LUFKIN ROUNDUP

FEBRUARY 1983

EMPLOYEE ANNUAL REPORT

From the President's Desk

"Lufkin Industries is getting itself in shape for tomorrow."

An annual report, whether to employees or stockholders, provides an opportunity to look ahead as well as back. Last year was one of the most challenging years in our history, and one of the most difficult. We learned some very important lessons in 1982 that should better prepare us for the future.

We entered the year with a pumping unit order backlog of more than $100 million; production was at capacity; and our employment stood at a record 4,430 persons. But, in the second quarter of the year, there was a drastic downturn in business.

A surplus of oil on the world market reduced drilling programs, and oil producers, who had over-ordered pumping units because of shortages, were caught with large inventories. Almost overnight, it seemed our backlog of orders was cancelled, and pumping unit shipments dropped to less than 50 per week. Then, we, too, were faced with an inventory problem.

With no immediate turnaround in sight, it became apparent that we could not remain profitable with our existing overhead. Therefore, a restructuring of our organization was necessary, and this resulted in substantial staff reductions. We are operating now at employment levels of 1974 and 1975. Our objective with these reductions was to achieve the best possible long-term results for our company, our employees and our community.

Emergency cancellation orders for material and supplies amounting to $50 million were issued. The workweek in every production department in the company was reduced, and our Little Rock foundry and Cushing fabrication plant were closed. New construction of almost $30 million was curtailed or phased out.

Fortunately, we were able to turn around a potentially dangerous situation without serious harm to the company. None of us was unaffected by these turn of events, yet I believe, we will all benefit in the future because of the sacrifices we made last year.

But many positive developments and achievements occurred in 1982 that should not be forgotten or overlooked. Necessary belt-tightening forced us to find ways to do more with less during the year. Our employees responded to this challenge by finding new methods to expand markets, cut costs, improve productivity and quality. More than anything else it has been your strong performance, initiative and ideas that have cushioned the impact of the recession on the company and have strengthened our competitive position.

Lufkin Industries is getting itself in shape for tomorrow. The near time is going to be difficult, but I believe that with your support we can continue to successfully meet the challenge of 1983.

EMPLOYEE ANNUAL REPORT

A Year of Challenges

We chose the theme of challenges for this employee annual report because we felt it best described optimistically the year 1982. It was a challenging year, difficult but exciting. Events that occurred last year dramatically affected us all, in the way we do business and in the way we live.

Our 80th anniversary year began full of promise. It was a year to celebrate. In the last 15 years, we had experienced phenomenal growth, and 1981 had been the most successful year in our history. All indications were that the coming year would be even more prosperous.

Then, just three months into the anniversary year, it happened. The recession we had all read and heard about hit our part of the world. The oil industry—that booming giant—slumped. Millions of dollars worth of pumping unit business was lost. Trailer sales fell as oil-related businesses tightened their purse strings. Gearing, too, also became a victim to the economy as manufacturing plants throughout the nation cut back production or closed their doors.

In our 80th anniversary year, we were suddenly faced with one of the greatest challenges in our history. And there were some hard choices to be made. In only a few short weeks and months, we had to chart a new course for the company.

The following period was not easy for anyone, but we made the best of it. Steps were taken that would better position the company to take advantage of improving markets when they occur. Outstanding accomplishments were made in reducing costs, and efforts were renewed to improve productivity and product quality.

We emerged from the crisis a stronger company. Our ranks were diminished, but our spirits were not. The following pages examine our performance in 1982—our achievements and our disappointments. It was a year that will be remembered long after it has past because its challenges remain.

How the Year Affected You

The same challenges that confronted LUFKIN as a company last year also were faced by the men and women who are Lufkin Industries—its employees. Both their professional and personal lives were affected by the change in business during 1982. As the company was restructured and personnel cutbacks were forced, some moved to new positions and departments, many were reclassified to different levels, and others were laid off indefinitely.

Seven employees talk about how the events of last year touched their lives, how they dealt with it and how they feel about the future.

Emery Waddell, trailer plant, 5 years

"Since I hired on with the company five years ago, I've been working in the van door department of the trailer plant. For four-and-a-half years, I was a class A welder, but earlier this year, I was reclassified as a class B welder, and now I've been cut back to helper status.

"The reclassification affects my pay along with the shorter weeks, but it's not like I am the only one who has had to move back in classification. There are several men in the plant with more seniority than me who have been cut back to helper, too.

"Reclassification is somewhat hard on you mentally. My work hasn't changed all that much, but before, I was entirely responsible for the job. Now there are parts of it that I have to leave for someone else to do."

"Yet I'd rather be working as a helper than not working at all. I realize that things are tight for the company—they are tight all over the country. We are all feeling the pinch, and we are all going to have to pitch in and work together to get us through this slow business period.

"I appreciate the fact that the company is trying to keep us on the job. Last week, I worked two days cleaning some casting material for the foundry. The company didn't have to ship the work down here, but they did. I've worked at a lot of places, and not all of them are as considerate to their employees as this company is.

"Surprisingly, on the whole, I found that the employees are quite understanding about the situation. Most places you would expect to see a lot of bickering and finding fault, but that is not the case here. There are really very few complaints.

"My family has been very understanding, too. My wife doesn't work, and we have two children, so the reduced paychecks are not easy on us. We do everything possible to cut corners. I spend my free time tending to my garden, and I was able to put up a freezer of vegetables this year. That helps out on the grocery bill.

"As for the future, I know only what I read, and it seems to be hopeful. I think it will be a while before we see an upturn in the economy, but I don't think we are headed for a depression. Things will get better."

Charles Mark, foundry, 3 years

"I was a crane operator in the main bay of the foundry when I was laid off. I would watch the seniority list, and try to figure out how much longer I had. It is hard to prepare yourself for something like a layoff, even when you know it is coming.

"At the time I got laid off, my wife had just come out of the hospital with surgery. She was at home, and I was without a job. It was tough for a while.

"A layoff is hard on anyone, but especially a family man. I had four teenagers in school, and it takes quite a bit of money to operate. They were understanding, though, and that helped.

"I had a little money saved in the credit union, and I drew that out until my unemployment started. About that same time, my wife was able to go back to work. You learn not to throw away money, and you buy only the things that are necessary. It is the only way you can make it.

"I looked for another job while I was off that four months, but there just weren't any out there. I thought there was a good possibility that I might get called back to the company—if they called anybody back. I had talked to some of the people in the foundry, and they told me my work record was good.

"But when they did start the recall, I was in the hospital. The company was nice about it, though. They said report back to work when I was able, and believe me, I was sure glad to get back."

"I am not bitter about the layoff. I really stayed on longer than I expected to with no more seniority than I had. I think some other places would have just said your time is up and you have to go. But I felt like LUFKIN kept me on just as long as they could.

"I'm on a savings kick now. I think all of us learned a lesson. The good money could run out, and we better be prepared for it if it does."

J.V. Nash, machine shop, 30 years

"I think all of us learned some lessons in 1982. We had begun to take this good business for granted. It's easy to get carried away thinking that a good thing will last forever. We will be more cautious in the future, as we should be.

"I run an Ingersoll milling machine, and it is used mainly for standard pumping unit business. So I was in the part of the machine shop that got hit first. We had built up an inventory of those type parts.

"During my years with the company, I've seen some up and down periods, but I believe, this is the longest and shakiest one. When the company gets hurt, we all hurt. Yet, I've seen some mighty good times, too, when we had more work than we wanted or could do.

"The cost of living is so high now that it takes everything you make. It's just tough to get by on a three-day week. My family has been fortunate, though. Things have been rough for us, but I know for some, it has been even rougher. I had saved some money back, and so far, we haven't had to draw out that much of it.

"I just hope that things will level off soon. We will all be happy to get back to a regular 40-hour week. It is difficult when you don't know what to expect on a paycheck. You just live week to week.

"I look for business to improve when the weather warms up in the spring. We may not see business as good as it has been in the last few years, but it should be steady. Or, at least, that's what I am hoping will happen."

Eugene King, final shipping and assembly, 9 years

"Since I've been working for the company, I have been conservative with my money. So when this bad spell of business hit, it didn't affect me too much. My children are grown and gone, and we own our home. I can understand, though, how this past year could have been difficult for a young person just starting out.

