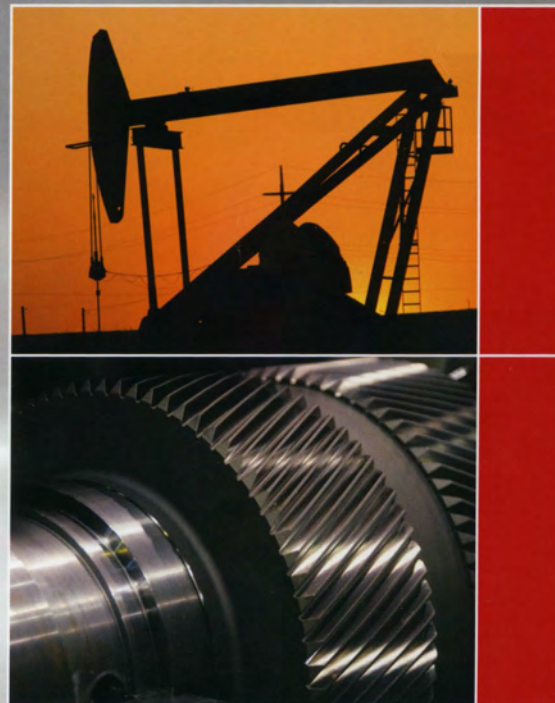
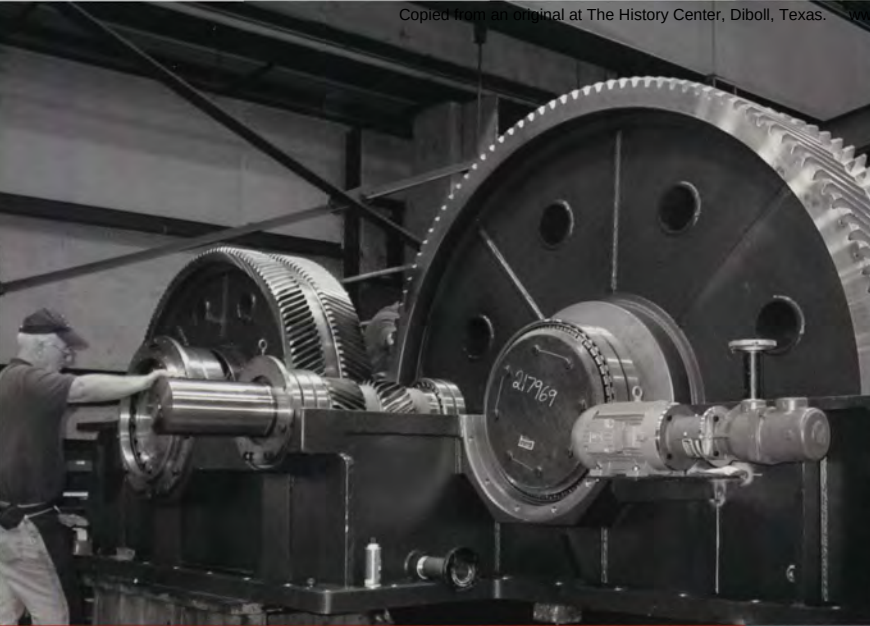




