

LUFKIN INDUSTRIES, INC.

CORPORATE CODE OF CONDUCT

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I. PURPOSE
LUFKIN INDUSTRIES, INC.

A MESSAGE FROM THE PRESIDENT At LUFKIN, there is no more important issue than the lawful and ethical conduct of employees in their relationships with customers, industry, government, other LUFKIN employees and others in all countries and communities where the Company operates. Our reputation for integrity is the cornerstone of the public's faith and trust in our Company and, that respect, is what provides us an in opportunity to serve our customers. A single employee's misconduct can do much to damage a hard-earned reputation.

It is the purpose of this Code of Conduct to:

- (i) Provide an overview of the Company's policies concerning ethical and legal business conduct*;
- (ii) Inform employees of the appointment of an executive level Chief Compliance Officer (the General Counsel/Secretary); and
- (iii) Advise employees of procedures to report possible violations of those policies.

To the people LUFKIN employees deal with, those employees are LUFKIN. LUFKIN employees represent the Company every day through their work. Accordingly, it is imperative that all employees study this Code of Conduct carefully and understand and follow the principles set forth. Any employee who has questions should contact his or her manager or the Chief Compliance Officer.

In addition, it is Company policy that every individual who has employees reporting to him or her take all necessary steps to ensure that such employees also know and follow these policies. In this connection, all such individuals should periodically consult with their managers and the Chief Compliance Officer to determine

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Additional Company policies are contained in various other guides and Manuals. From time to time, this Code of Conduct refers to certain of these guides and Manuals.

that appropriate procedures for implementation of Company policies have been developed and are being followed.

In all instances, it is the policy of the Company that its business be conducted in a lawful and ethical manner. The policies which are summarized in this Code of Conduct are designed to protect and enhance the Company's integrity as an outstanding corporate citizen. Maintenance of such integrity is essential to the Company's business and is not in any circumstances to be sacrificed for the sake of results. All employees should be aware that conduct which violates the policies set forth in this Code of Conduct will always be considered outside the scope of their employment and that violation of these policies may expose not only the Company but also the individuals involved to fines, injunctions and lawsuits for damages or restitution and, in some cases, criminal actions including possible imprisonment. In addition, in all instances, individuals who violate these policies are subject to appropriate disciplinary action by the Company including possible termination of employment.

While the Code of Conduct provides guidance and explains what is considered unacceptable and illegal behavior, the Code of Conduct does not describe every specific act that is unacceptable and/or illegal. Because a specific act is missing from the Code, it does not mean that act is acceptable and/or lawful. Ultimately, employees must rely on their judgment about ethical and rational practices in order to maintain their personal and LUFKIN's corporate integrity.

Douglas V. Smith
President
Chief Executive Officer
Chairman of the Board

II. OVERVIEW OF COMPANY POLICIES

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

LUFKIN's goal and intention are to comply with the laws, rules and regulations by which we are governed. All illegal activities or illegal conduct are prohibited whether or not they are specifically set forth in this Code.

Where a situation is not governed by law, or where the law is unclear or conflicting, you should discuss the situation with your supervisor and management should seek competent legal and other advice as needed. Where a situation is not governed by law, or where the law is unclear, business should be conducted in a fair and forthright manner. Directors, officers and employees are expected to act according to the highest ethical standards.

ANTITRUST COMPLIANCE

It is the policy of LUFKIN that all employees uphold the existence of a competitive marketplace by complying with all antitrust laws.

The United States federal government, most state governments, the European Economic Community and many other foreign nations have adopted antitrust laws. In broad terms, these antitrust laws make it illegal to engage in activities that reduce competition or restrain trade. For example, the antitrust laws of most governments prohibit competing companies from entering into agreements regarding pricing, production limits, or dealings with customers or suppliers. Such agreements need not be in writing to be illegal; in some cases, a discussion between competing companies regarding such matters may be considered a violation of antitrust laws.

The antitrust laws are designed to ensure the existence of a competitive marketplace for business and consumers. LUFKIN firmly believes in those principles, and it is strict LUFKIN policy that all antitrust statutes be complied with in every respect.

The penalties for violating antitrust laws or acting against LUFKIN policy in this regard are severe. Employees are subject to possible termination of employment, heavy fines, imprisonment and other penalties. In addition, improper actions by LUFKIN employees could expose LUFKIN to liabilities including heavy fines and civil suits.

