of Manufacturing for Cooper Oil Tool Division and as Vice President of Engineering for Cooper Oil Tool Division based in Houston, Texas. Mr. Perez was first employed by the Company in July, 1993 to serve as Director of Human Resources. Mr. Perez was previously employed by Cooper Industries as Manager of Employee Relations for the Oil Tool Division in Houston, Texas and by Cameron Iron Works as Manager of Labor Relations in Houston, Texas . 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)	1996	1995	1994	1993	1992

Sales	$226.0	$248.9	$217.3	$202.2	$178.6
Earnings (loss) from operations	10.5	8.9	(1.2)*	2.5	(27.3)**
Earnings (loss) per share	1.56	1.31	(.18)*	.38	(4.01)**
Total assets	185.9	186.3	176.8	182.5	176.3
Cash dividends per share	.60	.60	.60	.60	1.35

*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 7, 1997 ("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, 1996 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 7, 1997 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 1996

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 19, 1997.

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 19, 1997, 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
</TEXT>
</DOCUMENT>

EXHIBIT 13

PORTIONS OF LUFKIN INDUSTRIES, INC. ANNUAL REPORT TO SHAREHOLDERS

LUFKIN INDUSTRIES, INC.
LETTER TO SHAREHOLDERS

LETTER TO THE SHAREHOLDERS

1996 was marked by the continued improvement of the Company's financial performance. Sales were down almost 10% due to a major downturn in demand for trailers, but profits were up in all other product lines. Our customer base was expanded in all areas, and our international presence was increased. We were successful in adapting to a different mix of products and were successful in achieving our goals for the year. We believe that this improvement will continue and that the outlook for 1997 is promising.

For the year ended December 31, 1996, net sales were $226.0 million compared with $248.9 million reported for the year ended December 31, 1995. Sales of power transmission products increased 22% to $73.1 million compared with $60.1 million in 1995. Power transmission sales benefited from stronger foreign markets. Oil field products sales rose 8% in 1996 to $50.0 million from $46.4 million in 1995 fueled in part by an improved price for oil around the world. Foundry castings products sales were up 2% to $32.5 million from $31.8 million a year ago. As anticipated, trailer products sales in 1996 were lower than in 1995 brought on by a decline in trailer orders and soft economic conditions affecting the trucking industry. For 1996, sales were $70.4 million, a decrease of 36% from $110.5 million in 1995. We are encouraged by the increase in order level during the year from the low point which occurred in the first quarter.

Operating income in 1996 increased 36% to $14.3 million from $10.5 million in 1995. The increase reflects improvements in our operations to increase productivity and lower costs and a favorable mix effect of increased shipments of oil field and power transmission products. Cost of sales as a percentage of total sales decreased to 83.6% from 87.1% a year ago. Net income rose 18% to $10.5 million compared with $8.9 million, and earnings per share increased 19% to $1.56 per share compared with $1.31 per share, a year ago.

Lufkin's total backlog as of December 31, 1996, was $99.7 million compared with $76.6 million at the end of the third quarter in 1996 and $100.1 million at the end of 1995. At year end, the backlog for oil field was $12.1 million compared with $8.1 million. The backlog was at its highest level since 1991 having increased sequentially in each of the last three quarters. The backlog at year end for trailers was $40.1 million compared with $40.2 million a year ago. The backlog showed significant improvement from the $24.9 million level of the first quarter of 1996, and we have entered 1997 in a strong position. For foundry products, the backlog at year end was $17.4 million compared with $15.8 million and for power transmission products it was $30.1 million compared with $36.0 million a year ago.

The Company added to its sound financial position in 1996. Lufkin ended the year with total assets of $185.9 million and working capital of $69.4 million. Lufkin's shareholders' equity at year end was $144.6 million, and the book value was $22.05 per share. Cash and temporary investments totaled $30.9 million, and Lufkin had no outstanding debt at year end.

To increase the value of the Company's common stock, the Board of Directors authorized the use of up to $4.0 million for the repurchase of shares of Lufkin's common stock during 1996. As of December 31, 1996, a total of 238,000 shares have been repurchased under the Company's repurchase programs. The current repurchase program is the Company's third such program. It is the Board's belief that periodic repurchase of common stock of Lufkin represents a sound use of a portion of available cash.

Lufkin paid four quarterly cash dividends of $0.15 per share on the Company's common stock for a total of $0.60 per share paid in 1996. Effective with the first quarter of 1997, the quarterly dividend was increased 13% to $0.17 per share. Lufkin has paid a quarterly cash dividend for 57 consecutive years.

During 1996 Lufkin was able to strengthen its market position within each of its product lines. We accomplished this by:

- Introducing new trailer products
- Developing new gearing in direct support of the power generation market
- Extending our international sales presence
- Installing new iron melting capability for engineered castings
- Increasing our customer support of oil field markets
- Improving operational capability and performance
- Providing enhanced training for employees.

Our plan for the future is to continue to focus on investment opportunities where we can capitalize on Lufkin's expertise within engineered industrial products based in metalworking, strengthen our superior customer service and improve the support facilities of all our product lines.

Lufkin's growth and financial performance is clearly supported by an excellent organization structure. We are proud to employ some of the most experienced and highly regarded people in our industry and to have the necessary financial resources to achieve continued improvement. Our goal for 1997 is to see that all Lufkin's stakeholders share in the increased performance it achieves.

Overall, we are very pleased with the results Lufkin achieved during the past year. We are encouraged about the trends affecting our product lines, particularly for oil field and trailer products and remain optimistic about reporting 1997 results that compare favorably with 1996.