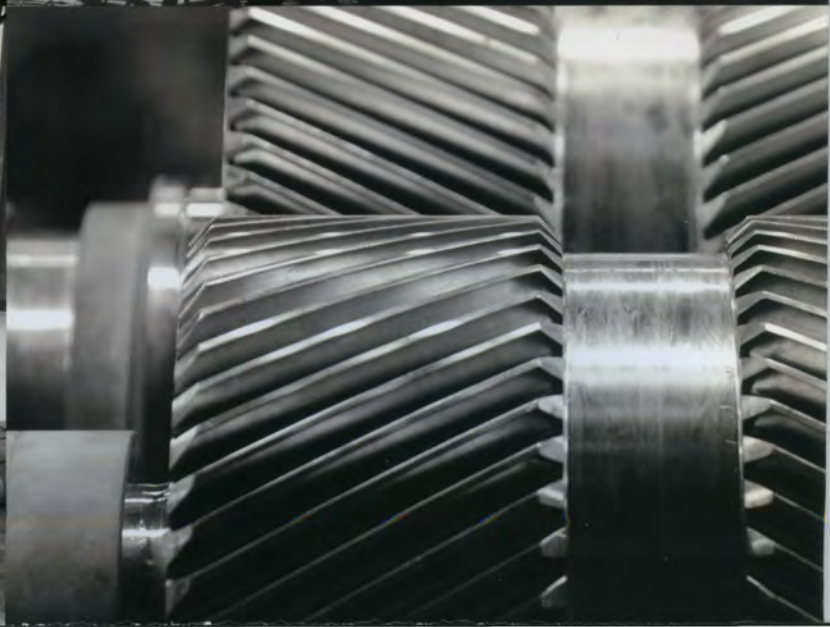
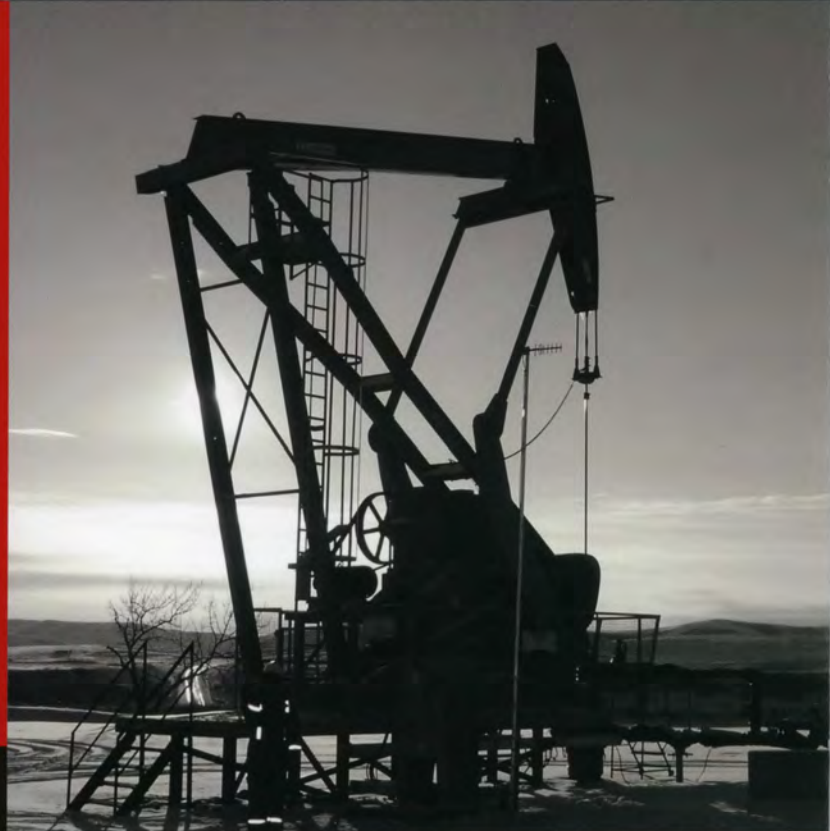
The Energy Flows Through Us™

➤ 2011 Annual Report





Founded in 1902, Lufkin Industries (NASDAQ: LUFK) is a vertically integrated supplier of oilfield and power transmission products. Reliability and long service life are the hallmarks of its products. Lufkin has the unique ability to bundle its products, services and automation in the oil patch with its high-quality engineering and superior customer service and sales support in high-speed gear manufacturing.



Financial Highlights

(Thousands of dollars, except per share amounts)	2011	2010	2009	2008	2007
Sales from continuing operations	\$ 932,135	\$645,643	\$521,359	\$741,194	\$555,806
Operating Income from continuing operations	107,478	67,659	31,424	136,100	104,686
Net Earnings from continuing operations	65,971	43,531	22,479	88,025	71,785
Net Earnings	65,971	43,823	22,026	88,239	74,211
Earnings per share:					
Basic*	\$ 2.17	\$ 1.46	\$ 0.74	\$ 2.99	\$ 2.49
Diluted*	2.14	1.45	0.74	2.96	2.46
Dividends per share*	0.50	0.50	0.50	0.50	0.44
Total assets	\$1,096,705	\$621,078	\$541,590	\$530,718	\$500,656
Working capital	293,730	260,620	253,744	296,925	224,733
Long-term notes payable, net of current portion	332,500	—	1,516	—	—
Shareholders' equity	507,533	485,960	435,678	413,937	384,653

*Years 2007–2009 adjusted for 2-for-1 Stock Split effective on June 1, 2010.

