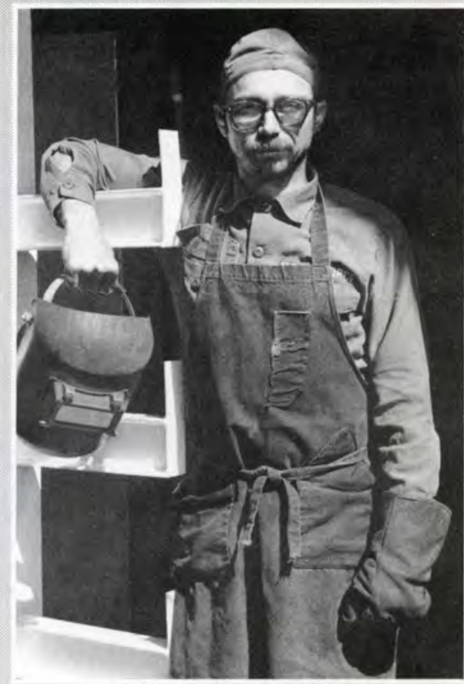
LUFKIN

ROUNDUP

APRIL 1989



1988 Employee Annual Report

Partners In Progress

Although this issue of the Roundup is entitled Employee Annual Report, the unique characteristic of Lufkin Industries is that we don't think of each other as employees. In a very real sense, we are "partners" in every activity of the company.

The primary motto and guiding principle of our company is "helping people to succeed." This objective can never be achieved with individual employees, but as "partners" tremendous accomplishments can be made.

For the last several years, we have been caught in a profit squeeze by fierce competition and lower demand for products we sell coupled with increased pricing for materials and component parts required for manufacturing. As a result, we have been forced to pay higher prices for the materials we use while we have had to lower the price of the products we manufacture. This is the primary reason our profits have been severely reduced for the last several years.

In 1989, we will continue to face extremely competitive conditions and increased material costs; however, adversity is nothing new to the LUFKIN Team, and we will continue to meet every challenge with courage and determination. I am confident that we will constantly improve in each of our markets and in the efficiency of all our operations.

The tremendous progress this company has made over the years is because of the "people power" of our partnership relations. People are the major source of progress. The skill, knowledge, efficiency, and energetic attitude of our people has long contributed to the reputation and pride of Lufkin Industries. The participation of each person to improve both operations and relationships with others has greatly enhanced the capabilities of our company. The continual suggestions from LUFKIN partners have been a great source for improving both product and process. The active participation of so many people in our educational programs continues to amaze people from other companies, and the interest that everyone has in improving themselves and our company is truly phenomenal.

I feel that the "LUFKIN Partnership" is unique and the success of this company is because of the development of that partnership throughout the years. I encourage you to build on that strong heritage and improve your capabilities so that we can continue to strengthen our relationship of "Partners in Progress."

My sincere thanks to all the LUFKIN partners that make LUFKIN a respected name in all our products and services throughout the world. It is your enthusiastic participation that keeps the quality and real value of every LUFKIN product intact and keeps the reputation of the LUFKIN organization on a high plane. This issue of the Employee Annual Report is dedicated to you, because **You Are The Company.**

F B Stevenson

Frank B. Stevenson

1988 Employee Annual Report

Building on 1987, the Lufkin Industries' team moved quickly in 1988 to involve the company in major projects that would garner a larger share of pumping unit, industrial gear, trailer, and industrial supplies' product markets. At the same time, Lufkin's management took advantage of the company's manufacturing capabilities to expand in other promising markets such as foundry castings and steel fabrication. In terms of local economic impact, Lufkin Industries employs over 2200 workers which translates to approximately $75 million each year in payroll, taxes, material purchases and local services into the East Texas area. Additionally, LUFKIN re-invested $7.6 million in plant improvements during the year.