Sincerely,

/s/ Douglas V. Smith

Douglas V. Smith
President and Chief Executive Officer

OIL FIELD

Overall demand for oil field pumping units in 1996 increased 8.0% over the 1995 level. This improvement was fueled by increased global investment in oil production. Shipments in the domestic market, increased 14% in 1996. Increased domestic drilling and the tight availability of used pumping units accounted for the improved demand. The 1997 domestic outlook is expected to continue to expand.

Revenue in Canada, where the government continues to stress incentives to drill for natural gas and oil , increased 35% in 1996. The increase in Canada was offset primarily by a slow down in Argentina. For 1997, we are expecting sales in Canada to remain strong, a rebound in South America, and improved sales in the Eastern Hemisphere.

The Company's presence in key South American, Far East, and Canadian markets with local manufacturing capabilities provides the Company with the ability to meet local demand with faster deliveries and prices competitive with local economic conditions. This in-country presence also allows the Company to provide technical support as well as field service which gives the Company an additional competitive advantage.

With the completion of a factory consolidation project at the main manufacturing facility during the third quarter of 1996, the division is positioned with improved work flow, more efficient material handling, and new machine tool technology which will further reduce costs and improve productivity.

The oil field division ended 1996 in a strong position. The backlog was $12.1 million, a 49% increase from $8.1 million at the end of 1995. The increase in the average oil price (20% up over 1995) is generally expected to result in higher investments by the oil industry in 1997. Prices for oil field equipment are expected to outpace inflation. As a result, revenues are anticipated to show continued improvement; and the combination of stronger prices, reduced cost, and leverage on increased volume should yield improved financial performance in 1997.

Longer term, the future for the type of oil field equipment Lufkin manufactures is positive. The oil industry is in better economic shape than it has been since 1981. Demand for oil continues to increase, and the ratio of supply to demand for oil is supporting an oil price more stable than in the past 15 years. The investments by the Company's customers in the business continues to grow. As the major supplier worldwide, Lufkin is ready to meet the needs as the market continues to expand.

POWER TRANSMISSION

Power transmission enjoyed one of its best years in 1996 with revenues rising 22% over 1995. This marked the fifth consecutive year of revenue growth for the division. Earnings were also up significantly, due to both added volume and improvements in productivity.

While demand was strong in virtually all segments of power transmission's business, there was some softening mid-year in bookings in both the power generation and petrochemical segments. These were offset by growth in demand for gears used in the steel and marine industries. In addition, orders received from new international accounts provided new opportunities and countered the effect of the temporary drop in demand in the power generation and petrochemical sectors. Demand strengthened in these two markets during the fourth quarter, and the outlook for 1997 is strong.

The demand for gears in the power generation sector will grow from the need for electrical power generation in developing countries and the continuing move to combined cycle operations in industrialized countries. The petrochemical sector will respond to continued investment in new plants in developing countries, as well as the drive to update existing refineries and petrochemical plants to improve efficiency and address the ongoing safety and environmental requirements.

Lufkin's products and services are ideally positioned to compete successfully as its major markets continue their trend of steady growth. Product development efforts have yielded significant improvements in product performance, while investments in both capital equipment and training have improved operational efficiency.

Lufkin's sales and services coverage are recognized as among the best in the industry. Efforts in 1997 will be directed at strong customer support as the primary strategy for growth in those sectors that offer attractive returns, coupled with a strong focus on operational and quality improvement in our design and manufacturing activities.

FOUNDRY CASTINGS

Lufkin's foundry division experienced continued strong demand from commercial castings during 1996. The division again achieved a new cupola tonnage record of charging over 67,000 tons of ductile and gray iron. This was approximately 200 tons above the record set during 1995. While continuing to operate at near capacity levels, revenues also increased modestly due to some product mix shift to higher value-added engineered castings.

Lufkin's casting capabilities include low-to medium-volume ductile and gray iron castings which are used as components for numerous original equipment manufacturers (OEMs). Over 300 tons of iron are poured each production day for castings ranging in size from 100 pounds to over 30,000 pounds. This capacity ranks Lufkin as one of the largest suppliers in the United States.

The foundry's customer base expanded during the past several years to include such industrial sectors as building construction equipment, material handling equipment, machine tools, valves and water works, pump and compressor, as well as heavy truck suspension manufacturers. Lufkin's casting products can be found in such diverse applications as strainer bodies for fire protection systems, bridge support bearings, horizontal and vertical CNC machining centers, or front-end loaders working in quarries.

In 1997, Lufkin's efforts will remain focused on expanding the more technically demanding, higher value-added engineered castings. The strategy will allow for the continued development of profitable, long-term relationships with strategic customers while remaining focused on unsurpassed customer service. These efforts will be maintained while continuing to support Lufkin's power transmission and oil field divisions where it is economically advantageous.

TRAILERS

While overall economic conditions in 1996 were generally favorable in most of Lufkin's markets, the factors directly affecting the transportation industry were negative. The trailer industry saw consolidation among its participants and some of the weaker companies falling by the wayside. The decline experienced in 1996 was moderated as a result of the strategy Lufkin implemented in 1995 to position itself for an anticipated downturn in the trailer market by bringing its production capability and workforce in line with expected demand. Although financial performance in the trailer division was depressed from record levels of the past two years, 1996 was a good, steady business year in which Lufkin had several noteworthy achievements.