The Company has prepared and distributed a policy guide entitled Antitrust Compliance, which is available from the Human Resources Department. In addition to referring to a number of the general business policies which are discussed in this Manual, such policy guide describes the antitrust and other related criminal laws which are applicable to the Company's business and the Company's policies in regard thereto. Those specific policies and laws are not repeated in this Code of Conduct. However, each officer, manager, department head, and supervisory employee, and each employee having sales or purchasing responsibility in the Company and its subsidiaries is required to:

- Study the policy guide regarding such policies and laws in order to maintain up-to-date personal knowledge and understanding of antitrust laws and the ways in which they relate to Company operations. (Additional information will be provided through other Company publications, training seminars and through discussions with the Chief Compliance Officer.)
- Maintain compliance with these laws within his or her area of responsibility, by insuring that the policy guide regarding antitrust matters and other pertinent information provided by the Company is read, understood, and followed by employees reporting to him or her, by arranging for presentations concerning these laws by LUFKIN specialists and by outside counsel and by utilizing other Company educational materials.
- Promptly seek the advice of the Chief Compliance Officer in any specific case where a question of compliance with these laws arises.

All employees should be aware that no violations of these policies will be condoned or excused regardless of any claims of ignorance or good intentions or overzealousness.

BRIBERY

LUFKIN policy prohibits the payment or acceptance by any employee of bribes and certain gifts in relation to any Company business.

In addition to being illegal under state and federal laws, it is absolutely against Company policy for any employee to offer, give, solicit or receive any form of bribe or kickback in relation to any Company business*. These are criminal acts and can result in the criminal prosecution of both the individual involved and the Company. The offer or provision of any bribe or gratuity to a federal, state, or local government official is prohibited. It is not necessary that the offer or gift be given with the intent to influence that government official to constitute a violation of state or federal law. Personal funds or resources may not be used to do that which is otherwise prohibited.

Although bribing officials to obtain business has been accepted in some foreign countries, such activity is in violation of Company policy and is also outlawed by the Foreign Corrupt Practices Act of 1977. Such act prohibits a company or its officers, employees, agents or stockholders, in connection with the sale of the company's products or services, from making any offer, payment, promise or authorization of payment of money or gifts to a foreign official, political party or candidate for the purpose of obtaining or retaining business by:

- Influencing decisions by such foreign official, political party or candidate in its official capacity.
- Inducing such foreign official, political party or candidate to use its influence with a foreign government.

The Foreign Corrupt Practices Act also prohibits paying anything of value to any third person while knowing or having reason to know that such payment will be used for illicit bribes to non-ministerial government officials or political party

* Reasonable business entertainment and normal sales promotion items are excepted as long as the value of such business entertainment or sales promotional items is nominal. (See "Business Entertainment or Gifts" elsewhere in this Code of Conduct.)

officials to obtain or retain business overseas.

Each Company officer, manager, department head and supervising employee, and each employee having sales, purchasing or financial responsibility in the Company and its subsidiaries will be responsible for maintaining compliance with these policies within his or her area of responsibility.*

Any employee who has questions as to what is proper or improper in any given situation should consult his or her manager or the Chief Compliance Officer.

* Employees having purchasing responsibility include any employees (and members of their families) participating in or influencing a purchasing decision as well as other employees performing a purchasing function.

ACCURATE RECORDS

It is against LUFKIN policy for any employee to falsify records in any way.

From a business viewpoint, it is absolutely essential that the Company maintain accurate books and records. In addition, there are a number of criminal statutes (for example, the Foreign Corrupt Practices Act, the Federal False Claims Act, environmental reporting laws and federal mail-fraud statutes) requiring that a Company such as LUFKIN maintain accurate books and records. Therefore, it is absolutely against Company policy for an employee to falsify Company records in any way.

All directors, officers, employees and other persons are prohibited from directly or indirectly falsifying or causing to be false or misleading any financial or accounting book, record or account. All directors, officers, employees and other persons are expressly prohibited from directly or indirectly manipulating an audit, and from destroying or tampering with any record, document or tangible object with the intent to obstruct a pending or contemplated audit, review or investigation.

It is Company policy that each employee should:

- Ensure that all books and records are kept so that they fully represent the Company's receipts, expenditures, assets and liabilities.
- Record all funds and accounts in accordance with federal law.
- Comply with the accounting provisions of the Foreign Corrupt Practices Act, which require record keeping detailed enough to prevent off-the-books slush funds and payments of bribes and otherwise to reflect completely and accurately the Company's sales and expenditures.

In addition, employee expense accounts are to be used only for proper and authorized business expenditures, and such expenditures are to be fully and accurately described in the Company's records.