Plant and product improvements often go hand-in-hand as Lufkin's personnel review product designs and manufacturing processes. Lufkin is continually studying all products in an effort to increase productivity and lower product cost while improving Lufkin's high quality standards. "Our operation is based on quality, service, dependability, value and improvement, which is the driving force behind our competitive spirit," says Frank Stevenson, President and Chief Executive Officer of Lufkin Industries, Incorporated.

Machinery Division

• Pumping Unit sales for 1988 edged up 15% over 1987 sales, and the Machine Shop, Foundry, Engineering, and Fabrication departments achieved many improvements in pumping unit design and manufacturing efficiency. The introduction of a new line of pumping units helped customers of LUFKIN further optimize their oil well pumping applications. LUFKIN also established an international training center in Lufkin which offers training in the operation and maintenance of pumping units. In an effort to expand its customer base,

Joe Watson, 34 years

LUFKIN opened a new pumping unit sales office in Hobbs, New Mexico and extended sales to over 14 foreign countries. Marketing efforts in pumping unit installation, repair and service, and pumping unit parts sales will continue to produce significant growth in 1989.

In October '88, LUFKIN acquired the Torqmaster operation of Baker Hughes in Oklahoma City. In January of '89, LUFKIN acquired the assests of Morgan pumping unit in Tulsa, Oklahoma. The transaction of both companies covered inventory, fixtures, patterns, and drawings. These acquisitions allow LUFKIN to compete in the used and low priced pumping unit markets, both domestic and foreign, and strengthen its positions as the world's leading pumping unit manufacturer.

• Industrial Gears increased sales in 1988, with a portion of the increase resulting from emphasis on gear repair. The world-wide market potential of industrial gear products is currently in excess of 3 billion dollars, and Lufkin expects to continue to gain a substantial amount of this market in 1989. This will be enhanced by Lufkin's new strategy on gear repair, which appeals to customers choosing to have their gearboxes repaired or re-manufactured as the low cost alternative to a new gearbox replacement.

Trailer Division

• Lufkin Industries' Trailer Division accomplished what the trucking industry was unable to do in 1988. While the trailer market as a whole experienced a 2% downturn in 1988, Lufkin Trailers recorded a 14% increase in total sales.

Lufkin Trailers is continuing to grow in the marketplace while gaining ground as a financially stable manufacturer. While other trailer companies are having to close branches and consolidate, Lufkin Trailers is working hard to expand its customer base, modernize its branches, and streamline its manufacturing facilities.

To meet growing customer demands, Lufkin Trailers has expanded their trailer operation by moving dump and drop frame manufacturing to the downtown Heavy Weldment facility. The extra space has allowed production to increase from three flatbeds a day to six a day with no decrease in dump or drop frame production. Installation of a new automatic beam welder also helped to boost flatbed production by reducing welding time of a 48' beam from several man hours to approximately six minutes. Another new machine instrumental in reduction of manufacturing time is the Plasma Shape Cutter. This programmable, computer controlled plasma arc torch can cut large numbers of repetitive parts and easily cut parts with difficult contours.

Lufkin Trailers is looking to new horizons. With plant modernization and production increases scheduled to reach 24 trailers a day, Lufkin Trailers must increase its customer base. Work is now progressing on getting LUFKIN vans AAR certified allowing LUFKIN to compete in the TOFC (Piggy Back) market. The current TOFC fleet is largely outdated and shows a high potential for sales opportunity.

Industrial Supplies Division

• Lufkin's Industrial Supplies Division increased sales 15% in 1988. With 56 employees serving the Lufkin and Jasper areas and over $3 million in local inventory, the Supplies Division emphasizes service and availability. New product offerings and increased staffing in Power Transmission, Plumbing Fixtures, and Welding Supplies and Equipment will increase sales even more in 1989. The Bath & Kitchen Showplace increased sales 45% while the Power Transmission product line soared to a 90% sales increase for 1988.