"I really just have praise for how the company handled the situation. I sincerely mean that, too. I have come a long way since I came to work for Lufkin Industries. I have a good job that I enjoy, and I have some seniority.

"Of course, I wasn't ever really worried about being laid off because of my seniority and my attendance record. But I felt the company held on to people just as long as they could. You know, when the units stop going out the door, somebody has to go.

"Since the layoffs have stopped, I think there is a real good attitude in the shop. Everyone feels more secure. My attitude is the same as it always has been. You are not going to get a paycheck for nothing, and that's the reason they call it work. I believe in carrying my fair share of the load—and giving a little extra, too. It doesn't hurt anything, and it gives your company and you a little more security.

"We have put out a lot of units in the nine years I've been here, so for some of us older employees, it wasn't too bad having a little rest from six and seven day workweeks. I'm confident that business is going to improve, and I figure that by October or November of this year, we'll be going strong again.

"In the meantime, I am going to tighten up a bit. You always should save back part of your paycheck whether times are good or bad. Lufkin Industries is going to be around for a long time, and I plan to be right here with it."

Wanda Ottmers, Kilgore machinery sales and service, 12 years

"I noticed that something different was happening last March when customers started cancelling orders. Willard Chappell, our district manager, began looking for places to put pumping units and was getting calls from the home office offering him more units.

"Until then, we had been on allocations and unable to supply our customers' needs. Now we are able to take care of customers and meet their needs 100 percent. I prefer to work under an atmosphere of selling rather than splitting up allocations. It is far more challenging.

"We are busier now than we were in the old times. Willard has to quote every unit he sells three different ways. I typed three times as many quotes in '82 as in '81 with approximately the same number of orders. But we are taking better care of our customers. I think we are getting an opportunity to catch up mentally with our growth.

"The one thing that I appreciate most about management was the job they did to build up morale. I think they did a superb job of not yelling doomsday. On the whole, I think last year was a good year. It gave us time to regroup and helped us review some of our attitudes. Perhaps, we had gotten a bit too independent when we were booked a year in advance. Now we have to sell."

Wanda Wankan, industrial engineering, 4 years

"As the company entered the second quarter, I began to get a bit apprehensive about business, realizing that something was taking place that could affect me. I kept thinking this situation can't last too long. Things will get better.

"But I quit taking my job for granted immediately. The two most important parts of my life are my family and my job, and now one part of it was threatened.

"When the layoffs started, I felt very sorry for those people that were being laid off. And when the layoffs continued and business did not improve, I realized, 'Hey, it could happen to me.'

"And it almost did. At one time, my manager told me that it was possible that I could be laid off within two weeks.

"For the first time in my life, I was faced with the fact that I could lose my job, and I might not be able to find another one as good. But I really appreciated my department management for being so open and honest with me. They tried to keep all of us aware of everything that was taking place as soon as they found out.

"At home, we began to discuss some of the material things we could do without. We started talking with our three children about some of the sacrifices we might have to make. It was the first time we had made the children aware of our financial situation, and I think it was good for them.

"Fortunately, business did level off, and the layoffs stopped. I feel strongly that those of us who remain have earned our place here, and we need to work hard to maintain that place. We have struggled through a hard time, and it has brought us closer together as a company."

Jimmy Huntress, order entry, 32 years

"We knew a change was coming when the major oil companies started stockpiling, but we didn't expect business to be cut off overnight.

"My work in '82 has been either busy or slow. There was no steady flow. Pumping units orders from major oil companies came in right and left in '81 and during the first three months of '82. Then they stopped. The orders we got from independents kept us alive. End-of-the-year orders started booming again the last few weeks of December. Now, we're in another lull.

"In the 32 years I've been with the company, we've gone through this time and again, but I think this past year was the worst I can remember."

How the Company Performed

It was a year of contrasts for Lufkin Industries. The challenges that confronted the company at the beginning of 1982 were different from the challenges that it faced at its end.

The following division reports examine the company's efforts during the year, and how LUFKIN and its people successfully rose to the challenges of 1982.

Machinery Division/ Pumping Units

A Time of Adjustment

For the division that markets and produces the company's leading product—oilfield pumping units—last year was a series of challenges. The Machinery Division entered 1982 with the largest backlog of pumping unit orders in its history. Manufacturing personnel were working overtime to meet the demand for units, and the sales force was allocating production to customers.

Plans called for 12,000 pumping units to be built during the year. And in March, the division set a new record when it shipped 1,061 units in one month.

What happened next was almost unbelievable. In only a few short weeks, some $100 million worth of orders were cancelled. Shipments dropped from a planned 200 per week to less than 50 per week. The division which had been producing at capacity now was caught with a huge inventory.

Production was curtailed drastically. Workweeks were cut, and some night shifts eliminated. The Lufkin plant shut down pumping unit manufacturing for one week, and the Little Rock foundry and Cushing plant were closed indefinitely. Layoffs were forced in every department of the company.

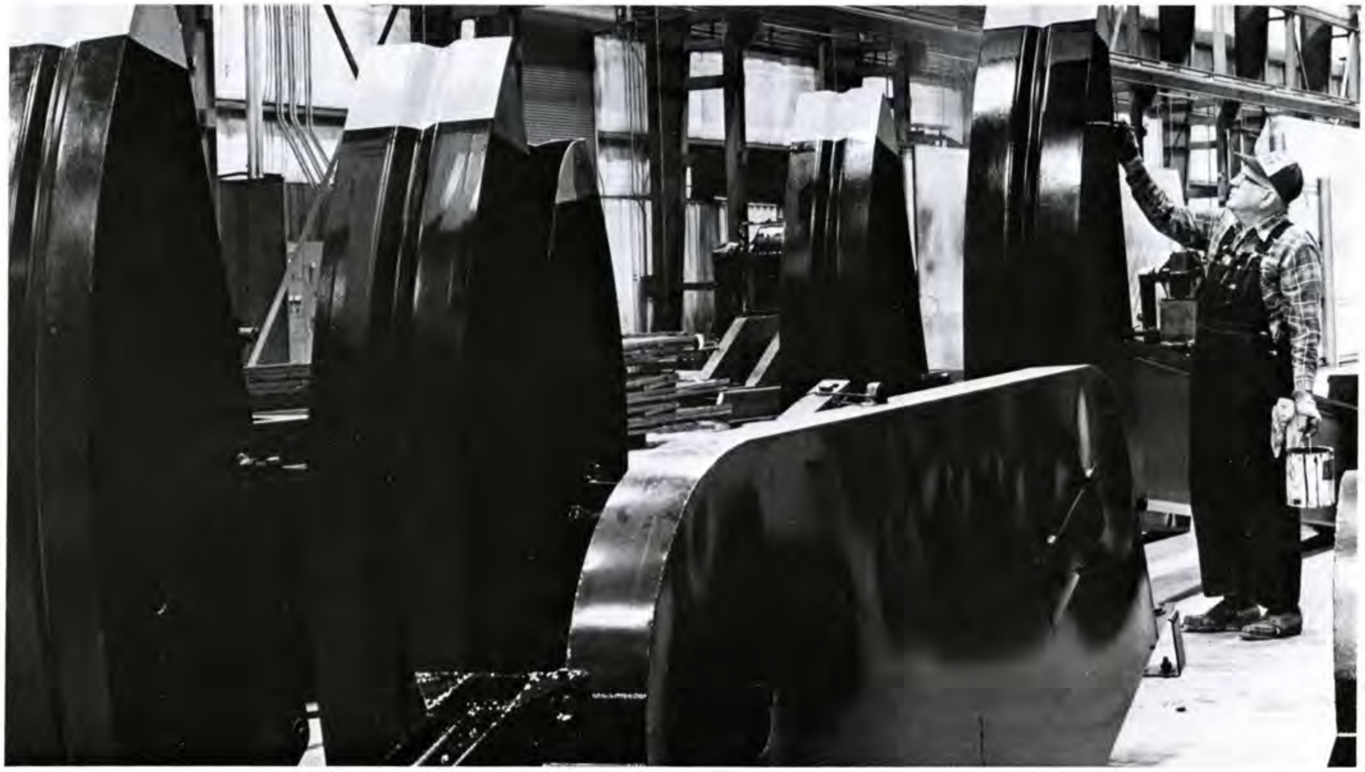
"We had to cut production and reduce costs to a level that we could operate and maintain the financial health of the company," explains Frank Stevenson, executive vice president. "In a year when our greatest challenge had been how to produce more, we suddenly were faced with the challenge of how to produce less but remain profitable. It was a painful period in our history."