Operational Divisions

► OILFIELD PRODUCTS AND SERVICES

Lufkin is a leading global provider of artificial lift oilfield equipment and services, primarily consisting of highly adaptable pumping units, automation technology equipment, and a variety of services including on-site installation, technical support and maintenance. Additionally, the Company operates a gray and ductile iron foundry producing up to 300 tons per day of captive and commercial castings for the heavy equipment, valve and machine tool markets. Lufkin maintains a significant presence in all major oil markets.

► POWER TRANSMISSION PRODUCTS AND SERVICES

Lufkin is also a leading worldwide provider of power transmission equipment, primarily precision-made gears in weights of from 300 pounds to 250 tons and in power levels from 20 to 85,000 horsepower. These highly engineered products are used in industrial applications in a variety of industries, such as oil and gas, petrochemical, steel, plastics, sugar, rubber, marine and power generation. Lufkin's global service organization supports new equipment sales as well as an extensive after-market for installed power transmission equipment.

Dear Fellow Shareholders,

2011 was a record year for Lufkin Industries, with revenues of \$933 million—up 44%—and new orders increasing 31% to an all-time high of \$970 million. Our core markets remained strong throughout the year, and we expanded capacity to satisfy growing demand, particularly for North American oilfield products and services.

FINANCIAL AND OPERATING RESULTS

Both divisions delivered improved financial results during 2011. Consolidated net earnings from continuing operations were \$66.0 million, or \$2.14 per share, up 94% from last year.

Revenues in the Oilfield Division increased 54% during 2011. This was driven by robust demand in North America. Several factors fueled demand. First, despite a dip in oil prices during the third quarter, oil prices remained at attractive levels during most of the year. Secondly, weak natural gas prices caused oil companies to shift their capital spending to oil, or liquids rich plays. This resulted in a large increase in rigs drilling for oil in North America. The third factor is the preference for rod pumping to produce unconventional shale plays in North Dakota and South Texas. These areas, together with production from the new producing zones in the Permian Basin were the major areas driving demand for Lufkin pumping units. The Oilfield Division also achieved a 67% increase in revenues in Canada during the year.

We also saw robust growth in revenues for Automation during 2011. Customers increasingly recognize the significant economic benefits that can be realized by using Lufkin's automation products to optimize artificial lift production. Wells using Lufkin's automation products, in combination with our surface pumping units and downhole pumps, consistently produce more oil at lower costs with greater reliability over a longer period of time.

Strong performance in high-speed gear drives for power generation and oil and gas infrastructure projects led the growth in the Power Transmission Division, driving year-over-year revenues up by 17%. Lufkin France continues to provide a strong platform from which to grow the Power

Transmission business in the Eastern Hemisphere. Sales in France increased 21%. Canada was also a bright spot for Power Transmission in 2011, with revenues up 18%.

We faced two challenges during the year, both related to growth. First, capacity had to increase rapidly to meet the increase in product demand. Not including acquired companies, we added 584 new employees during the year. Of those, 529 were in our U.S. operations and most of those were in our manufacturing departments. The impact of adding so many new people was felt in inefficiencies and training costs, both of which weighed on profitability. The second challenge involved expanding our supply chain to support sharply higher volumes of production at our plants. Despite mid-year difficulties, these challenges were met and our production rates as we exited the year were significantly higher than those at the start of 2011.

INVESTING IN OUR FUTURE

The Company completed two significant acquisitions during 2011 and three early in 2012 that broadened our artificial lift and automation technology portfolio and extended our global reach. The acquisition of Pentagon Optimization Service, Inc. in August added well optimization expertise and expanded our position in the plunger lift market in Canada, which is second in size to the United States.

In December, we acquired significantly all of the assets of Quinn's Oilfield Supply Ltd. and affiliates for \$311 million, bringing subsurface rod pump technology and the progressing cavity pump product line into Lufkin Industries. Having both the surface pumping unit and its mating subsurface pump will provide significant opportunities for optimization of the rod pumping systems.