Milton Watson, 39 years

Pat Merriwether, 12 years

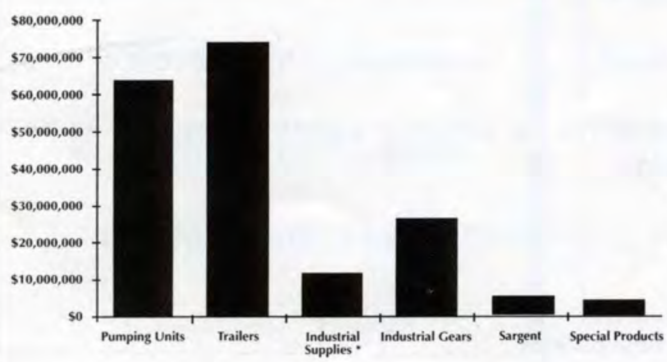
Expanding Markets

• The Foundry Department of the Machinery Division continued development of the commercial casting operations by offering its extensive casting capabilities to domestic manufacturers. Projections indicate a continued steady growth in demand.

• The Fabrication Department came a step closer to the "factory of the future" concept in 1988 with the completion of an integrated CAD/CAM system. In pumping unit design engineering, a component can be created on a computer-aided design workstation (CAD), transmitted electronically via phone lines to the manufacturing engineering workstation (CAM), and transmitted via fiber optic cable to the computer controlled machine (CNC).

Due to record breaking trailer sales, all of LUFKIN's "Lightweight" drop-frame floats and advanced "Ultralight" dump trailers are being built in the Heavy Weldment facility.

1988 SALES



* $3.8 million from in-house sales

Personnel Development: Helping People To Succeed

• 163 LUFKIN employees completed company sponsored career development courses, which covered topics such as Foundry Practices, Blueprint Reading, Work Simplification, Shop Math, and Non-Destructive Testing.

• Many Lufkin employees took advantage of Lufkin's tuition aid program in 1988. The employees enrolled in courses offered by Angelina College or SFA, and then received up to $250 for tuition fees and expenses.

• Lufkin Industries Foundation awarded 25 college scholarships to children of Lufkin Industries' employees in 1988 valued at $145,500.

• Forty-eight employees were invited to participate in Lufkin Industries' Supervisor Training Course. Developed within the company, the course prepares supervisor and management candidates for leadership roles and serves as a refresher class for previous graduates.

"Our one basic company objective is to help people succeed," Stevenson says.

On The Road To Success

ENGINEERING

Robert Jones .... Technologist II to Designer B

FOUNDRY

James Dean .... Electrician B to Electrician A
Jose Garcia .... Crane Operator to Hydraulic Manipulator Operator
Alfred Navarro .... Chipper Grinder Finisher to Storekeeper
Stephen Reynolds ...... Project Technologist to Sr. Project Technologist
Odie Watts .... Group Supv., Mech. Maint. to Foundry Maint. Mgr.

HEAVY WELDMENT

John Richard .... Helper to Fork Lift Operator
Bobby Ward .... Fork Lift Operator to Storekeeper

INDUSTRIAL SUPPLIES

Greg Broussard .... Warehouse Clerk to Truck Driver
Lillie Cirillo .... Sales Clerk/Receptionist to Warehouse Clerk
Jerry Hough .... Truck Driver to Inside Plumbing Sales
Sammy Read .... Warehouse Supervisor to Counter Sales

MACHINE SHOP

James Chamblee .... Machine Helper to Truck Operator
CharlesGoeyns .... Laborer to Maintenance Mechanic A
Calvin Mundy .... Part Time to Laborer
Steven Redd .... Machinist Helper to Electrician C
Steven Ward .... Machine Helper to Assembler B