The division shifted its manufacturing emphasis from how much it could produce to how it could produce what orders it had more efficiently and with higher quality. Productivity improvement and quality control programs were initiated in every area. "The tremendous slowdown in business gave us a new awareness of the need to work efficiently," says E.G. Pittman, vice president and manager of foundry operations. "Our foundry was geared to operate with over twice the people we now have and twice the tonnage we now pour, so we had to readjust our ways of manufacturing in an effort to produce our parts as efficiently as possible."

During the year, the foundry assigned three project engineers to the task of investigating new ways to gain productivity in various sections of the department. A new method of applying mold loathings that improved the quality of castings while reducing the amount of cleaning time was instituted. Weekly training sessions introduced for foundry personnel increased knowledge of foundry techniques and supervisory practices.

Product design engineering redesigned pumping unit gear boxes and cranks for more economical manufacture, and introduced a larger Mark II pumping unit. "The redesign did not reduce the quality and safety of our units in any way," explains Fred Griffin, vice president and director of engineering. "It just improved efficiency."

Recent modernization programs in the machine shop had left the area with the capability to produce parts for 250 units a week last year, but with demand down, it searched for new ways to reduce the costs of manufacturing. "We have to eliminate procedures that are adding cost to a part, not value," explains Mike Penn, vice president and manager of machining and assembling operations. "Our shaft shop is a good example. We installed a conveyor system last year that eliminated manual material handling. Manufacturing time has been saved, so costs have been reduced."



The machine shop, too, began an educational program for employees emphasizing productivity and efficiency improvements. One back to basics course for supervisors discusses machining techniques, focusing on the most effective method of performing a job.

Structural steel and final assembly and shipping operations were opening a new automated plant in 1982 when the crunch hit. "The facilities had been designed for efficiency in mass production, so we had to alter our whole approach," says W.T. Pennington, vice president and manager of structural steel, final assembling and shipping operations. "We had fewer units to assemble and ship, and most were for immediate delivery. The plant became even more of an asset, as we responded quickly to incoming orders."

He adds that since August, some 51 percent of the division's orders have had to be shipped within the week or the immediate next week. "When we had our backlog of orders, we knew exactly how many units had to be shipped next week or next month. We could do long-term planning, Now we get an order today for a unit that is shipped tomorrow."

The company's ability to provide immediate delivery of units became very important to its sales effort with the downturn. "We spent a large amount of our time contacting potential customers, getting the word out that we could sell them any size unit for immediate delivery," recalls Ben Queen, vice president and sales manager of the Machinery Division. "And we attracted quite a few new customers. Many were smaller, independent companies who had not maintained an inventory of units."

The division shipped 6,648 units in 1982, and forecasts call for about the same number of units to be shipped in 1983. Although a surplus of units still exists in the market, inventory depletion is no longer the primary concern of the sales department. "The most pressing problem affecting our business now is the lack of demand. With fewer new drilling programs planned, and the economy at a standstill, it could be a tough year," Queen adds.

While most capital expenditure projects were halted or put on hold when business slowed, some expansions and modernizations were completed earlier in the year. In the foundry, a remote-control grinding unit that represents a breakthrough in the cleaning of castings was purchased. Machinery operations installed four numerically-controlled machining centers in its gear box machining area. Each center can machine 1,000 average size reducers per year.

Automated processes introduced in the structural steel plant changed the department's method of fabricating pumping units. Cranes and conveyors move raw materials, and computer numerically-controlled machines punch holes that were previously drilled. The final assembly and shipping building features eight loading docks.

But the most significant achievement of 1982 was the division's ability to adapt to change. Its quick reaction to the downturn averted a crisis. "We emerged leaner, tougher, more competitive," says Frank Stevenson. "Although, it was an extremely difficult time for us all, we did what we had to do, and we survived. We're ready for whatever challenges lie ahead."

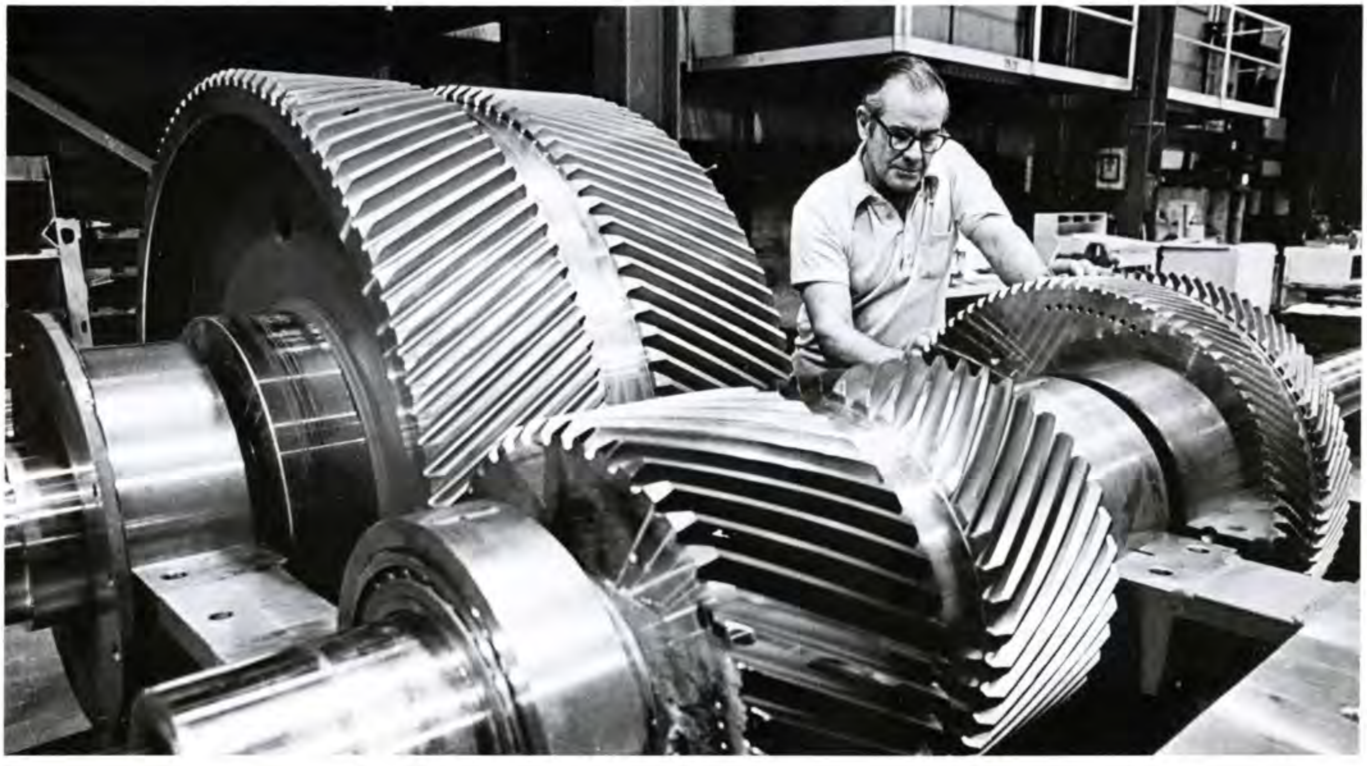
Machinery Division/Gearing
Moving Forward

The areas of the Machinery Division that produce the company's gear product line accepted a challenge in 1981. With the completion of new gear production facilities that year, the division vowed to establish LUFKIN as one of the world's leading gear manufacturers. They spent 1982 working toward that goal.

"It was the year of the dream come true," says Mike Penn, vice president and manager of machining and assembling operations. "We heard a lot of talk about the separation of the two factories. People realized that we did have an independent facility for the manufacture of industrial and marine gears. We really are in the gear business now."