BUSINESS ENTERTAINMENT OR GIFTS

LUFKIN policy prohibits the payment or acceptance by any employee of gifts or gratuities other than reasonable business entertainment or normal sale promotional items.

It is important that every employee recognize that he/she has a responsibility to always act in the best interest of the Company. For that reason the acceptance of gifts or gratuities that are valued at more than \$250 or 1% of the recipient's monthly base from a person or company that conducts business with Lufkin Industries would be a violation of our policy and would require appropriate discipline to include termination.

The purpose of this policy is to insure that we maintain the highest degree of honesty and integrity in the conduct of our business. Furthermore, employees should also be aware that the use of good judgment is a part of every Company policy. For that reason, care should always be used whenever an employee finds themselves in a situation in which there may be a perception of purchased influence. An example of this could be when a generally acceptable business lunch takes place so often that their cumulative effect may violate our policy.

Lufkin Industries values its good name and its role as a corporate citizen in the communities where it conducts its business. This is why we insist that every employee understand their obligations on the issue of gifts and gratuities. This policy has not been drafted to be all inclusive. Any employee who needs advice or an interpretation on the issue of gifts and gratuities should discuss the situation with their supervisor or with the Company's Chief Compliance Officer for guidance.

DEALING WITH GOVERNMENT OFFICIALS

It is LUFKIN policy that all employees shall provide complete and accurate reports and information to government officials.

The Company's policy regarding accurate and truthful reporting applies especially to reports or information provided to governmental agencies. Under no circumstances should a LUFKIN employee provide false or deliberately misleading information to any government official. Such conduct would not only violate Company policy but could be a criminal violation. Therefore, in addition to disciplinary action by the Company, including possible termination of employment, such conduct could result in heavy fines or imprisonment.

In addition, employees involved in Government procurement activities are expected to be familiar with the laws and regulations which govern the acquisition of goods and services by governmental entities. Such employees must ensure that all statements and representations to procurement officials are complete and accurate, including costs and other financial data.

INTERNATIONAL BOYCOTTS

LUFKIN policy prohibits the participation by the Company in any attempted illegal boycott of a foreign country.

For a number of years there have been attempts by some nations to require companies wishing to do business in those countries to refrain from conducting trade with a boycotted country. In many instances these attempts are in violation of U.S. law and against Company policy. Even if the Company is not participating in a boycott, the mere act of furnishing information at the request of other parties in a business transaction can violate the anti-boycott laws if the information is sought or furnished for boycott-related reasons. Federal law requires that all such requests for information must be reported to the government and imposes stiff penalties for failure to do so. For example, a request to state whether the Company does business in Israel must be reported. This is true even if the Company does not intend to comply with the request. It is Company policy that if a LUFKIN employee is approached in any way in regard to participation in such a boycott or if an employee receives any documents containing references to a boycott or relating to a boycott, it must be reported to the appropriate Sales Manager.

INTERNATIONAL BUSINESS

It is LUFKIN policy that no employee shall conduct business on behalf of the Company with any person in any foreign country without clearance from the Company's Chief Compliance Officer.

Employees of LUFKIN who conduct business with persons in other countries are required to conduct their activities in compliance with the laws of such other countries and in compliance with the laws of the United States relating to such international activities. It is Company policy that employees consult with the General Counsel regarding applicable laws before conducting any activities in any foreign country. Examples of United States laws which apply to the Company's international activities are:

- Regulations which prohibit United States countries from doing business with "restricted" countries (the list of restricted countries changes from time to time but has included in the past North Korea, Vietnam, Libya, Cuba and Iraq.)
- Export regulations

POLITICAL CONTRIBUTIONS

The Foreign Corrupt Practices Act, which generally provides that it is illegal to make direct or indirect payments (including non-monetary items) to a foreign government official or political party in order to obtain or retain business. (See "Bribery" elsewhere in this Manual.)

POLITICAL CONTRIBUTIONS

It is the policy of LUFKIN not to make political contributions.

It is the policy of LUFKIN not to make contributions as a company to any candidate for federal office (which is illegal) or to any candidate for state office. We encourage employees to participate in the political process by making individual contributions to candidates or political action committees from their own funds and on their own time.

EMPLOYMENT POLICIES

It is the policy of LUFKIN to provide equal employment opportunity for all job applicants and employees and to provide a workplace free from discrimination.