During the past year, Lufkin was able to expand its customer base by making a concerted effort to reach a greater number of users and dealers. This action lessened the dependency on its largest customers and showed positive results. Lufkin's reputation for quality construction, reliability, innovation of design, and competitive prices has helped it expand the customer base. Also, Lufkin's solid financial base made it a more reliable supplier in the financially distressed trailer industry.

During the past year the trailer division added to its diverse product offering by introducing a new open-top chip trailer. In addition, the new plate trailer introduced in 1995 went into full production and has been well received by customers. The many different sizes and styles of vans, platforms, and high capacity and light-weight dump trailers have tended to minimize the risk associated with dependency on one type of trailer.

With the economy holding steady, the trailer division is expected to benefit from growth in the demand for trailers.

The division is focused on continuing to improve productivity and is well positioned to capitalize on opportunities to increase market share. Lufkin's established manufacturing facilities provide ample capability to meet short-term supply. On a long-term basis, several favorable trends are expected to increase the demand for trailers. One, the average age of trailer fleets is increasing. Secondly, more companies are outsourcing their transportation needs. And, third, more trailers are being used as warehouses for short-term storage. These industry trends should favorably impact the trailer division.

LUFKIN INDUSTRIES, INC.
FINANCIAL REVIEW
Lufkin Industries, Inc. and Subsidiaries

COMMON STOCK INFORMATION

	1996			1995		
	Stock Price			Stock Price		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$22.50	$17.00	$.15	$18.50	$16.63	$.15
Second	21.75	18.00	.15	20.00	18.00	.15
Third	21.25	18.00	.15	23.50	18.50	.15
Fourth	25.25	20.75	.15	23.50	18.50	.15

The Company's common stock is traded on The Nasdaq Stock Market (National Market) under the symbol LUFK and as of February 28, 1997, there were approximately 800 record holders of its common stock.

The Company has paid cash dividends for 57 consecutive years. Total dividend payments were $3,993,000 and $4,071,000 in 1996 and 1995, respectively.

QUARTERLY FINANCIAL DATA (UNAUDITED)

In millions, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Net sales	$55.9	$55.6	$55.1	$59.4
Gross margin	8.8	9.9	8.9	9.5
Net earnings	2.4	2.9	2.5	2.6
Earnings per share	.36	.43	.38	.39
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

ADDITIONAL FINANCIAL INFORMATION

Shareholders may obtain additional information for the year ended December 31, 1996, 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 1996 were $226.0 million compared to $248.9 million for 1995 and $217.3 million for 1994. The Company reported net operating income of $14.3 million and $10.5 million for 1996 and 1995, respectively. In 1994, the Company had an operating loss of $3.1 million. For 1996, the Company reported net income of $10.5 million, compared to a net income of $8.9 million for 1995 and a net loss of $1.2 million for 1994. The 1994 results included an $11.2 million pre-tax charge for special inventory write-downs.

During 1996, the Company experienced a decline in trailer revenues while revenues for all other product groups increased. The annual percentage increases (decreases) in revenues for the Company's product groups for the three years ended December 31, 1996 were as follows:

Annual increases (decreases) in revenues

	1996	1995	1994
Oil field pumping units	8	13%	(30)%
Power transmission products	22	9	16
Foundry castings	2	5	25
Trailers	(36)	26	37
Total company	(9)%	15%	7 %

The sales mix of the Company's products for the three years ended December 31, 1996 was as follows:

Percent of total sales

	1996	1995	1994
Oil field pumping units	22%	19%	19%
Power transmission products	32	24	25
Foundry castings	15	13	14
Trailers	31	44	41
Other	-	-	1
Total company	100%	100%	100%

Oil field revenues increased 8% to $50.0 million in 1996 over 1995 revenues of $46.4 million. Oil field revenues were $40.9 million in 1994. During 1996, the Company booked new orders of $54.0 million compared to $47.3 million in 1995 and $42.9 million in 1994. Demand for oil field products increased at the end of 1996 resulting in a backlog for oil field products at December 31, 1996 of $12.1 million, its highest level since 1991. At December 31, 1995 and December 31, 1994, the backlog for oil field products was $8.1 million and $8.5 million, respectively.

Sales of power transmission products increased 22% to $73.1 million from sales of $60.1 million in 1995. Power transmission sales for 1994 were $55.3 million. New order bookings totaled $67.2 million for 1996 compared to $75.5 million and $54.0 million for 1995 and 1994, respectively. At December 31, 1996, the power transmission backlog was $30.1 million compared to $36.0 million at the end of 1995 and $21.1 million at year end 1994.

Foundry castings revenues increased to $32.5 million for 1996, up 2% from 1995. Sales of foundry castings were $31.8 million in 1995 and $30.2 million in 1994. New order bookings totaled $34.0 million in 1996 and 1995. The backlog for foundry castings at December 31, 1996 was $17.4 million compared to $15.8 million and $4.2 million at the end of 1995 and 1994, respectively.

The Company's trailer product sales decreased by 36% to $70.4 million from $110.5 million in 1995 due to decreased sales volumes as a result of lower trailer market demand levels. Trailer product sales in 1994 were $87.8 million. New trailer orders booked during 1996 totaled $70.3 million compared to $79.0 million in 1995 and $112.4 million in 1994. At the end of 1996, the trailer backlog was $40.1 million compared to $40.2 million at December 31, 1995 and

$75.6 million at December 31, 1994.

Gross profit margins before special inventory write-downs increased to 16% for 1996 from 13% for 1995 and 1994. The 1996 sales mix reflected increased sales in the higher margin oil field and power transmission product lines while lower margin trailer sales decreased. In addition, the Company continued to emphasize cost awareness and cost reduction programs.