TRAILER

Burtis Boles .... Trailer Builder A to Machine Operator A
Raul Castillo .... Cleaner & Grinder to Painter B
Preston Cauley, Jr. .... Painter B to Painter A
Danny Colbert .... Trailer Builder A to Truck Driver A
Gary Day, Jr. .... Trailer Builder B to Trailer Builder A
Jose Diaz .... Material Handler A to Painter B
Robert Dixon, Jr. .... Trailer Builder B to Material Handler A
James Doss .... Helper to Trailer Builder A
Kenneth Fields .... Painter B to Painter A
Dennis Hulett .... Helper to Painter B
Wade Sapia .... Mechanic Helper to Mechanic B
Sherman Snelson .... Helper to Material Handler A
Daniel Stegall .... Cleaner & Grinder to Painter B
Vernon Tidwell .... Mechanic B to Mechanic A

Fishing Tournament Successful

Friday, March 24, 1989 marked the date of the 13th Annual LUFKIN Fishing Tournament. 140 participants made a total of 70 team entrants. After the contest a fish fry was held for all the participants and spectators. A total of 285 pounds of fish (200 pounds of bass and 85 pounds of perch) were caught. Pictured are the winners in both the bass and crappie divisions.

FEEDBACK

Do you know who our competitors are?

Yes _____ No _____ Some _____

Do you consider that your personal work ethic/attitude affects LUFKIN's ability to compete?

Yes _____ No _____

What effect do you believe competition has on your job security?

Positive _____ Negative _____ No effect _____

Compared to the past, how much has competition changed?

Increased _____ Decreased _____ Not much change _____

What do you feel is the most important selling point for our products?

Price _____ Delivery _____ Service _____ Quality _____

Name (optional) ______________________________

Department ______________________________

APRIL ANNIVERSARIES

Accounting

John Cantrell 15
Tim Coker 13
Judy Cain 12
Art Lozano 9
Sara Callahan 7
Don Lorenz 6

Assembly & Shipping

Ray Montgomery 11

Canada

Katherine Schurek 4
Norman Dunroe 1
Geordie Castle 1

Engineering

Michael Lannan 1

Foundry

Jim Singletary 37
Eddie Sowell 27
Leon Denning 25
George Yarbrough, Jr. . 24
Samuel Johnson, Jr. 17
Lester Gilder 17
Johnny Miller 16
MacArthur Hatton 15
Dudley Flenoy 13
Jimmie Suell 12
Nancy Ballenger 10
Jose Garcia 10
Stephen Reynolds 8
Roman Cardenas 2
Guadalupe Luna 2
Vickie Oates 2
Juan Bermea, Jr. 2
Florentino Lopez 2
Aurelio Castillo 2
Zeferino Cruz 2
Esteban Garcia 2
Juan Hernandez 2
Grose Kiel 2
Raimundo Luna 2
Carl Russell 2

Heavy Weldment

A. Whisenant, Jr. 17
Martin Walden 14
Margaret Sowell 10
Brent Husband 10

Industrial Supply

Trina Lannan 9
Lillie Cirillo 2
Sammy Read 2
John Temple, Jr. 1

Machine Shop

Gordon Thomas 27
Leroy Garner 26
Leslie Durham 24
William McCalister 24
Darvin Dominey 24
James Eddings 23
David Jinkins 23
Doyle Robertson 22
Donald Smith 21
James Williams, Sr. 21
James Pate 19
Don Allen 17
Michael Doss 16
Dal Johnson 15
Edgar Ditsworth, Jr. 14
Donald Jackson 12
Temple Farr 12
Larry Jackson 11
Michael Burley 10
Steven Carlin 10
Gary Reppond 10
William Poe 10
Coy Taylor 9
Steve Whitaker 9
Roy Williams 9
Jerold Runnels 9
Carl Phillips 8
Caroll Benge 2
Linda Dunn 2
Onetta Hamilton 2
Floyd Jacks, Jr. 2
David Palmer 2
Wilbur Bruton 2
Robert Drouet 2
Oran Calmese, Jr. 2
Carolyn Havard 2
David Holley 2
Robby Malone 2
Jeffery Yount 2
Jose Morales 2
Randy Baker 2
Virgil Berwick 2
Paul Rhoden 2
Jack Alexander 1
William Brown 1
John Dykes 1