It is the policy of LUFKIN that all applicants for employment and all employees throughout their careers with the Company will be provided equal employment opportunity beginning with recruitment and hiring and continuing through training and development, compensation, transfer, promotion and all other conditions and privileges of employment without regard to race, color, religion, sex, age or national origin. Similarly, equal employment opportunity will be provided in the employment of qualified individuals with disabilities, disabled veterans and Vietnam era veterans.

The Company is also committed to providing a workplace that is free from discrimination. Freedom from discrimination includes freedom from any form of discriminatory treatment or harassment due to a person's race, color, religion, sex, marital status, age, disability, national origin, veteran status, whether committed by supervisory or non-supervisory personnel. Such discriminatory treatment and harassment are prohibited when they have the purpose or effect of unreasonably interfering with the employee's work performance or creating an environment which is intimidating, hostile or offensive to the employee. Such discriminatory treatment or harassment may take many forms and includes verbal conduct (for example, racial or sexual epithets, foul language, unwelcome sexual advances or flirtations, commentaries about an individual's body, ethnic jokes, derogatory statements, slurs), physical conduct (for example, improper touching or assault) or visual harassment (for example, sexually explicit or racially or sexually derogatory posters, obscene gestures, cartoons or drawings).

It is the responsibility of each member of management to be aware of any behavior or conduct that could be considered workplace harassment or prohibited discrimination. Management also is required to enforce these policies and immediately contact the Chief Compliance Officer regarding any situation that could be considered workplace harassment or prohibited discrimination.

It is the duty of each employee to maintain a work environment free of discrimination and harassment and to report any situation that the employee believes may be workplace harassment or prohibited discrimination to his/her immediate supervisor, senior management or the Chief Compliance Officer.

ENVIRONMENTAL & HEALTH AND SAFETY

LUFKIN policy requires all employees to conduct the business of the Company in compliance with laws relating to protection of the environment and the safety of its workers.

It is long-standing policy at LUFKIN to comply with all federal, state and local laws and regulations concerning the environment and the workplace. LUFKIN is committed to the conduct of its business activities and operations in a manner that provides for protection of the environment and the safety of its workers. Each Company section must utilize appropriate management practices and sound pollution control mechanisms in order to prevent unacceptable risks to its employees, to public health, and to the environment.

Substantial fines and other penalties can be assessed against the Company for violation of federal, state and local environmental and workplace laws. Additionally, operating managers and employees who knowingly violate the law and fail to correct any such violation may be held criminally liable. Likewise, any employee who delays or fails to notify his or her supervisor of environmental, safety or health violations, or who knowingly makes false statements or falsifies documents relating to these matters can create substantial liability for the Company and may also be found personally liable.

It is essential that all LUFKIN employees become familiar with and comply with permits, laws and regulations as well as Company policies* concerning environmental, health and safety matters which apply to their areas of operations. This includes compliance with the Company's document retention policy relating to environmental, safety and health matters. Such policy describes the retention periods prescribed by law for certain records and the retention periods for all other documents. See "Records Retention" elsewhere in this Manual. Any employee who has questions regarding these matters should promptly consult either his or her manager, the Corporate Environmental/Safety Director.

* The Company's specific policies relating to environmental, health and safety matters are set forth, among other places, in materials maintained by the Corporate Environmentalist and the Safety Director.

CONFIDENTIAL INFORMATION

LUFKIN policy prohibits disclosure by employees of the Company's trade secrets.

One way LUFKIN helps to maintain its business position is through technological innovations that improve products and lower costs. These innovations are developed at great cost and represent valuable business trade secrets. Disclosing any of the Company's confidential technological information may seriously harm the Company's competitive position. Furthermore, any other confidential information about costs, marketing strategies, financing plans, customer lists, arrangements with suppliers (including transportation companies), potential acquisitions, divestitures or organizational changes -- in fact, any nonpublic information that could be of value to competitors -- should be protected from disclosure.

Accordingly, each employee of LUFKIN will be asked to sign an agreement not to reveal the Company's trade secrets to others or use such trade secrets for his or her personal benefit. This agreement applies for as long as an employee is employed at LUFKIN and after his or her employment has terminated as well.

An employee who has questions as to what is or is not regarded as confidential information should discuss the matter with his or her manager or the Secretary-Treasurer.

Directors, officers and employees must respect the confidentiality of information, such as trade secrets, given to us in confidence by suppliers, contractors or customers, just as we protect our own confidential information. However, certain restrictions about the information of others may place an unfair burden on LUFKIN's future business. For that reason, employees are required to find out what restrictions might exist prior to receiving any confidential information. These restrictions must be disclosed in writing and reviewed by the Company's Legal Department before the confidential third-party information may be received. In addition, any confidential information that directors, officers or employees may possess that came from an outside source, such as a previous employer, must not be disclosed to or used by LUFKIN.