Selling, General and Administrative (S. G. & A.) expenses were $23.2 million in 1996 compared to $22.2 million and $20.7 million in 1995 and 1994, respectively. The increase in SG & A expenses was due primarily to increased power transmission selling expenses associated with expansion of the Company's selling efforts and market presence in western Europe and other areas.

RESULTS OF OPERATIONS (CONTINUED)

Net operating income for 1996 was $14.3 million. The Company realized net operating income of $10.5 million in 1995 and a net operating loss of $3.1 million in 1994. The Machinery Division's net operating income as a percentage of sales before special inventory writedowns was 6% for 1996 compared to 2% for 1995 and 1% in 1994. The increase reflects improved product mix and increased sales volumes in Machinery Division products. The Trailer Division's net operating income as a percentage of sales was 6% for 1996, down from 7% for 1995 and 1994. The decrease in net operating income for the Trailer Division was due to decreased sales volumes partially offset by cost reductions in the area of fixed costs.

Other income was $.3 million in 1996 compared to $.5 million in 1995. Investment income decreased in 1996 to $1.9 million from $3.1 million in 1995. The decrease in investment income was due to lower investment balances resulting in decreased interest income. In addition, capital gains on investments were lower in 1996 than 1995.

Net income was increased by approximately $.4 million ($.06 per share) for 1996 and was reduced by approximately $1.0 million ($.15 per share), for 1995, as a result of using the LIFO method as compared to the FIFO method of accounting for certain inventories. During 1996 and 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 increased net income in 1996 and reduced the net loss in 1994 by approximately $.1 million ($.02 per share) and $3.6 million ($.53 per share), respectively.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996, the Company had working capital of $69.4 million compared to $74.9 million in 1995 and $70.8 million in 1994. The Company generated $19.1 million net cash from operating activities in 1996. Net cash provided from operating activities in 1995 and 1994 was $7.4 million and $20.7 million, respectively. Accounts receivable decreased by 7.5% to $33.5 million from $36.2 million at the end of 1995 primarily as a result of decreased sales volumes. At December 31, 1996 inventories were $3.2 million lower and accounts payable were $4.4 million lower than the December 31, 1995 balances. These decreases were primarily due to the lower sales volumes of trailer products in 1996. Dividends of $.60 per share totaling $4.0 million were paid in 1996. During 1995 and 1994, dividends totaled $4.1 million ($.60 per share) each year. During 1996, the Company's expenditures for property, plant and equipment (PP & E) totaled $12.4 million related to capacity expansions in the foundry and power transmission repair businesses, equipment replacement and business consolidation. PP&E expenditures for 1995 and 1994 totaled $7.6 million and $5.2 million, respectively. Treasury stock purchases increased to $4.4 million in 1996 over $.4 million in 1995. Under the Company's current stock repurchase program, authorizations of approximately $1.3 million remained at December 31, 1996 for future treasury stock purchases. The Company believes that existing working capital will be sufficient to satisfy its 1997 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, 1996.

The Internal Revenue Service (IRS) has examined the Company's federal income tax returns for calendar years 1991 through 1993. The IRS has recommended an assessment of additional taxes for 1991 and 1993. The Company disagrees with the IRS' position and is currently pursuing its rights of administrative review and appeal and intends to vigorously contest this matter. Although the resolution of these remaining issues could affect the timing of the payment of previously accrued tax liabilities and require the use of a portion of its available capital, the Company does not believe that the results of the audit or the ultimate resolution of the IRS' proposed adjustments will have a material impact on its consolidated results of operations or financial position.

FORWARD-LOOKING STATEMENTS AND ASSUMPTIONS

This Annual Report may contain or incorporate by reference certain forward-looking statements, including by way of illustration and not of limitation, statements relating to liquidity, revenues, expenses, margins and contract rates and terms. The Company strongly encourages readers to note that some or all of the assumptions, upon which such forward-looking statements are based, are beyond the Company's ability to control or estimate precisely, and may in some cases be subject to rapid and material changes.

CONSOLIDATED BALANCE SHEET
Lufkin Industries, Inc. and Subsidiaries

December 31, 1996 and 1995
(Thousands of dollars except share data)

ASSETS	1996	1995
Current assets:		
Cash	$ 655	$ 277
Temporary investments	30,211	33,040
Receivables, net	33,472	36,204
Inventories	21,563	24,737
Deferred income taxes	2,132	3,853
Total current assets	88,033	98,111
Property, plant and equipment, net	65,993	60,823
Prepaid pension costs	24,469	20,936
Other assets	7,430	6,426
Total assets	$185,925	$186,296

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,035	$ 11,430
Accrued liabilities:		
Payroll and benefits	5,050	5,084
Accrued warranty expenses	1,329	2,032
Taxes payable	3,072	2,849
Commissions and other	2,162	1,774
Total current liabilities	18,648	23,169
Deferred income taxes	10,478	8,500
Post retirement benefits	12,192	12,035
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	15,367
Retained earnings	128,150	121,692
Treasury stock, 233,998 shares and 16,108 shares, at cost	(4,754)	(311)
Cumulative translation adjustment	(948)	(948)
Total shareholders' equity	144,607	142,592
Total liabilities and shareholders' equity	$185,925	$186,296

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS
Lufkin Industries, Inc. and Subsidiaries

Years ended December 31, 1996, 1995 and 1994
(Thousands of dollars, except per share data)

	1996	1995	1994
Sales	$225,974	$248,909	$217,273
Costs and expenses:			
Cost of sales	188,877	216,733	189,999
Selling, general and administrative expenses	23,163	22,171	20,725
Special inventory provisions	-	-	11,224
Other income, net	(345)	(481)	(1,610)
Total costs and expenses	211,695	238,423	220,338
Operating income (loss)	14,279	10,486	(3,065)
Investment income	1,928	3,118	1,266
Earnings (loss) before income taxes	16,207	13,604	(1,799)
Income taxes (benefits)	5,756	4,686	(592)
Net earnings (loss)	$ 10,451	$ 8,918	$ (1,207)
Net earnings (loss) per share	$1.56	$1.31	$(.18)

See notes to consolidated financial statements.