During the year, engineering and manufacturing personnel redesigned the RHS1600 series of marine gear units using case-hardened and ground gearing. The prototype of this line will be introduced at a trade show this month. "Many people believe this is the gearing of the future, especially with the naval service," explains Fred Griffin, vice president and director of engineering. " The inner core of the gear tube is relatively soft, but the outer surface or case is very hard, too hard to be cut with standard cutting tools."

The metal can be removed only by grinding the involute surfaces and a Hoefler gear grinder purchased in 1981 performs this task. "This machine can grind a very accurate tooth form which can carry more load per inch of face width, continues Griffin. "Consequently,



the gear can be made with smaller rotating elements, and the overall package is smaller."

Several ground gears were manufactured for in-plant use. "We replaced some of our hobbed gears in our test stand with ground gears," says Penn. "We needed the ratio differences that they could provide, and it gave us some more experience with ground gearing. So far, the gears have been excellent. They are more accurate and run extremely quiet."

The division also perfected techniques on the Pfauter gear hobbing machine, cutting the roughing operation on one gear alone from 600 hours to 200 hours.

"We do have one of the finest gear manufacturing facilities in the world," continues Penn, "and many of our efforts last year were discovering how to utilize the new equipment for maximum efficiency and accuracy."

A total of 671 industrial and marine gears were shipped during the year, a decrease from the previous year. "Although the number of units we shipped were down," says Ben Queen, vice president and sales manager of the Machinery Division, "our sales in dollars were comparable to 1981. The units we shipped cost more because they were more sophisticated units. This reflects the market's demand for higher-speed, higher-horsepower gearing."

Gear business did remain steady throughout most of last year. Gear personnel often worked when many other parts of the plant were closed. But Queen warns the gear market in 1983 could be very tight.

"Projects are being postponed, and with fewer jobs being quoted, we are forced to compete in a very competitive market. We are hopeful that gear sales will equal 1982, yet we cannot be content to just equal last year. If our dollar volume does not increase, we could be less profitable without our cost reduction programs."

Still, there is optimism about the company's future in gearing. "This is only a beginning for us," says Penn. "We know that the country and the world is going through a spell of bad business. But when the market improves, and it will, we will be here with the ability to produce the best gears anywhere."

Frank Stevenson, executive vice president, adds that the company is committed to gearing. "Over the past five years, we have spent $10 million on our gear facilities. We know that we can compete with anyone in accuracy, reliability, delivery, cost—any factor that can be named—we can compete."

Trailer Division
A Waiting Game

The challenges of dealing with a down sales market in 1982 were nothing new for the Trailer Division. For the past three years, the trucking industry has been in a slump, and trailer manufacturers have been suffering nationwide. A predicted upturn in the market failed to materialize last year, and the division's sales and production figures reflect the continued recession.

"During the first three months of the year, we were selling as many trailers as our manufacturing facilities could produce," says Dick McKay, vice president and manager of the division. "But when the bottom fell out of the oil industry in the spring, our business fell with it."

The division produced 1,396 trailers last year, a decrease of 675 trailers from 1981. Sales totaled $22.7 million, a decline of $7.3 million from the previous year. In addition, the division manufactured 1,068 pumping units in the first part of the year.

"Our goal for 1982 had been the production of 2,400 pumping units. If business had remained good, we would have made it. Nearly half of our people were involved in some way with pumping unit manufacturing, and when it was moved back to the Machinery Division in the summer, we had to dramatically cut our work force."

The division now employs 284 persons in the local plant and offices, and 100 persons in its nine trailer branches. The total labor force has been reduced by 43 percent during the year.

"We are doing everything possible to cut our expenses down to the bone. When people leave, they are not being replaced, and our inventory is being kept at a minimum."

A special products department has been set up in the division to handle production of items other than trailers. Last year the trailer plant marketed a line of garbage containers and solicited fabrication work from industries and businesses within a 100-mile radius.

"This is one of our efforts to keep our people working. The garbage container business is highly competitive, but we were looking for a product that was compatible with our manufacturing facilities, and that could be produced without making any major capital expenditures. We have built and repaired containers for several municipalities. We also have done some outside fabrication work, in-

cluding jobs for our foundry and structural steel plant."

Despite the poor business conditions, McKay reports that morale among employees remains high. "We are telling our people that it is now more important than ever to be as efficient as possible in our work. If our production costs go up, we will lose money on what we sell. Our employees understand this, and they are working harder than ever."

And, there is reason for optimism in 1983. A federal bill has been passed that would allow wider and longer trailers on interstate highways. Many trucking companies that have been holding off buying new trailers may decide to buy the larger trailers this year.

"It has been proven that the railroad cannot carry products everywhere people need them, and the trucking industry is going to have to move these goods. I am confident that when the economy rebounds our business will improve with it."

Industrial Supplies Division
The Competitive Edge

For the Industrial Supplies Division, the greatest challenge of 1982 was selling in an increasingly competitive market. With business down in the metropolitan areas because of the oil industry slump, a number of outside vendors entered East Texas, attempting to recover lost sales.

"Normally, we are not faced with this type of competition," explains Ed Dietz, manager of the division, "so we had to work harder to retain our business. These vendors moved into our territory, and tried to undercut us on price. They could not offer the customer service, however, and that was our strongest selling point. We could sell at a competitive price, deliver the material more quickly, and handle it at the customer's convenience."

The division's efforts to overcome the competition were successful. Last year was one of the best years in its history. "We did slightly under $12 million in 1982. One of the reasons the year was so good for us was several of the company's large building projects. We supplied much of the machinery and materials for these expansions."

Two of the major projects included the new structural steel and final shipping and assembly plant that was completed at the first of the year and the large castings foundry still under construction.

"These expansions represent one-time business that does not return for many years,'' cautions Dietz. ''Our sales to the manufacturing plant in 1983 will be back to the level they were before our growth period. We should see a 40 to 50 percent drop in sales to the company this year.''

The division manager, though, is hopeful that outside sales business will remain steady. ''Despite the economy, our products are continuing to sell. We have not noticed a downward trend with any particular product. A few of the industries we serve did shut down some last year because of a surplus of products. When our customers are not working, they are not using up the goods we supply them, so such shutdowns do hurt our business.''

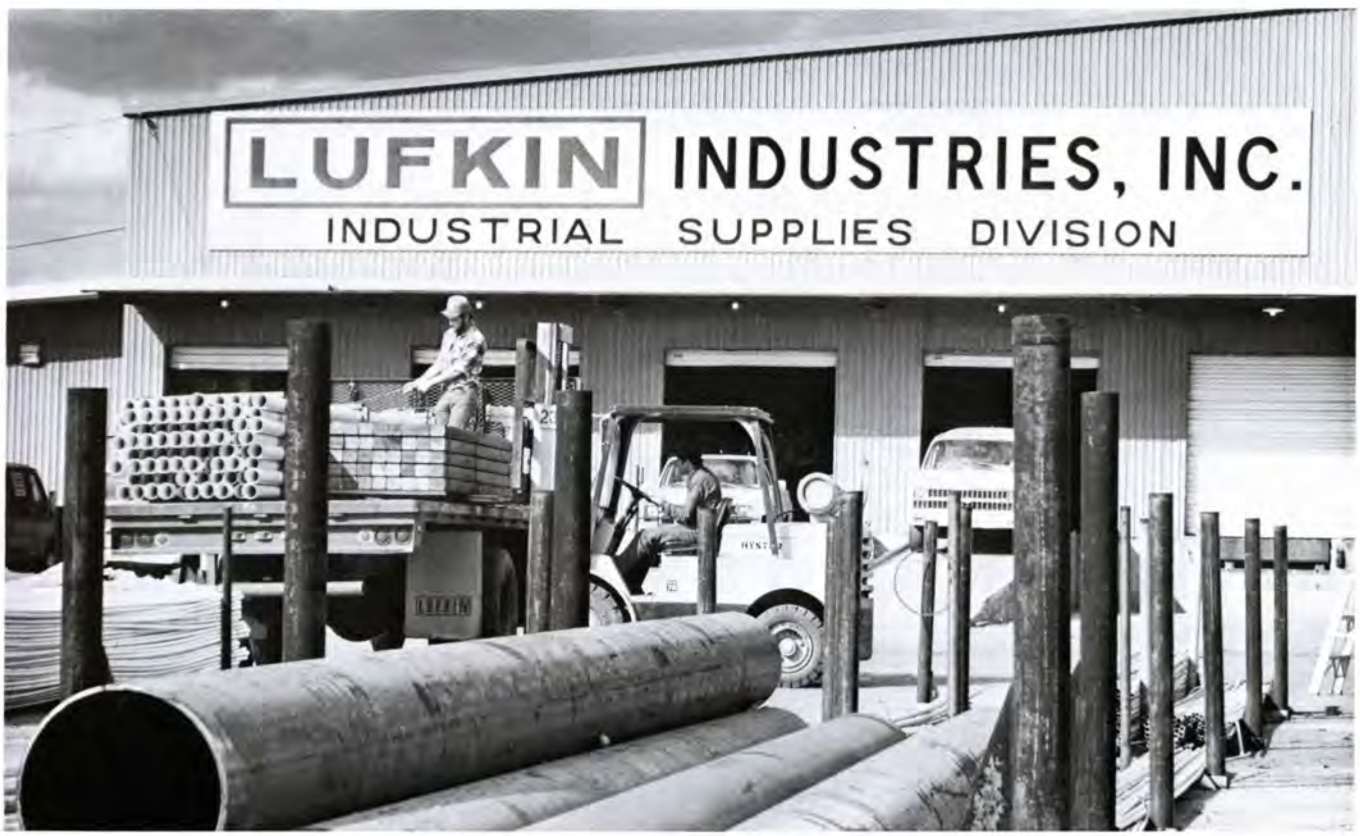
Outside sales were up in 1982, mainly due to an increase in sales of pole line hardware. ''Texas Power and Light Company expanded and updated many of their systems last year. As more people move into the East Texas area, TP & L has had to expand. We have benefitted from their growth.''