We continued to add technology companies to our Automation group. In January 2012, we acquired two technology companies based in Dublin, Ireland. Datac Instrumentation Limited provides systems integration for supervisory control and data acquisition, or SCADA, solution to the oil and gas, power, water, waste water, transportation and marine industries. RealFlex Technologies Limited provides real-time server software packages for SCADA and process control applications. These two acquisitions accelerate our strategy of expanding our technical capabilities within our Automation portfolio. They also bring teams of very talented personnel with extensive research and development backgrounds into Lufkin Industries.

At the end of February 2012, we announced the acquisition of Zenith Oilfield Technology Ltd., based in Aberdeen, Scotland. Zenith further expands our capabilities to monitor downhole conditions and provide operating instructions to surface and subsurface artificial lift equipment. This acquisition also brought bright, capable people with strong research and development credentials.

When taken together, these acquisitions enable Lufkin to develop a range of products that can be integrated into

systems that combine both mechanical and electronic wellbore products with intelligent technologies to control their operation, based on real-time reservoir conditions. These integrated systems will deliver greater value to our clients by improving the reliability and efficiency of artificial lift production processes, delivering more oil to the surface, while reducing operational costs.

In addition to these key acquisitions, we made excellent headway in the construction of the new Romanian manufacturing plant. A number of professional local staff have been hired to manage the operation, and we are delighted with the caliber of the individuals who have joined our team. Work is on schedule for manufacturing to begin in the fourth quarter of 2012. We continue to be very encouraged by the outlook for the markets in the Eastern Hemisphere that will be served from this plant.

We made a significant investment in information technology during 2011 converting the software that supports the North American operations to the SAP platform. This was the first step in moving our global operations to SAP. This move insures that the critical software we rely upon to run our global business is properly supported by SAP. The improved integration of Lufkin's global network of operations will enable more effective operational and financial decision making and improved support to our customers.

As Lufkin Industries continues to grow, we must continue to build a strong organization that supports the Company's expanding role in the markets we serve. We welcomed two new senior managers this past year. Bud Hay joined the Company as Vice President and General Manager of the Power Transmission Division, succeeding Terry Orr, who retired after 35 years of service. Bud brings extensive general management experience gained in both domestic and international assignments in his prior career assignments. Additionally, we welcomed Alex Cestero as Vice President, General Counsel, Secretary and Chief Compliance Officer. Alex brings a great deal of experience in the global oil and gas industry to this role. He succeeded Paul Perez who contributed in so many ways to the success of the Company during his nearly 20 years with the Company. Paul passed away in July, 2011 and is greatly missed by us all.

LOOKING AHEAD

Lufkin should benefit from two significant trends in the energy industry over the next few years. The first is the global expansion in shale and other unconventional oil plays. The techniques that have been developed in North America for producing oil and natural gas liquids from these plays will be exported to other regions around the globe. The quest for greater energy self-sufficiency in the U.S. and in other countries, together with concerns about geopolitical disruptions to supplies will fuel efforts to develop these unconventional sources.

The second trend is the expected growth in international spending by oil and gas companies, which are forecasted to rise 15% in 2012. Lufkin's Romania and Argentina operations should better position the Company to take advantage of the growth in international oil and gas production. In addition to international oil and gas infrastructure projects, Power Transmission will also benefit from the investments in refining and petrochemical plants in developing countries. The need to expand the generating capacity for electrical power will also be a driver of growth in demand for Power Transmission's products. Since much of the new electrical power will be generated by gas turbines, Power Transmission should see growth in demand from both the power generation and the LNG sector.

Nearer term, we will remain focused on the integration of the recent acquisitions. Each of them is expected to be accretive to 2012 earnings, with the exception of Zenith, which will be accretive to 2013 earnings. Continued improvements in operational efficiency and expanding our supply chain to support the growth in the business will also be high priorities for the year ahead.

In closing, I'd like to thank each of our employees for their hard work and dedication to producing the finest products our industry has to offer. To our shareholders and Board of Directors, thank you for your continued support of Lufkin Industries.