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

Years ended December 31, 1996, 1995, and 1994
(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 Adjustment
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)
Net earnings				10,451		
Cash dividends, $.60 per share				(3,993)		
Purchases of Treasury Stock (218,015 shares)					(4,445)	
Exercise of Stock Options (125 shares)					2	
Balance December 31, 1996	6,792,381	$ 6,792	$15,367	$128,150	$(4,754)	$ (948)

See notes to consolidated financial statements.

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

Years ended December 31, 1996, 1995 and 1994
(Thousands of dollars)

	1996	1995	1994
Cash flow from operating activities:			
Net earnings (loss)	$ 10,451	$ 8,918	$(1,207)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation	6,950	7,050	7,895
Deferred income tax provision	3,699	2,997	28
Pension income	(3,533)	(3,151)	(3,628)
Post retirement benefits	157	192	216
Gain on sales of property, plant and equipment	(45)	(247)	(1,299)
Changes in:			
Receivables	2,732	(7,942)	9,341
Inventories	3,174	(2,818)	11,239
Accounts payable	(4,395)	769	796
Accrued liabilities	(126)	1,605	(2,677)
Net cash provided by operating activities	19,064	7,373	20,704
Cash flows from investing activities:			
Additions to property, plant and equipment	(12,357)	(7,646)	(5,238)
Proceeds from disposition of property, plant and equipment	282	725	5,356
(Increase) decrease in other assets	(1,004)	232	66
Net cash provided (used) by investing activities	(13,079)	(6,689)	184
Cash flows from financing activities:			
Dividends paid	(3,993)	(4,071)	(4,075)
Proceeds from exercise of stock options	2	68	-
Purchase of treasury stock	(4,445)	(384)	-
Net cash used by financing activities	(8,436)	(4,387)	(4,075)
Effect of translation on cash and temporary investments	-	97	(245)
Net increase (decrease) in cash and temporary investments	(2,451)	(3,606)	16,568
Cash and temporary investments, at beginning of year	33,317	36,923	20,355
Cash and temporary investments, at end of year	$ 30,866	$33,317	$36,923

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)	1996	1995
Accounts receivable	$31,586	$34,645
Notes receivable	2,486	2,159
	34,072	36,804
Allowance for doubtful accounts	(600)	(600)
Net receivables	$33,472	$36,204

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. The following is a summary of the Company's property, plant and equipment balances and useful lives.

(Thousands of dollars)	Useful Life in Years	1996	1995
Land	-	$ 2,800	$ 2,819
Land improvements	10-25	6,015	5,965
Buildings	12.5-40	54,339	52,555
Machinery and equipment	3-12.5	162,542	155,702
Furniture and fixtures	5-12.5	17,318	16,735
Total property, plant and equipment		243,014	233,776
Less accumulated depreciation		(177,021)	(172,953)
Total property, plant and equipment, net		$ 65,993	$ 60,823

The Company applies Statement of Financial Accounting Standards (SFAS) No. 121 for recognition of a loss if impairment occurs in its fixed assets. The adoption of this policy in 1996 had no impact on the Company's results of operations or financial condition.

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 6,714,812 shares, 6,823,776 shares, and 6,792,381 shares for 1996, 1995, and 1994, respectively.

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

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.

(2) INCOME TAXES

The net deferred income tax liabilities are comprised of the following:

(Thousands of dollars)	1996	1995
Current deferred income tax assets		
Gross assets	$ 3,404	$ 5,300
Gross liabilities	(1,272)	(1,447)
Total, net	2,132	3,853
Noncurrent deferred income tax liabilities		
Gross assets	8,245	6,715
Gross liabilities	(18,723)	(15,215)
Total, net	(10,478)	(8,500)
Net deferred income tax liabilities	$ (8,346)	$ (4,647)

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

(Thousands of dollars)	1996	1995
Inventories	$ 156	$ 1,732
Prepaid pension costs	(8,564)	(7,336)
Payroll and benefits	1,073	1,174
Accrued warranty expenses	465	711
Post retirement benefits	4,267	4,212
Capital loss and tax credit carryforwards	1,598	2,509
Depreciation	(7,387)	(7,053)
Other, net	46	(596)
Net deferred income tax liabilities	$(8,346)	$(4,647)

The income tax provision (benefit) for 1996, 1995, and 1994 consisted of the following:

(Thousands of dollars)	1996	1995	1994
Current	$2,057	$1,689	$(620)
Deferred	3,699	2,997	28
Total	$5,756	$4,686	$(592)

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)	1996	1995	1994
Tax provision (benefit) computed at statutory rate	$5,672	$4,693	$(612)
Tax effect of:			
Expenses for which no benefit was realized	362	271	-
Tax-exempt interest and dividend income exclusion	(158)	(170)	(72)
Other, net	(120)	(108)	92
Actual provision (benefit)	$5,756	$4,686	$(592)

- --

Cash payments for income taxes totaled $2,178,000, $2,292,000 and $235,000 for 1996, 1995 and 1994, respectively.