Although the housing industry is down nationally, the division saw little change in building trades business. ''We still are selling about as many plumbing fixtures as we always have. There are not as many large housing complexes under construction, but there is building in the area. Our forestry-related customers also are buying at the same rate as in the past.''

Two years ago, the division moved to a 14.5-acre site on the corner of Loop 287 and Highway 94, and the new facilities continue to be an asset to business. ''It was a good move without a doubt. It is a more convenient location for our customers, and there is plenty of room for growth when it comes time for expansion. We even have undergone a bit of beautifying during the year. Some of our acreage had been used for storage by the structural steel plant, and when they moved, the grounds were leveled and cleaned.''

The division employs 48 persons, and serves a 150-mile radius of Lufkin, with the exception of the metropolitan areas. ''Our employment is down from 1981 because we had to let go some of our personnel that served our Lufkin plant.

''But, we feel we were the lucky part of the company last year. Our business remained stable, and we were able to maintain five-day workweeks. At the end of this year, I hope we will be able to report another good year. Every effort is being made to sell in a very competitive market.''



How the Money Was Spent

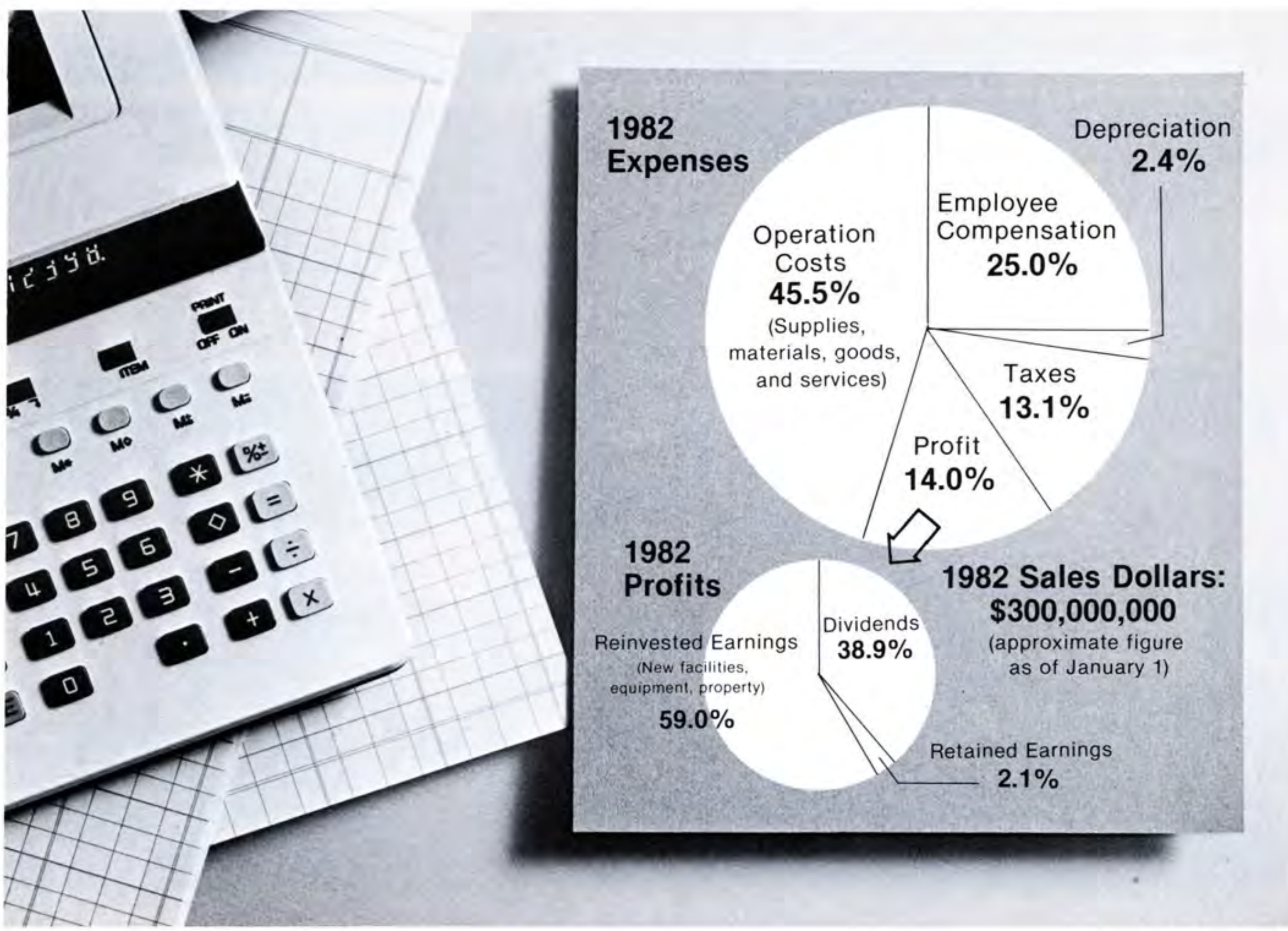
Like the family on a household budget, Lufkin Industries is faced with the daily challenge of making ends meet. The company earns its money by selling its products, and the sales dollar must pay its expenses.

In 1982, with sales down from last year, the company's income dropped, and expenses had to be cut. LUFKIN spent the largest portion of its sales dollar on the materials and supplies, the goods and services, that kept the manufacturing plants and offices running. Another major cost was the money spent on employees, in the form of wages and salaries and additional benefits.

There also were many taxes to be paid from the sales dollar: property, income, state, franchise and local. Funds, too, were set aside to pay for depreciation, the replacement cost of buildings and equipment as they wear out.

The money that was left over after deducting the expense of doing business from the sales dollar was profit. From this money, Lufkin Industries paid for new manufacturing facilities and equipment, buildings and property. In the last 15 years, the company has reinvested earnings of $120 million. No money has been borrowed to finance expansions and improvements, and consequently, when business slowed last year, the company maintained a strong financial position.

Dividends to stockholders also were paid from profit. Dividends are a cash return to those who have invested their money into LUFKIN by purchasing shares of stock. Finally, the company retained a small portion of its profit. It, again, like the household on a budget, must save a part of its earnings for its future.



How You Were Paid

During a year when most employees were dealing with the challenge of stretching a smaller paycheck, it was reassuring to know that their "hidden paycheck" remained unchanged. Lufkin Industries paid out more than $18 million for employee benefits in 1982. These benefits amounted to an additional one-third of an average salary.

