

LUFKIN INDUSTRIES, INC.
COMPENSATION COMMITTEE

I. Organization

The Committee is comprised of four outside directors who are ineligible to participate in any of the plans and programs they administer.

II. Purpose

To approve compensation policies and programs designed to ensure competitive and equitable compensation levels necessary to attract and retain the management required to carry out the business of the Corporation.

III. Responsibilities

- A. Meet not less than two times a year to make recommendations to the Board and to the boards of subsidiaries on all matters of policy and procedures relating to executive compensation.
- B. Establishing the chief executive officer's compensation level based on the Board's performance evaluation of the chief executive officer.
- C. Approving the compensation of the other executive officers and reviewing the succession plan relating to positions held by the other executive officers.
- D. Recommending to the Board and administering the incentive compensation plans and equity-based plans of the company.
- E. Reviewing and recommending the amount and method of compensation for members of the Board.