For income tax reporting purposes at December 31, 1996, the Company has alternative minimum tax carryforwards of $785,000 and foreign tax credit carryforwards of $796,000.

The Internal Revenue Service (IRS) has examined the Company's federal income tax returns for calendar years 1991 through 1993. The IRS has recommended an assessment of additional taxes for 1991 and 1993. The Company disagrees with the IRS' position and is currently pursuing its rights of administrative review and appeal and intends to vigorously contest this matter. Although the resolution of these remaining issues could affect the timing of the payment of previously accrued tax liabilities and require the use of a portion of its available capital, the Company does not believe that the results of the audit or the ultimate resolution of the IRS' proposed adjustments will have a material impact on its consolidated results of operations or financial position .

(3) INVENTORIES

Inventories used in determining cost of sales were as follows:

(Thousands of dollars)	1996	1995
Finished goods	$ 5,898	$ 6,845
Work in process	4,566	6,050
Raw materials	11,099	11,842
Total	$21,563	$24,737

Inventories accounted for on a LIFO basis were $16,655,000 and $19,258,000 and on a FIFO basis were $4,908,000 and $5,479,000 at December 31, 1996 and 1995, respectively. Had the FIFO method been used in determining all inventory values, inventories would have been $17,624,000 and $18,194,000 higher at December 31, 1996 and 1995, respectively.

Net income was increased by approximately $.4 million ($.06 per share) for 1996 and was reduced by approximately $1.0 million (15 per share), for 1995, as a result of using the LIFO method as compared to the FIFO method of accounting for certain inventories. During 1996 and 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 increased net income in 1996 and reduced the net loss in 1994 by approximately $.1 million ($.02 per share) and $3.6 million ($.53 per share), respectively.

(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 canceled and reissued under terms specified in the plan.

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

	1996	1995	1994
Options outstanding, beginning of year	447,965	355,465	260,715
Granted (per share)			
1994 ($15.875 to $18.625)			94,750
1995 ($19.00 to $20.00)		97,500	
1996 ($18.125 to $21.75)	106,150		
Exercised (per share)			
1995 ($15.31 to $17.50)		(4,000)	
1996 ($15.875)	(125)		
Forfeited (per share)			
1995 ($30.00)		(1,000)	
1996 ($15.875 to $20.00)	(3,000)		

Options outstanding, end of year	550,990	447,965	355,465

4) EMPLOYEE STOCK OPTION PLAN (CONTINUED)

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

		1996	1995
Net Earnings	As reported	$10,451	$8,918
	Pro forma	$10,316	$8,897
Earnings Per Share	As reported	$ 1.56	$ 1.31
	Pro forma	$ 1.54	$ 1.30

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

Expected dividend yield	2.8% - 3.3%
Expected stock price volatility	25.69%-27.25%
Risk free interest rate	6.03% - 6.71%
Expected life of options	10 years

During 1996, 106,150 options were granted. These options had a weighted average fair value of $7.11 per option and a weighted average exercise price of $21.13 per option.

The following table summarizes information about stock options outstanding at December 31, 1996.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/96	Wgtd. Avg. Remaining Contractual Life	Wgtd. Avg. Exercise Price	Number Exercisable at 12/31/96	Wgtd. Avg. Exercise Price
$15.31-$18.625	230,625	6.9 years	$16.98	167,250	$17.11
$19.00-$21.75	255,650	8.6 years	$20.90	75,875	$20.89
$28.50-$30.00	64,715	3.8 years	$29.89	64,715	$29.89
$15.31-$30.00	550,990	7.3 years	$20.32	307,840	$20.73

(5) STOCK REPURCHASE PLAN

In March, 1995, the Company began a stock repurchase plan under which the Company was authorized to spend up to $2.1 million for purchases of its common stock. During 1996, an additional $4.0 million was authorized for the purchase of common stock. The Company repurchased 218,015 shares at an aggregate cost of approximately $4.4 million in 1996 and 20,108 shares at an aggregate cost of $.4 million in 1995. Repurchased shares are added to treasury stock and are available for general corporate purposes including the funding of the Company's employee stock option plan.

(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, which was renewed on May 31, 1996, provides for the possible issuance of a dividend of one common stock purchase right for each outstanding share of common stock. Under certain conditions, each right may be exercised to purchase one share of common stock at an exercise price of $75, subject to adjustment. Under certain circumstances, the rights entitle holders to purchase the common stock of the Company or an acquiring company having a value of twice the exercise price of the rights. The rights would become exercisable, or transferable apart from the common stock, ten days after a person or group acquired 20% or more, or announced or made a tender offer

(6) CAPITAL STOCK (CONTINUED)

for 30% or more, of the outstanding common stock. Under certain circumstances, all rights owned by an acquiring person would be null and void. The rights expire on May 31, 2006, and may be redeemed by the Company at any time prior to the occurrence of certain events at $.05 per right.