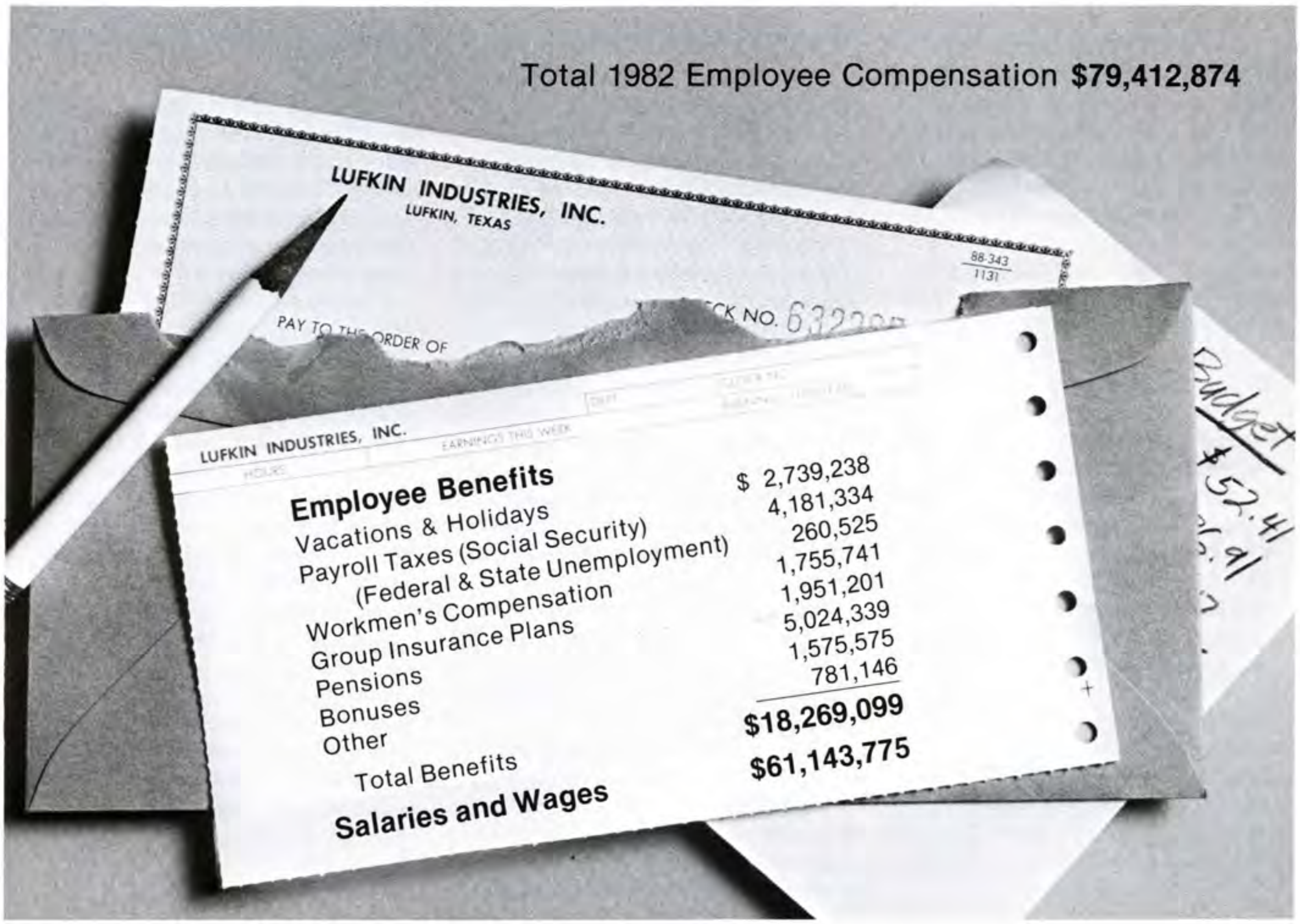
These dollars cover the expense of insurance plans, retirement programs and paid holidays and vacations. The company pays 60 percent of the cost of the group insurance plans in which employees receive benefits in the event of illness, disability, or death.

The pension and thrift plans provide income for employees after they retire. The pension plan, funded 100 percent by the company, is designed to supplement Social Security, while the thrift plan provides additional retirement security. The voluntary contributory savings plan is available to salaried employees, and LUFKIN matches 75 percent of up to six percent of their contribution.

Paid holidays and vacations allow employees "to get away from it all." The company observes nine holidays each year, and full-time employees with one year of service qualify for paid vacation time.

Several government programs provide employees with security during retirement or in the event of disability or termination, and the company contributes to these plans. LUFKIN pays half of the Social Security tax and for all of the unemployment and workmen's compensation.

In these times of economic uncertainty, the "hidden paycheck" protects employees from financial loss, provides future security and insures needed leisure time.



How They'll Be Missed

The 39 employees who retired from Lufkin Industries during the year faced a new type of challenge in 1982. These persons ended long careers of service and dedication to the company and began a new period in their lives.

Six end-of-the-year retirees shared some thoughts on their years with LUFKIN and their retirements.

Franklin Weeks was considered almost an institution at the foundry. For 41 years, he served the department, first as a timekeeper, and then later as production scheduler. He always was the first man on the job in the mornings, and the last to leave in the afternoons.

After graduation from Stephen F. Austin State University in the late '30s, he taught school in Redland for three years. Some of his former students include personnel director Johnny Long, insurance manager Joe Perkins and machine shop supervisor Doyle Bowers.

"One summer I worked at the foundry, and when school began in the fall, I elected to stay on with the company." he recalls.

During his years with LUFKIN, he saw many changes within the company. "The computer definitely has made the greatest change in my work. It opened up a world of information, but we should not allow ourselves to become subservient to a machine."

Weeks believes retirement is just another segment of his life, and he is determined to live it to the fullest. "I plan to garden and ranch a bit, and become more active in church-related work. It has not been until recent years that I have learned of the pathetic state of some of our nursing homes. You'd be surprised at what just a visit to one of these homes can do for the residents there."

Former gear assembly supervisor C.L. Beck sees his retirement as the beginning of a new adventure. After 41 years with the company, he opted for early retirement, and a few years of traveling, seeing the nation.

"My wife and I own a travelhome, and we enjoy traveling. We want to go and see as much of the country as we can."

Beck began his career with the company as a machine operator. He was enrolled in a machinist school in Fort Worth, and his teacher was a good friend of Guy Croom, who served as machine shop general foreman for LUFKIN. Croom hired the 18-year-old Beck.

"Mr. Croom was very good to me. I was just a kid, and he took me under his wing. It was really my first and only job. In 1944, I went into the service for awhile, but I came back to the company after my tour of duty was completed."

For a number of years, he worked as a service representative for the company, visiting 44 of the 50 states. "Service work is enjoyable, but it is hard to be away from home so much of the time when your children are growing up."

Beck also served in the production control and marine and industrial gear assembly departments. At one time, he was in charge of the gear service, test and assembly departments. "My years at LUFKIN have been good ones, but I am looking forward to retirement. It is time for a new kind of life."

Joe Thomas worked as a coremaker in the foundry for 38 years, more than half of his life. Like so many other foundrymen, he witnessed many changes in foundry conditions and technology.

"When I first started working in the foundry, it was just plain old hard work. But over the years, the work got easier as equipment and facilities improved. I believe, the no-bake system improved working conditions the most."

Thomas was one of a group of coremakers who joined the company in the 1940s, and stayed with the company until retirement. Only one of the group remains, and he will retire soon. "We all hired in about the same time, and worked at LUFKIN all our lives. We saw lots of ups and downs together, and probably got to know each other a lot better than we wanted to," he laughs.

Like the other retirees, Thomas has been looking forward to this time of his life. "I am in better health than I have been in years. I guess I finally got old enough to know how to take care of myself. I wanted to be able to enjoy my remaining years, to do the things I want to do."

RETIREMENT CHALLENGES


Franklin Weeks


C.L. Beck


Joe Thomas


Andy Williams


Al Mallonee


Claude Freeman

Andy Williams spent 36 years of his life as an employee of Lufkin Industries, and if he had those years to live over again, he would not change a minute of them.