Sincerely,



John F. "Jay" Glick
President and Chief Executive Officer

Lufkin Locations and Global Highlights

- ★ Corporate Office
- Manufacturing Plants
- Sales Locations/Service Centers



Canada: In 2011, Lufkin enhanced our artificial lift and automation technology portfolio with the acquisitions of Pentagon Optimization Services, Inc. and Quinn's Oilfield Supply Ltd.



United States: Demand for Lufkin's premier rod lift pumping units grew in 2011 with revenue increasing 56% to \$394 million as drilling and completion activity was focused in North America, including the oil Bakken play in North Dakota and the Permian Basin and Eagle Ford plays in Texas.



Argentina: Lufkin's Oilfield Service group experienced increased demand in 2011 and has expanded in key oil and gas producing areas globally. Lufkin's focus on comprehensive quality includes installation, maintenance and repair services using OEM parts.



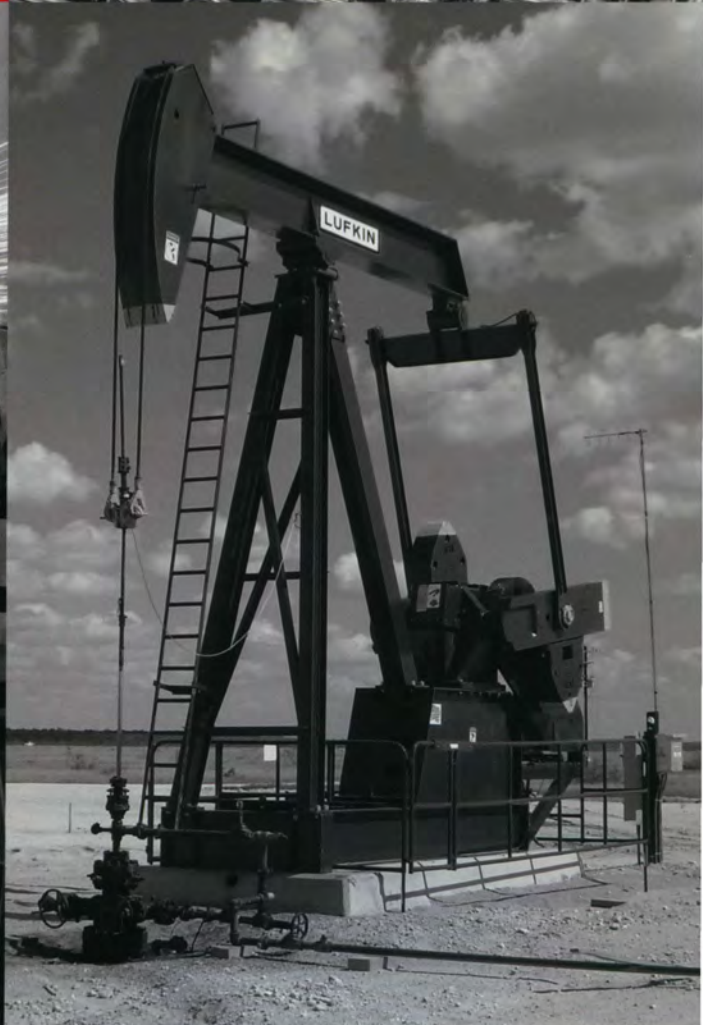
France: Lufkin France has achieved significant gains in the “green” power generation market with the design and manufacturing of cooling water pumps destined for two Asian nuclear power stations.



Egypt: Lufkin’s expanding presence in Egypt is built on local manufacturing and service support to a large swath of producers, including Egyptian General Petroleum Company (EGPC).



Australia: During 2011, Lufkin was awarded contracts to furnish high-speed gear drives and fluid film bearings for centrifugal compressors destined for the Gladstone, Wheatstone, and Australia Pacific LNG projects in Australia.