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

(Thousands of dollars)	1996	1995	1994
Components of pension income:			
Service cost	$ 2,304	$ 1,780	$ 2,092
Interest cost	6,539	5,698	5,334
Actual return on plan assets	(13,660)	(27,424)	97
Net (amortization) and deferral	1,284	16,795	(11,151)
Net pension income	$ (3,533)	$ (3,151)	$ (3,628)
Plan assets at fair value	$137,039	$128,361	$105,902
Actuarial present value of projected benefit obligations:			
Accumulated benefit obligations			
Vested	(76,447)	(72,644)	(56,406)
Nonvested	(9,496)	(9,164)	(5,358)
Provision for future salary increases	(7,802)	(7,703)	(8,259)
Plan assets over projected benefit obligations	43,294	38,850	35,879
Unrecognized transition gain	(10,830)	(11,756)	(12,683)
Other unrecognized gain	(6,369)	(4,393)	(3,161)
Unrecognized prior service credits	(1,626)	(1,765)	(2,251)
Net prepaid pension costs	$ 24,469	$ 20,936	$ 17,784
Major assumptions at year end:			
Discount rate	7.50%	7.50%	8.25%
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, 1996. The Company's expense for these plans totaled $1,610,000, $1,560,000 and $1,444,000 in 1996, 1995 and 1994, 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.

(7) RETIREMENT BENEFITS (CONTINUED)

The following table sets forth the plans' combined funded status December 31, 1996, 1995 and 1994:

(Thousands of dollars)	1996	1995	1994
Accumulated post retirement benefit obligation:			
Retirees	$ 7,213	$ 7,701	$ 9,208
Fully eligible active plan participants	1,357	951	883
Other active plan participants not yet eligible	2,554	2,133	1,932
Total accumulated post retirement benefit obligation	11,124	10,785	12,023
Unrecognized net actuarial gain (loss)	1,068	1,250	(180)
Accrued post retirement benefit cost	$12,192	$12,035	$11,843
Net periodic cost of post retirement benefit:			
Service cost	$ 156	$ 135	$ 168
Interest cost	801	923	882
Net periodic post retirement benefit cost	$ 957	$ 1,058	$ 1,050

The Company's post retirement health care plan is unfunded. For measurement purposes, the submitted claims medical trend was assumed to be 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, 1996 by approximately $125,000 and the aggregate of the service and interest costs components of net periodic post retirement cost for the year ended December 31, 1996 by $11,000. In determining the accumulated post retirement obligation, a weighted-average discount rate of 7.50% in 1996 was used.

(8) 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)	1996	1995	1994
SALES:			
Machinery Division			
Oil field pumping units	$ 49,952	$ 46,449	$ 40,938
Power transmission products	73,127	60,131	55,334
Foundry castings	32,487	31,792	30,165
Other	-	-	3,051
Trailer Division	70,408	110,537	87,785
Total sales	$225,974	$248,909	$217,273
SALES BY GEOGRAPHIC REGION:			
United States	$182,724	$208,989	$183,147
Europe	2,980	3,362	2,916
Canada	12,470	10,870	8,273
Latin America	16,326	16,411	14,765
Other	11,474	9,277	8,172
Total sales	$225,974	$248,909	$217,273

(8) BUSINESS SEGMENT INFORMATION (CONTINUED)

	1996	1995	1994
OPERATING INCOME (LOSS):			
Machinery Division	$ 9,993	$ 2,257	$ (9,382)
Trailer Division	4,286	8,229	6,317
Total operating income (loss)	$ 14,279	$ 10,486	$ (3,065)
ASSETS:			
Machinery Division	$ 96,574	$ 90,866	$ 83,155
Trailer Division	16,125	23,058	19,046
General Corporate	73,226	72,372	74,573
Total assets	$185,925	$186,296	$176,774
CAPITAL EXPENDITURES:			
Machinery Division	$ 11,295	$ 6,600	$ 4,016
Trailer Division	634	835	356
General Corporate	428	211	866
Total capital expenditures	$ 12,357	$ 7,646	$ 5,238
DEPRECIATION:			
Machinery Division	$ 5,622	$ 5,621	$ 6,345
Trailer Division	848	878	930
General Corporate	480	551	620
Total depreciation	$ 6,950	$ 7,050	$ 7,895

LUFKIN INDUSTRIES, INC.
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
Lufkin Industries, Inc. and Subsidiaries

To the Shareholders of Lufkin Industries, Inc.:

We have audited the accompanying consolidated balance sheet of Lufkin Industries, Inc. (a Texas corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

/s/ ARTHUR ANDERSEN LLP

Houston, Texas
February 18, 1997

</TEXT>
</DOCUMENT>

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

</TEXT>
</DOCUMENT>

EXHIBIT 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 18, 1997, incorporated by reference in this Form 10-K for the year ended December 31, 1996, 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 24, 1997
</TEXT>
</DOCUMENT>

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-START>	JAN-01-1996
<PERIOD-END>	DEC-31-1996
<CASH>	655
<SECURITIES>	30,211
<RECEIVABLES>	34,072
<ALLOWANCES>	600
<INVENTORY>	21,563
<CURRENT-ASSETS>	88,033
<PP	243,014
<DEPRECIATION>	177,021
<TOTAL-ASSETS>	185,925
<CURRENT-LIABILITIES>	18,648
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	6,792
<OTHER-SE>	137,815
<TOTAL-LIABILITY-AND-EQUITY>	185,925
<SALES>	225,974
<TOTAL-REVENUES>	225,974
<CGS>	188,877
<TOTAL-COSTS>	211,695
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	16,207
<INCOME-TAX>	5,756
<INCOME-CONTINUING>	10,451
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	10,451
<EPS-PRIMARY>	1.56
<EPS-DILUTED>	1.56

</TEXT>
</DOCUMENT>

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 7, 1997, and any adjournments thereof. The annual meeting will be held at 9:00 a.m. Lufkin Time, at the Museum of East Texas, 503 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 or the proposal to approve the appointment of independent certified public accountants 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 7, 1997.