CORPORATE COMMUNICATIONS

It is very important that the information disseminated about the Company be both accurate and consistent. For this reason, **the Chief Financial Officer will** handle all internal and external communications for the Company. **The Chief Financial Officer** is responsible for communicating with stockholders, analysts, bankers and other interested members of the financial community. **The Corporate Secretary** is responsible for the Company's marketing and advertising activities and communicating with employees, the media, local communities and government officials. **The Corporate Secretary** serves as the Company's only spokesperson to the media in both routine and crisis situations.

SECURITY

It is LUFKIN policy for all employees to take appropriate precautions to avoid revealing confidential information regarding the Company to any of the Company's competitors.

Competitors have been known to employ unconventional methods to obtain confidential information concerning the Company and its business. Therefore, all employees should be sensitive to the fact that conversations that they conduct, either in person or over the telephone, and documents that they carry may convey or include information that could be of great interest to the Company's competitors.

Particularly when conducting business abroad, employees should consider the possibility that every conversation, either in person or over the phone, is being overheard, either electronically or otherwise. In such situations, employees should consider conducting discussions of sensitive matters in public places where the likelihood of your conversation being overheard may be reduced. Employees should also be certain not to leave any sensitive documents unattended at any time. For example, employees should never leave a briefcase in a hotel room or throw away sensitive documents without ensuring that they are unreadable.

Since the objective of certain of these competitors may be to damage the Company or such employee, employees should be highly attentive to these security precautions.

CORPORATE OPPORTUNITIES AND USE AND PROTECTION OF COMPANY ASSETS

Directors, officers and employees are prohibited from:

1. taking for themselves, personally, opportunities that are discovered through the use of Company property, information or position;
2. using Company property, information or position for personal gain; and
3. competing with the Company.

Directors, officers and employees owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

Directors, officers and employees are personally responsible and accountable for the proper expenditure of Company funds, including money spent as travel expenses or for customer entertainment. Directors, officers and employees are also responsible for the proper use of property over which they have control, including both Company property and funds and property that customers or others have entrusted to their custody. Company assets must be used only for proper purposes.

Company property should not be used for personal benefit, sold, loaned, given away or otherwise disposed of, regardless of condition or value, without proper authorization. Each director, officer and employee should protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. All Company assets should be used for legitimate business purposes.

INTELLECTUAL PROPERTY

LUFKIN policy prohibits the improper use by employees of intellectual property not owned or licensed for use by the Company.

It is the policy of LUFKIN that no employee shall knowingly appropriate, infringe or otherwise make improper use of a valid trademark, patent, trade secret or proprietary technology belonging to another person. For example, LUFKIN employees should not make and distribute copies of materials copyrighted by others, such as films, books or computer software without prior clearance from the Chief Compliance Officer.

COMPUTER AND INFORMATION SYSTEMS

For business purposes, officers and employees are provided telephones and computer workstations and software, including network access to computing systems such as the Internet and electronic mail, to improve personal productivity and to efficiently manage proprietary information in a secure and reliable manner. A director, officer and employee must obtain the permission of the Information Technology Services Department to install any software on any Company computer or connect any personal laptop to the Company network. As with other equipment and assets of the Company, we are each responsible for the appropriate use of these assets. Except for limited personal use of the Company's telephones and computer/e-mail, such equipment may be used only for business purposes.

SECURITIES TRANSACTIONS

It is against LUFKIN policy for any employee to trade in LUFKIN stock while possessing material inside information or to leak such information to others who might trade in the Company's stock.

It is illegal and against LUFKIN policy for employees to trade in LUFKIN stock when they have knowledge of inside information, not yet publicly disclosed, that would be "material" (that is, significant) to other investors in deciding whether to buy, sell or hold LUFKIN stock. Specifically, LUFKIN employees should not purchase LUFKIN stock when they know of material undisclosed Company information that is favorable to LUFKIN.

Of equal importance, employees should not disclose material, confidential Company information to family, friends, in-laws, security analysts, brokers or others who might trade in LUFKIN stock. Until it is made public, confidential inside information must be used only for LUFKIN's business purposes and not for the personal benefit of anyone. Such information should never be "leaked" or "tipped" to any persons who might make or influence purchases or sales of LUFKIN stock on the basis of that information.