Machinery Sales

Lee Stevens 27
Gary Seaton 23
Doris Jones 20
Bob Burrelli 13
Inocencio Reyes 12
Lorraine Gregory 11
Cathy Salagaj 11
Mary Phillips 9
Julie Jacobs 7
Duane Pritzel 5
Thomas Brewer, Jr. 9
Don Connally 5
Teresa Swindell 1

Trailer Division

Jerry O. Swearingen 21
Prentice Brooks 17
Johnny Rhodes 17
Ewell Jackson 16
James Holton 16
Linley Ham 15
Mary Guerra 15
Bobby Smith 15
Walter Shaw 13
Ethel Boyles 13
Sue Massingill 13
Tommie Fox 12
Anthony Niosi 12
Tom Spencer 11
Albert Larabell 10
John Oliver 10
Roy Traweek 10
Stephen Jayroe 5
Jay Schwartz 4
Roland Reynolds 4
John Myrick, Jr. 3
Sharon Jackson 3
Ralph Evans 3
Randall Hairgrove 2
Curtis Hinson 2
Norman Barlow 2
Glenn Dominey 2
Charles Lyons 2
Charles Mettlen 2
Wayland Quisenberry .. 2
James Windham 2
Ronald Edwards 1
Linnie Johnson 1
Gerald Davis, Jr. 1
Jerry Bowers 1
Randall Collins 1
Robert Dixon, Jr. 1
Luis Garcia 1
Randy Grimes 1
Robert Moye 1
James Shugart 1
Martin Aguilar 1
Raul Castillo 1
Maxie Richards 1
Sherman Snelson 1
Leandro Horta 1
Samuel Rose 1
Dudley Gideon 1
Guadalupe Lozano 1
James K. Young 1

Welding Shop

Smith Malone, Jr. 27
Roger Williams 27
Robert Lewis 24
Donald Stringer 24
Benny Wilson 23
Harold Woods 14
Alfonso Compean 14
William Bardwell 9

On The Cover

(Clockwise from top left)

Gayland Wallace, 35 years

Tim Stacy, 7 years

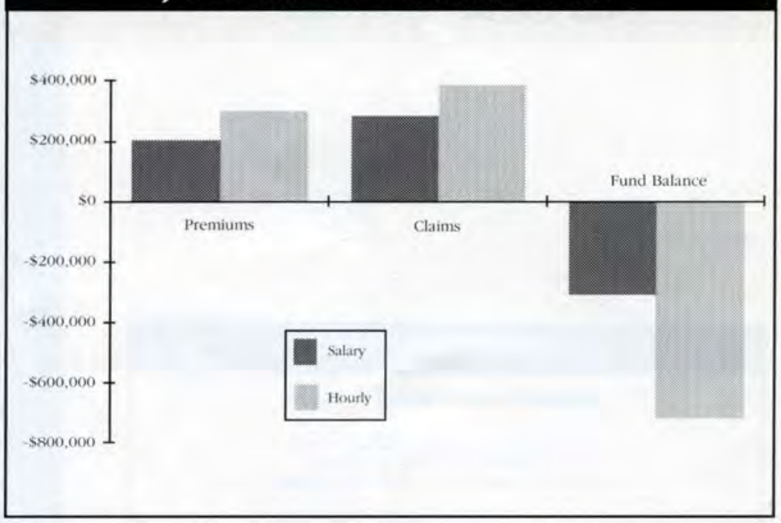
Kenneth Faires, 11 years

George Mott, 1 year

Jesus Solis, 1 year

Jim Hudiburgh, 7 years

JANUARY INSURANCE CHART



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Address Correction Requested

Odis Garner, 38 years

Dwayne Shinn, 4 years

Linda White, 14 years

THE ROUNDUP

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For active and retired employees and their families.

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