

# **LUFKIN INDUSTRIES, INC.**

## **COMPENSATION COMMITTEE CHARTER**

### **I. Organization and Membership**

The Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Lufkin Industries, Inc. (the "Company") will be comprised of at least three independent directors, each of whom meet the independence requirements of the Nasdaq Stock Market ("Nasdaq") and the Securities and Exchange Commission (the "SEC"), as then required and in effect, as determined by the Board. Each member must qualify as a "non-employee director" as such term is defined in Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") with regard to any compensation or benefit plan administered by the Committee that is subject to Rule 16b-3 of the Exchange Act. At least two members shall also qualify as "outside directors" as such term is defined under Section 162(m) and the regulations thereunder of the Internal Revenue Code ("IRC") if any award or payment under any compensation or benefit plan administered by the Compensation Committee would be subject to the deduction limitation under Section 162(m) of the IRC. The Committee members shall be appointed, and may be removed or replaced with or without cause, by the Board.

### **II. Quorum**

A majority of the members of the Committee shall constitute a quorum.

### **III. Meetings**

- A. The Committee shall meet at least twice during each fiscal year and more frequently as the Committee in its discretion deems advisable.
- B. Meetings may be called by the Committee Chair, the Chairman of the Board, the Lead Director or two or more Committee members.
- C. Minutes of each meeting will be kept and sent to each Committee member for review and approval, and, upon request, may be sent to other Board members who are not on the Committee.

### **IV. Purpose**

- A. To review and recommend to the Board the compensation of the Company's Chief Executive Officer and to determine compensation of all other Executive Officers of the Company. For purposes hereof, Executive Officers shall include officers covered under Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended, and any other Executive Officer designated by the Board.
- B. To approve and administer compensation policies, programs and plans designed to ensure competitive and equitable compensation levels necessary to attract and retain the management required to carry out the business of the Company.

## **V. Responsibilities**

- A. Meet not less than two times a year to determine matters of policy and procedures relating to executive compensation.
- B. Recommend to the Board the Chief Executive Officer's compensation, including annual base salary, annual incentive awards or other compensation based on the Board's performance evaluation of the Chief Executive Officer. The Chief Executive Officer shall not be present at any such deliberation or voting.
- C. Determine the compensation of the other Executive Officers, including annual base salary, annual incentive awards or other compensation based on recommendations from the Chief Executive Officer. Review compensation of other officers as appropriate.
- D. Review the succession plan relating to positions held by the Executive Officers and make recommendations to the Board regarding such plan.
- E. Review, approve and administer the incentive compensation plans and equity-based plans of the Company, except as otherwise specifically provided herein or delegated to the Executive Officers of the Company.
- F. Approve all grants of awards to employees and non-employee directors under the Company's equity incentive plans, including but not limited to stock options, restricted stock units, restricted shares and other stock-based awards.
- G. Review and approve any employment agreements and severance arrangements; any change in control agreements or related provisions affecting compensation; and any special or supplemental compensation for Executive Officers, including perquisites.
- H. Review and recommend to the Board the amount and method of compensation for the Company's non-employee directors.
- I. Prepare and submit the annual compensation committee report for inclusion in the Company's proxy statement in compliance with the rules and regulations promulgated by the SEC.
- J. Review and discuss with management the annual compensation discussion and analysis (the "CD&A") required to be included in the Company's proxy statement by the rules and regulations of the SEC, and, based on such review and discussion, determine to recommend to the Board that the CD&A be so included.
- K. Oversee the Company's compliance with Nasdaq rules and regulations related to equity compensation plans and stockholder approval thereof.

## **VI. Compensation Consultant**

- A. The Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, independent legal counsel or other adviser (collectively referred to as “advisers”). The Committee shall be directly responsible for the appointment, compensation and oversight of the work of any such adviser. The Committee shall determine appropriate compensation for any such adviser, and the Company shall provide appropriate funding for such adviser.
- B. Prior to selecting any such adviser, other than in-house legal counsel, the Committee shall assess the independence of the adviser by considering certain independence factors, including:
- (i) The provision of other services to the Company by the person that employs the adviser;
  - (ii) The amount of fees received from the Company by the person that employs the adviser, as a percentage of the total revenue of the person that employs the adviser;
  - (iii) The policies and procedures of the person that employs the adviser that are designed to prevent conflicts of interest;
  - (iv) Any business or personal relationship of the adviser with a member of the Committee;
  - (v) Any stock of the issuer owned by the adviser; and
  - (vi) Any business or personal relationship of the adviser or the person employing the adviser with an Executive Officer of the issuer.

## **VII. General**

- A. The Committee will review and reassess the adequacy of this Charter on an annual basis and recommend changes to the Board for approval.
- B. The Committee will conduct an annual performance review. The Committee shall report the results of such review to the Board. In addition, the Committee shall make regular reports to the Board of its activities.
- C. The Committee may form and delegate authority to subcommittees as it deems appropriate.

/s/ Alejandro Cestero  
Secretary

Last approved by Board: February 12, 2013