Examples of information that may be considered material, non-public information in some circumstances are:

- Undisclosed annual, quarterly or monthly financial results, a change in earnings or earnings projections, or unexpected or unusual gains or losses in major operations.
- Undisclosed negotiations and agreements regarding mergers, concessions, joint ventures, acquisitions, divestitures, business combinations or tender offers.
- An undisclosed increase or decrease in dividends on the Company's common stock.
- Undisclosed major regulatory changes.
- Undisclosed major management changes.
- Undisclosed information as to results of significant drilling and exploration activity.
- A substantial contract award or termination that has not been publicly disclosed.
- A major lawsuit or claim that has not been publicly disclosed.
- The gain or loss of a significant customer or supplier that has not been publicly disclosed.
- An undisclosed filing of a bankruptcy petition by the Company or a significant subsidiary.

- Information that is considered confidential.
- Any other undisclosed information that could affect the Company's stock price.

In a company as large as LUFKIN, a specific pending business development is only infrequently of such significance as to be "material" to its overall earnings, prospects or investment potential, from an objective point of view. Employees, however, should be sensitive to the fact that outsiders involved in stock market activities may sometimes assign an unusual speculative significance to preliminary and incomplete information. Accordingly, employees should assume that confidential inside information may be "material" if there is a possibility that public disclosure of it would influence investors to buy or sell LUFKIN stock, or affect the market price of LUFKIN stock.

In addition, employees should not buy or sell securities of another company about which they have significant information, not yet publicly disclosed, which is related to LUFKIN transactions or projects with that company. Employees should be particularly sensitive to the fact that developments regarding a joint venture or other transaction with a smaller company may have a significant effect on the market value of that company's stock, even when the undisclosed developments may not be as significant to a company the size of LUFKIN.

CONFLICTS OF INTEREST

LUFKIN policy prohibits employees from having any associations, financial interests or business relationships that would constitute a conflict of interest

All employees of LUFKIN must be able to act objectively in matters affecting the Company. Therefore, it is improper for an employee to have any associations, financial interests, or business relationships that would conflict with his or her duties at LUFKIN.

A few examples of conflict of interest situations that may be considered improper are:

- Employment of a LUFKIN employee or a member of such employee's immediate family by a supplier, contractor, customer or competitor of the Company.
- Ownership of an interest in a LUFKIN supplier, contractor, customer or competitor by an employee of LUFKIN or a member of such employee's immediate family; except that ownership of shares in publicly traded companies will usually not be considered an improper conflict of interest.
- Receipt by LUFKIN employees of gifts, entertainment or other favors from LUFKIN suppliers, contractors, customers or competitors; except that receipt of normal promotional items and reasonable business entertainment as described under "Business Entertainment or Gifts" elsewhere in this Manual will usually not be considered an improper conflict of interest.
- Acquisition by a LUFKIN employee of property or other assets whose value is likely to be affected by an action of the Company, especially if it involves a decision or recommendation of the employee involved.

Periodically, each LUFKIN employee will be asked to complete a form on which such employee will be asked to list details about relationships or holdings such employee may have that might be deemed a conflict of interest. A copy of such form is attached to this Code of Conduct as Appendix B. Failure to complete such form truthfully will be a basis for appropriate disciplinary action including possible termination of employment. If an item on an employee's form is disclosed which constitutes a possible conflict of interest, such employee will be asked to discuss the situation with the Human Resources Department and, possibly, his or her manager. In the vast majority of cases, an acceptable resolution can be reached between the Company and the employee.

RECORDS RETENTION

LUFKIN policy requires all employees to comply with the Company's Records Retention Schedules.

It is a strict policy of the Company that each employee is to abide by the Records Retention Schedule which has been adopted for his or her department.* Records are to be retained and protected only as long as they are needed for normal business operations, or as required by law. Records not needed for these purposes are to be destroyed in accordance with approved Records Retention Schedules and disposal procedures. Each employee should become familiar with the approved Record Retention Schedules covering his or her department and take all necessary steps to ensure that his or her files are in compliance with such Schedules. Any employee who has questions in this regard should be referred either to such employee's department or the Chief Compliance Officer.

* All records received or created in the course of Company business are the corporate property of LUFKIN, including paper documents, machine-sensitive records, punched cards, drawings, photographs, and any other documentation prepared or received in transaction of the Company's business.

FINANCIAL CONTROL AND AUDIT POLICIES

It is LUFKIN policy that all employees follow appropriate internal accounting control procedures.

This Code of Conduct has already referred to some of the Company's policies regarding Financial Control and Audit Policies (for example, Accurate Records, Bribery and Business Entertainment and Gifts). Below is a summary of some further related policies in this regard of which you should be aware.