VOTING SECURITIES

At the close of business on March 31, 1997, 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 6,544,808 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.

- --
PROPOSAL 1. ELECTION OF DIRECTORS

- --

The Board of Directors has nominated and urges you to vote FOR the election of the three directors who have been nominated to serve a three-year term of office in the 2000 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 III Directors expires at the time of the 1997 Annual Meeting of Shareholders, or as soon thereafter as their successors are elected or qualified. Mr. Henderson, Mr. Kurth, and Mr. Little have been nominated to serve an additional three-year term as Class III 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 1997 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 III Directors, if elected, whose term of office as directors will expire in 2000, and certain additional information with respect to each of them, are as follows:

Simon W. Henderson, III, manager of his own investments. Age 63. 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 66. 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 self-employed management consultant. Age 63. 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 and a Director of Stewart & Stevenson Services, Inc. Age 62. 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. Mr. O'Neal is currently on administrative leave from his duties at Stewart & Stevenson Services, Inc.

Frank B. Stevenson, formerly Chairman of the Board, President and Chief Executive Officer of the Company. Age 69. 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. Age 52. 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 56. Mr. Wiener became a director of the Company in 1987 and currently serves on the Audit Committee and the Executive Committee.

The Class II Directors, whose present term of office as directors will continue after the meeting and 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 66. 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 64. 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 54. 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 65. Mr. Trout has been a director of the Company since 1968.

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, 1996, 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
The TCW Group, Inc. (1)	374,060	5.5%
Quest Advisory Corp. (2)	357,972	5.3
James W. Barber (3)	10,275	*
John F. Glick (3)	4,775	*
C. James Haley, Jr. (3)	21,170	*
Simon W. Henderson, III (3)	91,033	1.3
L. R. Jalenak, Jr. (3)	6,400	*
Henry H. King (3)	7,128	*
Melvin E. Kurth, Jr. (3)	117,740	1.7
W. T. Little (3)	74,675	1.1
Bob H. O'Neal (3)	5,500	*
Scott H. Semlinger (3)	17,770	*
Douglas V. Smith (3)	61,750	*
Frank B. Stevenson (3)	31,150	*
H. J. Trout, Jr. (3)	325,184	4.8
W. W. Trout, Jr. (3)	24,614	*
Thomas E. Wiener (3)	74,836	1.1
Directors and officers as a group (20 persons) (3)	918,615	13.6

- --------

* 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, The TCW Group, Inc. may be deemed to be controlled by Robert Day.

2. Pursuant to a Schedule 13G filed with the Company, Quest Advisory Corp. may be deemed to be controlled by Charles M. Royce. Mr. Royce disclaims any beneficial ownership of the shares owned by Quest Advisory Corp.

3. 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, 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 1996, 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 1996 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 1996, the directors received $1,000 for each meeting of the Board of Directors and $850 for each committee meeting that they attended in addition to a quarterly payment of $3,000.

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.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors of Lufkin Industries, Inc. (the "Committee") is pleased to present the 1996 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 non-employee 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 review compensation surveys provided by the consulting firm as well as surveys provided by other sources.

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 has 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 during this period. The Company's salaries were competitive with the market at the fiftieth percentile in these comparisons. As part of its responsibilities 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 performance warranted an adjustment. Base salary increases approved for those officers in 1996 averaged 5.5%.

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 1996.

Chief Executive Officer Compensation. Mr. Smith's base salary for 1996 was $280,000 and his annual bonus was $140,000. These amounts were determined by the Compensation Committee as a part of a four 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 amount of Mr. Smith's bonus was predetermined based on the final earnings per share of the Company. The maximum amount of bonus that could have been paid to Mr. Smith under the bonus arrangement was $140,000. 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 1996, 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 1996, 48,600 shares of stock options were granted to the Company's officers which compares to 37,700 shares granted to officers in 1995. Of the options granted to officers, 16,000 shares of stock options were granted to Mr. Smith in 1996 compared to 15,000 shares granted to him in 1995. The number of options granted is determined as a percentage of each officer's salary. The increase in options granted from 1995 to 1996 is due to increases in the officers' salaries. 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 the 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, 1991.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

	DECEMBER 31,					
	1991	1992	1993	1994	1995	1996
Lufkin Industries, Inc.	100	79.34	73.86	79.65	100.51	114.47
Media General Oilfield Services Index............................	100	99.65	116.32	103.98	153.69	227.84
NASDAQ Market Value Index.........	100	100.98	121.13	127.17	164.96	204.98

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, 1996, 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........	1996	$280,000	$140,000	16,000	$17,250
President and	1995	255,000	100,000	15,000	13,786
Chief Executive Officer	1994	225,000	50,000	--	12,590
John F. Glick...........	1996	147,616	34,740	3,500	8,869
Vice President	1995	140,811	47,650	3,500	6,453
James W. Barber.........	1996	125,762	40,000	3,500	8,822
Vice President	1995	118,545	54,000	3,500	7,481
	1994	95,153	45,000	4,000	5,404
Scott H. Semlinger......	1996	131,960	22,825	3,500	7,413
Vice President	1995	124,008	31,255	3,500	6,381
	1994	113,136	17,000	4,000	5,926
C. James Haley, Jr......	1996	113,754	34,355	2,800	6,858
Secretary-Treasurer	1995	112,020	36,700	2,800	5,157
	1994	106,272	--	4,000	5,850

- --------
(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.

</TEXT>
</DOCUMENT>