The expansion of Lufkin's international business that began several years ago has provided a foundation for additional **growth** opportunities

Lufkin is a vertically integrated global leader in artificial lift systems for the efficient production of crude oil, condensate and natural gas. Our goals are to increase production, optimize reservoir performance, maximize equipment life, reduce required manpower, minimize down time and reduce operating costs for our clients. To achieve these goals, the Oilfield Division provides an extensive array of Artificial Lift expertise, which includes:

- Rod lift pumping equipment
- Gas lift and plunger lift systems
- Down-hole reciprocating pumps and progressing cavity pumps
- Automation and control systems
- Installation, maintenance and repair services
- Foundry castings
- Well optimization engineering services

Nearly 90 years ago, Lufkin engineers designed and patented the first counter-balanced pumping unit from our foundry in Lufkin, Texas. Today, Lufkin's Oilfield Division, which includes that original foundry as well as manufacturing facilities in Argentina, Canada, Egypt and Romania later in 2012, delivers pumping units and a broad range of artificial lift products globally. We also operate an international network of sales representative offices in more than 40 countries as well as service centers featuring original equipment manufacturer (OEM) parts to serve our global client base.

2011 was a year of dramatic change for Lufkin's oilfield business, for the industry and for the world. While global events such as the Arab Spring and the European debt crisis affected demand and commodity prices, the North American onshore market experienced a recovery



Plunger Lift Systems provide an economic artificial lift solution that uses residual well pressure to lift fluids to surface.

Photos on opposite page: (Top) The Lufkin Well Manager continues to set the standard for artificial lift control with patented technology calculating Dynagraph cards on every stroke. (Left) Gas lift solutions offered from International Lift System are used in both land and offshore application. (Right) Lufkin delivers peak productions through its legendary conventional Pumping Units and integrated Automation solutions that provide customers with direct communication to a wells performance.

to near record levels. Technical innovations and commodity price swings shifted the industry's focus from natural gas to oil using a new set of completion methods including horizontal and directional drilling and high pressure well fracturing.

At the same time, Lufkin continued its strategic growth and capacity expansion in 2011 through the continued retooling of our factories and by opening two aftermarket facilities in Dickinson, North Dakota, and Ploiesti, Romania. Two strategic acquisitions were also completed to broaden our artificial lift product portfolio through increased plunger lift product offerings and the addition of progressing cavity pumps and reciprocating rod pumps. In early 2012 we made additional acquisitions that will greatly enhance our growing oilfield automation capabilities.

The demand for our premier rod lift pumping units grew in 2011 with revenue increasing 56% to \$394 million as drilling and completion activity was focused in several key plays in North America including the tight oil Bakken play focused in North Dakota as well as the natural gas liquids-rich shales of the Permian Basin and Eagle Ford plays in Texas. Natural events sporadically interrupted oilfield activities in these areas for several months with seasonal flooding, drought and wildfires. Despite these events, significant producer investment in these plays continued, facilitating the transfer of technology which may eventually be exported to emerging international plays in Argentina, where Lufkin has an established manufacturing base and Eastern Europe, served by our new \$126 million manufacturing and aftermarket facility in Ploiesti, Romania.

The rod lift portion of Lufkin's business was expanded by the acquisition of Quinn's Oilfield Supply Ltd. (Quinn) and GrenCo Energy Services (GrenCo) in the second half of 2011. Quinn, based in Red Deer, Alberta, Canada, is one of the largest reciprocating rod pump manufacturers in North America, and GrenCo is an independent manufacturer and distributor of progressing cavity pumps (PCPs) and related equipment. These two product lines complement our rod lift pumping equipment by combining two key elements of the rod lift system and expanding the services Lufkin offers our clients directly—plus adding over 50 additional service locations in North America. Quinn and GrenCo also provide additional opportunities for integration of our automation technologies.

The integration of Lufkin's surface beam pump unit with Quinn's downhole rod pump will enhance our ability to package complementary products and allow us to better optimize the rod lift system to the benefit of our customers.





Photos above: (Left) Lufkin hydraulic pumping units are providing customers increased production on wells requiring dewatering or lower volume oil pumping. (Top Right) Lufkin's beam pumping units continue to be recognized around the globe for reliability and performance in the harshest of environments. (Bottom Right) REGEN[®] rod pump controllers provide operators the advantages of variable speed control and additional savings by capturing back energy on every down stroke of a pumping unit

In 2011, we realized the full integration of Petro Hydraulic Lift, Inc., an acquisition made in late 2010. The group was renamed Lufkin Hydraulic Lift and relocated to a larger facility in southern Louisiana to accommodate growing demand. To complement this business line, our Automation group began testing a multi-sensor linear automation system providing real-time well statistics directly to the client.