It is the policy of LUFKIN that all departments establish and follow internal accounting control procedures to provide reasonable assurance that:

- Transactions are executed in accordance with management authorization and recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.
- There have been no "sensitive" transactions, which (in addition to the items discussed previously) include (i) receipts from or payments to government officials or employees and (ii) receipt of amounts with an understanding that rebates or refunds will be made in contravention of the laws of any jurisdiction.
- Related party transactions, that is, transactions between the Company and its subsidiaries or management, have been properly accounted for and, if required, appropriately disclosed.
- All misappropriations and irregularities of any nature are immediately reported to the Chief Compliance Officer. Anonymous reports of financial irregularities can be made to 1-866-674-5644

In addition, each quarter, the senior management of each department is required to submit a letter to the Chief Accounting Officer of the Company attesting that the Company's Financial Control and Audit Policies have been followed during the previous quarter. Any employee who becomes aware of any possible policy violation should promptly report it as specified in the Reporting of Violations Section of this Code of Conduct.

DISCLOSURE POLICIES AND CONTROLS

The continuing excellence of the Company's reputation is dependent upon our full and complete disclosure of important information about the Company that is used in the securities marketplace. Our financial and non-financial disclosures and filings with the Securities and Exchange Commission ("SEC") must be transparent, accurate and timely. Public reporting, disclosure and accounting are complicated, so we must all contribute to the effort to publish only the most reliable information.

The Company and its subsidiaries shall disclose to the SEC, current security holders and the investing public information as is required, and additional information as needed, to make the required disclosures not misleading or inaccurate. The Company requires its directors, officers and employees to participate in the disclosure process, which is overseen by the Company's Disclosure Committee and the CEO and CFO. The disclosure process is designed to record, process, summarize and report material information as required by all applicable laws, rules and regulations. Participation in the disclosure process is a requirement of a public company, and full cooperation and participation by members of the Company's Disclosure Committee, CEO, CFO and, upon request, other Company employees in the disclosure process is a requirement of this Code.

Officers and employees must fully comply with their disclosure responsibilities in an accurate and timely manner or be subject to employment discipline of up to and including termination of employment.

SUBSTANCE ABUSE

LUFKIN policy prohibits the use, possession, concealment, transportation, promotion, sale or being under the influence of alcohol, illegal drugs, controlled substances, look-a-likes, and designer and synthetic drugs while on the job or on Company property.

To ensure compliance with criminal statutes regarding illegal substances and to provide a safe, productive work environment and to safeguard the well-being of all employees and Company property, it is the policy of LUFKIN to strictly prohibit the use, possession, concealment, transportation, promotion or sale of alcohol, illegal drugs, controlled substances, look-alikes, and designer and synthetic drugs while on the job or on any Company property, and the reporting to work under the influence of any of the prohibited substances. In furtherance of this policy, LUFKIN has adopted the following guidelines:

- The use, possession, concealment, transportation, promotion or sale of alcohol, illegal drugs, controlled substances, look-a-likes, and designer and synthetic drugs while on the job or on Company property, or reporting to work under the influence of same, constitutes grounds for appropriate disciplinary action including possible termination of employment.
- In accordance with the Drug Abuse Testing Program, the Company reserves the right to request an employee to consent to a test for the presence of alcohol, illegal drugs, controlled substances, and designer and synthetic drugs and to consent to the release of such test results to the Company. All test results obtained by the Company will be treated confidentially. Any employee who refuses to consent when requested to participate in a drug test will have his or her employment with the Company terminated. All applicants for employment will be tested as part of the pre-employment process.
- The first time an employee has a positive test result, disciplinary action will be taken by the Company. In accordance with the Drug Abuse Testing Program, the Company provides a Rehabilitation Maintenance Program for employees that have tested positive. An employee's second positive test will result in the employee's immediate discharge.

ILLEGAL IMMIGRANTS

LUFKIN policy prohibits the employment of illegal aliens.

It is unlawful for the Company to hire an alien knowing that the alien is not authorized for employment in the United States. It is equally unlawful to hire any individual without complying with certain federally mandated verification procedures. Any employee who has questions in this regard should contact the Human Resources Department.