"If I could have looked into the future then, and know what I know now, I still would have gone to work for Lufkin Industries," he says. "It is the finest company you could work for anywhere."

For 18 years, he worked as a first-class mechanic, building trailer roofs. Later, he moved into a supervisory position. At his retirement, he served as supervisor of labor for the trailer plant.

"My crew was responsible for the sanitation conditions of the trailer plant, inside and out," Williams explains, We worked directly under the plant's industrial engineering department."

Although he looked forward to his retirement, he admits it was difficult to give up his life's work. " I told everyone that I left a part of me here because I love the company and the people that work for it. You can't spend 36 years at a place and not feel that way."

But Williams has a long list of retirement plans. "To me, life is people helping people. I want to be more active in my church, my lodge, my community."

Al Mallonee joined Lufkin Industries in 1962 after the company had agreed to manufacture Bethlehem oilfield pumping units and replacement parts. He had been a plant engineer for the Bethlehem Supply Company before the firm closed its plant.

LUFKIN offered him and five other Bethlehem employees permanent positions with the company. Mallonee accepted the offer, and after five months of helping to coordinate the move of Bethlehem machinery to Lufkin, he and his family headed South, too.

"Bethlehem and LUFKIN units were similar," he says, "so it was not difficult to adapt Bethlehem machinery to LUFKIN's manufacturing methods. I have considered myself the last of a breed the last few years, because I was the last of the Bethlehem personnel still with the company."

Mallonee and his family had no trouble making the adjustment to East Texas small town life. For three years, he worked in the manufacturing engineering department, and then moved to the gear department. At his retirement, he was a member of the product design engineering department, employed as a product design checker.

"I have been involved in the manufacture of oilfield equipment in some way or the other since 1935. It has been my life's work, but I am ready for retirement. My wife and I are avid golfers, and I enjoy building furniture. We are active people, and I don't think we will have any problems filling the hours."

Retirement is nothing new for Claude Freeman, who was employed in the Industrial Supplies Division for 10 years. Before joining the company in 1972, he had retired from a 30-year career in the Navy.

"I had traveled all over the world during that time," he says, "so I was ready to come home and settle down. I was raised in Lufkin, and there is no place like home."

Freeman worked as an automotive shipping clerk until the automotive line was dropped two years ago. Since that time, he has performed various jobs for the division, mainly filling and shipping industrial supply orders.

"I would like to have worked another few years, but I decided I should not push myself. I am in good health, and I wanted to enjoy retirement while I still felt like I could."

His retirement plans are simple. "I am going to spend the first year doing all those things around the house I have put off doing. I enjoy carpentry and fix-it work. After that, I'll just wait and see."

How the Future Looks

The year 1982 is behind us, but what about the years that lie ahead? How is the company preparing for the challenges of tomorrow? Top management officials answer some of the questions most frequently asked by employees about the company and its future.

What is the future of the sucker rod pumping unit?

Ben Queen, vice president and sales manager of the Machinery Division, believes that the demand for pumping units will be strong in the coming years. "The pumping unit is a viable product. In most instances, it still is the best way to get oil from the ground."

Other members of the management team agree. "Some 85 percent of all oil wells that require some means of artificial lift equipment utilize pumping units with sucker rods," says Fred Griffin, vice president and director of engineering. "At this time, there is no indication of change, but we must continue to strive to improve our product in every way that we can."

W.W. Trout, Jr., vice president and assistant to the president, adds, "We must keep in mind the long-term effect of flowing wells in the OPEC countries and a drop or collapse of oil prices. But no doubt, we will continue to be the leader in oilfield pumping units."

Is the company developing any new product lines for the future?

"Every year the product design engineering department has investigations underway into new products," says Griffin. "But at this time, we have nothing actively under consideration. In researching and developing a possible new product, we have to consider the type of equipment we have. Could we manufacture it properly, and if we could, what kind of demand is there for the product?"

Dick McKay, vice president and manager of the Trailer Division, adds, "We, too, continually search for additional product lines, but building and marketing a new product is very difficult. It is not something you enter into without much study and consideration."

Much has been written about the company's strong financial position. How do we compare to other companies, and why is it so important to our future?

"The financial strength of Lufkin Industries is something of which we can all be proud," says Frank Stevenson, executive vice president. "Over the years, a large portion of profits has been reinvested into the growth of the company. We have financed our recent expansions without borrowing any large amounts of money. Many of our competitors had borrowed heavily, and when business declined, they could not stay solvent. We do not have a large debt with high interest payments, so our financial condition is much healthier than most other companies. As a result, we should come out of this recession in a much better position than others."

What advantages does Lufkin Industries offer its employees that another company does not?

"LUFKIN has many advantages for a person seeking a career," says executive vice president Stevenson. "We produce and service everything we sell, and this vertical integration means we can offer many employment opportunities. And, we promote from within our own ranks."

Mike Penn, vice president and manager, machining and assembling operations, feels the company believes that people are its true value. "Even the layoffs were necessary to preserve the jobs of those who had invested the most time and energy into the company. LUFKIN is an established, solid company. There may be fluctuations in business from time to time, but the company will be here years from now."

What is the greatest challenge confronting the company in the years ahead?

Top management sees growing worldwide competition as LUFKIN'S greatest challenge in the future. "We can no longer think of our competitors as those in the United States. We have to look at those in foreign countries as well," says E.G. Pittman, vice president and manager of foundry operations. "The worldwide market is the way of the future."

W.T. Pennington, vice president and manager of structural steel, final assembling and shipping operations, adds that to survive in such a market the company will have to produce the best product not only in the nation, but also in the world. "We will have to produce the best product at the least cost. It is a tough assignment, but we can achieve it."

ANNIVERSARIES

INDUSTRIAL SUPPLIES

	Employment Date	Years With Co.
Earl Davis	February 1, 1963	20
Dorothy Havard	February 1, 1965	18
Lee Saxon	February 1, 1968	15
Kendall Moseley	February 10, 1972	11
Bonnie Marshall	February 2, 1976	7
Paul Squyres	February 2, 1976	7
Wayne Saucier	February 3, 1976	7
Claude Mullins	February 19, 1982	1

MACHINERY OPERATIONS

	Employment Date	Years With Co.
Stanley Beck	February 21, 1955	28
Ray Russell	February 7, 1956	27
Barbara Fowler	February 1, 1957	26
Betty Stewart	February 19, 1958	25
Donald Wallace	February 2, 1959	24
Jack Landrum	February 2, 1959	24
Hulen Warren	February 14, 1962	21
Delbert Ellison	February 17, 1964	19
Curtis Thomas	February 2, 1965	18
James Luce	February 8, 1965	18
Ronnie Parker	February 7, 1966	17
Austin Stein	February 26, 1968	15
Raymond Solly	February 17, 1969	14
Marvin Powell, Jr.	February 19, 1969	14
Ben Newsom	February 1, 1970	13
Kenneth Brashear	February 8, 1971	12
Billy Addison	February 14, 1972	11
Robert Gresham	February 21, 1972	11
Harold Lane	February 2, 1973	10
Kenneth Burke	February 7, 1973	10
Steven Langston	February 15, 1973	10
James Coleman, Jr.	February 4, 1974	9
Marvin Sowell	February 13, 1974	9
William Barnett	February 4, 1975	8
Sidney Alvers	February 10, 1975	8
Victor Reese, Jr.	February 16, 1975	8
Robert Lewis	February 24, 1975	8
John White	February 16, 1976	7
Robert Stokes	February 16, 1976	7
Thomas Thomas	February 26, 1976	7
Robert Dunn	February 1, 1977	6
Harwelleen Corder	February 8, 1978	5
Joy Ouseph	February 10, 1978	5
Lacy Ford	February 22, 1978	5
William Rushing	February 2, 1979	4
Paul Taylor	February 8, 1979	4
Dennis Massey	February 12, 1979	4
Gary Ritnour	February 19, 1979	4
LaDonna Stapleton	February 21, 1979	4
George Shimer	February 21, 1979	4
Fred Sutton	February 22, 1979	4
William Reneau, Jr.	February 26, 1979	4
Donald Rainey	February 4, 1980	3
Gary Baker	February 4, 1980	3
Fernando Arredondo	February 6, 1980	3
Albert Stokley	February 6, 1980	3
Robert Bailey, Jr.	February 10, 1980	3
Belinda Pyle	February 11, 1980	3
Michael Cassin	February 18, 1980	3
Michael Horn	February 21, 1980	3
Irineo Mendoza	February 25, 1980	3
James Crain	February 26, 1980	3
Freddie Baker	February 27, 1980	3
Lois Berry	February 27, 1980	3
Alfred Thomas	February 28, 1980	3
Elenor Hancock	February 2, 1981	2
Jo Dixon	February 18, 1981	2
Lawrence Hawthorne	February 23, 1981	2
Joe Hood	February 24, 1981	2
David Henry	February 3, 1982	1