III. COMPLIANCE AND DISCIPLINE

Employees should recognize that an individual departure from the required standards of conduct, including a violation of law or LUFKIN policy, will result in appropriate disciplinary action by Company management including possible termination of employment. Such disciplinary measures will be in accordance with any applicable collective bargaining agreements. In addition, employees who violate the law may be subject to criminal prosecution and may be held liable for damages incurred by the Company as a result of such violation. Accordingly, no employee should:

- participate in any actions which are in violation of any law or Company policy.
- fail to report a violation of law or Company policy or withhold relevant and material information regarding any such violation.
- authorize or permit a violation of law or Company policy by other employees.
- retaliate against another employee who makes a good faith report of a violation of law or Company policy.

This Code is an attempt to point all LUFKIN employees in the right direction, but no document can achieve the level of principled compliance that we are seeking. In reality, each of us must strive every day to maintain our awareness of these issues and to comply with the Code's principles to the best of our abilities. We must always ask:

The Company cannot expect perfection but does expect good faith. If you act in bad faith or fail to report illegal or unethical behavior, then you will be subject to disciplinary procedures. We hope that you agree that the best course of action is to be honest, forthright and loyal.

Always seek guidance if you are in doubt as to the legality or propriety of an action before taking action

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IV. COMPLAINT PROCEDURES AND REPORTING OF VIOLATIONS

Any employee who becomes aware of an apparent violation of any of the Company's policies on legal or ethical business conduct, whether such policy is set forth in this Code of Conduct or in the other Manuals and guides distributed by the Company, must report it to his or her supervisor or manager, or if that person is unavailable or the employee believes it would be inappropriate for any reason to contact such person, to the Chief Compliance Officer, or the Company's Internal Auditor. If, after having had such a violation brought to his or her attention, an employee's manager or supervisor does not take immediate action, such employee should report the matter to one of the other Company officers listed above. All complaints will be promptly investigated and safeguards will be applied in an effort to keep the matter confidential when appropriate. All violations found will be remedied. No employee will be adversely affected in employment with the Company as a result of reporting a violation of Company policy (including, but not limited to, the policy against discrimination and harassment) or providing further information during an investigation. Any employee who fails to report such violations or provide such further information will be appropriately disciplined, including possible termination of employment. Such failure also could lead to personal legal and financial liability.

V. COMPLIANCE OFFICERS

As previously mentioned, the Company has appointed the General Counsel/Secretary as its Chief Compliance Officer. The Chief Compliance Officer will periodically review the results of the LUFKIN Corporate Compliance Program. While employees should follow the procedures for compliance set forth elsewhere in this Code of Conduct, any employee who wishes to discuss general programs or policies should feel free to contact the Chief Compliance Officer.

In addition, individual Compliance Officers will be appointed in various departments. These individuals will be responsible for reviewing and coordinating compliance procedures and educational programs in their respective areas. Each employee will be notified of the name of the individual Compliance Officer for his or her particular department or function. In addition to the other sources referred to herein, you should feel free to discuss specific compliance issues with these individuals.

VI. WAIVERS, AMENDMENTS AND MODIFICATIONS

The Company's Code of Conduct applies to Directors, Officers and Employees of the Company. Only by vote of a majority of the Board of Directors may a waiver be granted for any provision identified in the Company's Code of Conduct. The Board will only consider and grant waiver requests that are truly necessary and warranted. Such waivers, if granted, will be limited so as to protect the Company to the greatest extent possible.

There shall be no amendment or modification to this Code except by a vote of the Board of Directors or a designated board committee that will ascertain whether an amendment or modification is appropriate.

Furthermore, the grant of a waiver, or any amendments or modification of this Code of Conduct will be disclosed in a Form 8-K within five business days and shall be posted on the LUFKIN website.

VII. REPORTING VIOLATIONS

Compliance with these Standards of Conduct includes the responsibility to report promptly any violations or apparent violation of any Standard of Conduct. Employees may communicate directly with their supervisor, their division General Manager, or with the Chief Compliance Officer for a confidential interview to discuss an employee's perceptions of violations.

Any employee who, in good faith, reports what he or she believes to be a violation of these Standards will not be subject to any disciplinary action or other form of retaliation as a result of making such report.

It is the responsibility of all employees of the Company to report to senior management, without undue delay, all participation in any outside business relationships or other activity which might involve an actual or potential conflict of interest and all professional or consultant ventures for compensation, including directorships, so that action may be taken to determine whether a problem exists, and if so, to eliminate it. In the event that changes in circumstances alter an employee's standing vis-à-vis this Standard, it is the responsibility of the employee to submit additional information and memoranda to the Company as well as keep and maintain all information accurate and current.

Any questions of applicability or interpretation should be addressed to an employee's immediate supervisor, senior management or the Chief Compliance Officer.