MACHINERY SALES AND SERVICE

	Employment Date	Years With Co.
Roy Lilley, Jr.	February 2, 1953	30
David Bishop, Jr.	February 19, 1957	26
Joe Byrd	February 1, 1961	22
Jim Trout	February 12, 1968	15
Mike Bomboy	February 24, 1969	14
Bob Jeffs	February 15, 1972	11
Cheryl Maitrejean	February 7, 1977	6
Dan Robertson	February 2, 1981	2
Nathan Kowacich	February 2, 1981	2

MATERIAL CONTROL

	Employment Date	Years With Co.
Henry Sumlin	February 13, 1973	10
Rex Whitaker	February 11, 1976	7
John Duke	February 13, 1978	5
Michael Medley	February 14, 1979	4
Joe Branton	February 18, 1980	3
Monte Cochran	February 25, 1980	3

STRUCTURAL STEEL OPERATIONS

	Employment Date	Years With Co.
Marcus Patrick	February 7, 1947	36
Malchom Lowery	February 27, 1959	24
David Merritt	February 9, 1962	21
Earl Burchfield	February 15, 1962	21
Jay Tarver	February 10, 1964	19
James Matthews	February 7, 1966	17
J.P. Womack	February 20, 1967	16
Leandro Vasquez	February 20, 1967	16
George Waldrep	February 12, 1969	14
Charles Lee	February 24, 1970	13
Lawrence Holt	February 19, 1974	9
Gregory Dempsey	February 16, 1976	7
Sam Figueroa	February 7, 1977	6
Therman Davis	February 14, 1977	6
Nelson Reynolds	February 28, 1977	6
Millard Barge	February 13, 1978	5
John Jones	February 22, 1978	5
Margaret Mathews	February 2, 1979	4
Billy Hoosier	February 19, 1979	4
Graciela MacLaughlin	February 5, 1980	3
Jose DeLaCruz	February 5, 1980	3
Willie Calvin	February 6, 1980	3
Jerry Mericle	February 6, 1980	3
Ricardo Ibarra	February 8, 1980	3
Perry Hoff	February 10, 1980	3
Gilberto DeJesus, Jr.	February 11, 1980	3
Rosalio Moreno	February 11, 1980	3
Ismael Terrazas	February 12, 1980	3
Henry Toothman	February 14, 1980	3
Curtis Flakes	February 15, 1980	3
Don Mayo	February 18, 1980	3
Tommy Butler	February 19, 1980	3
Steve Burchfield	February 20, 1980	3
Bob Napier	February 21, 1980	3
Javier Horta	February 24, 1980	3
Jose Aldaba	February 29, 1980	3
Tammy Baker	February 2, 1981	2

FINAL ASSEMBLY AND SHIPPING

	Employment Date	Years With Co.
Robbie Barley	February 10, 1964	19
Theron Williams	February 10, 1966	17
Ted Hearnsberger	February 1, 1968	15
John Bridges, Jr.	February 2, 1976	7
Oscar Houston	February 3, 1976	7
Joe Foreman	February 9, 1978	5
Billie Lee	February 6, 1979	4
Joe Flores	February 5, 1980	3
Tommy Ridgeway	February 7, 1980	3
Carlos Barrera	February 14, 1980	3
J.D. Olford	February 18, 1980	3
Freddy Hensley	February 27, 1980	3

FOUNDRY OPERATIONS

	Employment Date	Years With Co.
Fred Benemon	February 20, 1946	37
James Scott	February 20, 1946	37
Rex Jones	February 20, 1951	32
Carl Ross	February 13, 1952	31
James Jones	February 2, 1955	28
Clayton Jircik	February 21, 1955	28
Thomas Boulware	February 22, 1955	28
William Westbrook	February 1, 1956	27
E.G. Pittman	February 1, 1960	23
James Jones	February 5, 1962	21
Charles Minton	February 5, 1962	21
Lewis Ferguson	February 7, 1966	17
Archie Williams	February 11, 1966	17
Donald Kuehl	February 13, 1967	16
Everett Rhodes	February 15, 1967	16
Jewel Hale	February 14, 1968	15
Juan Reyes	February 5, 1970	13
James Johnson	February 7, 1972	11
Troy Allen	February 5, 1973	10
Walter Cummings	February 4, 1975	8
Eddie Wade	February 23, 1976	7
Wilkin Mickey	February 3, 1977	6
John Salazar	February 7, 1977	6
Jack Bates	February 27, 1977	6
Jane Lisenby	February 2, 1978	5
David Ramirez	February 13, 1978	5
Alfred Broussard	February 18, 1979	4
Carroll Brown, Sr.	February 11, 1981	2
Mitchell Ware	February 12, 1981	2
Anler Mullins	February 18, 1981	2
Joe Hankins	February 18, 1981	2
Jesse Ferguson	February 22, 1981	2
William Peavy	February 23, 1981	2
Mark Cline	February 10, 1982	1
Ann Lisenby	February 11, 1982	1

PRODUCT DESIGN ENGINEERING

	Employment Date	Years With Co.
William Wagner	February 19, 1952	31
James King	February 8, 1965	18
Robert Estes, Jr.	February 1, 1970	13
Ellen Lightfoot	February 16, 1976	7

CORPORATE OFFICES

	Employment Date	Years With Co.
David Pustka	February 16, 1977	6
Doug Hudson	February 28, 1977	6
Jean Hohimer	February 5, 1979	4

PERSONNEL

	Employment Date	Years With Co.
Robert Meadows	February 8, 1982	1

TRAILER PLANT

	Employment Date	Years With Co.
Arthur Warren	February 1, 1950	33
Granville Wright	February 2, 1950	33
Luke Rouse	February 6, 1950	33
Boyce Hendry	February 9, 1950	33
Milton Watson	February 27, 1950	33
Cabe Clonts	February 6, 1964	19
Charles Kilgore	February 14, 1964	19
Howard Coleman	February 17, 1964	19
Freddy Williamson	February 17, 1964	19
George Oliver	February 24, 1965	18
Elmer Lynch	February 8, 1966	17
Charlie Jackson, Jr.	February 8, 1966	17
J.C. Malnar	February 8, 1966	17
James Green	February 10, 1966	17
Sam Adams	February 6, 1968	15
Walter Butler	February 12, 1968	15
Whittaker Garrett	February 17, 1969	14
Kelly Hopson	February 26, 1969	14
Dean Pruitt	February 16, 1970	13
Robert Brockett	February 7, 1972	11
Edward Williams	February 7, 1972	11
Jerry Sudduth	February 7, 1972	11
Ira Lewis	February 14, 1972	11
Sylvester McClain	February 16, 1972	11
Willie Davis	February 28, 1972	11
Delbert McGuire	February 28, 1972	11
Carnuto Rios	February 16, 1976	7
Kenneth Modisette	February 2, 1978	5
Herman Blake	February 28, 1978	5
Shelby Oden	February 16, 1979	4
Woodrow Lewis	February 21, 1979	4
Robert Johnson	February 1, 1980	3
Larry Edwards	February 27, 1980	3
Bobby Conner	February 9, 1981	2

TRAILER SALES AND SERVICE

	Employment Date	Years With Co.
Carl Peppard	February 29, 1960	23
Gary Hobson	February 25, 1963	20
Hoyt Rogers	February 17, 1964	19
Edward Woodall	February 22, 1982	1

INSIDE

Cover by Chuck Stevenson

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