Lufkin's International Lift Systems (ILS) provides gas lift and plunger lift systems, packers and completion tools. ILS—which we acquired in 2009—grew significantly in 2011 on the strength of growth in horizontal drilling in North American plays such as the Eagle Ford, Wolf Camp and Granite Wash. The group also expanded internationally in Latin America and the Middle East.



Lufkin's new \$126 million manufacturing and aftermarket facility in Ploiesti, Romania will employ just over 300 employees when completed in late 2012.

In the second half of 2011, Lufkin acquired Pentagon Optimization Services, Inc. (Pentagon), to further diversify the gas-driven portion of Lufkin's artificial lift portfolio. Also based in Red Deer, Alberta, Canada, Pentagon brings additional plunger lift products to the ILS portfolio, expanded service locations and extends our optimization capabilities by providing services such as fluid levels and dynamometers, reservoir analysis and government regulated testing (ERCB). The synergies with Pentagon's business will allow Lufkin to enter into a new segment of the Canadian oilfield market that is anticipated to drive sales of other Oilfield Division products in 2012.

Lufkin's Automation group provides electronic well automation software and hardware to achieve optimum production and minimize operating costs for rod lift pumping units, progressing cavity pump wells and plunger lift systems. The Automation group experienced a record year of growth in 2011, especially in North America on sales of variable speed drives (VSD) and the launch of the Regen® VSD that continually optimizes pump speed based on real-time reservoir conditions while fully regenerating power back to the source or to the electrical grid. Automation is an integral part of Lufkin's system-wide approach to artificial lift optimization; Lufkin will continue to invest in new technologies in this area to help our clients reduce the overall costs of production in mature fields.

Our Field Services group experienced increased demand in 2011 and has expanded in key oil and gas producing areas globally. Lufkin's focus on comprehensive quality includes installation, maintenance and repair services using OEM parts. Field Services are lead by our highly trained, safety award winning, local service personnel. Our service philosophy parallels that of our clients—safely reducing the total cost of ownership of artificial lift products and optimizing production.

Our gray and ductile iron foundry has been part of Lufkin since 1902. Having dedicated foundry facilities is a significant competitive advantage for meeting tight customer delivery requirements and is critical to ensuring quality throughout the manufacturing process. The foundry practices continuous improvement in producing castings for rod lift pumping units

in sizes from 100 pounds to 15 tons. Our reputation for quality is the reason our foundry services are sought by commercial clients, themselves renowned for innovative engineering and enduring quality.

In keeping with our vertical integration strategy, Lufkin initiated several strategic expansion efforts in 2011 to diversify manufacturing across the entire artificial lift product line through both organic growth and the acquisition of industry leading companies. This growth has significantly increased our scope of engineering, manufacturing capacity and the breadth of products offered directly to clients as well as bringing in nearly 1,000 talented new employees from a broad array of oil and gas disciplines that will help further diversify our future growth.

As we enter 2012, the oil and gas industry is expected to show continued growth both domestically and internationally. Lufkin is ready—with strong management, a well-considered strategic plan and expanding capacity already on the ground in the form of new machine tools to more efficiently utilize existing capacity. In addition, the opening of our newest plant in Ploiesti, Romania in late 2012 will add manufacturing capacity in the Eastern Hemisphere, and the new multi-purpose facility in Dickinson, North Dakota to better serve the development of the Bakken play. We are also strategically positioned to capitalize on technological synergies available through our recent acquisitions of Pentagon, Quinn and GrenCo, which will facilitate Lufkin's further global expansion.

Photos below: (Left) Lufkin's completion equipment such as packers, service tools and accessories provide the best performance in the harsh condition of a well bore. (Top right) Foundry's ductile, grey and specialty iron capabilities provide customers the highest quality counterweight components in the industry. (Bottom right) Automation solutions from Lufkin extend across the spectrum of artificial lift including plunger lift control.



Lufkin's Oilfield Division delivers pumping units and a broad range of artificial lift products globally.



Power Transmission Division



Lufkin is one of the world's **leading suppliers** of mechanical power transmission products and services

Lufkin is one of the world's leading suppliers of mechanical power transmission products and services. Our highly engineered precision high-speed turbo-machinery gear drives and low-speed high-torque gear drives and custom-engineered high-performance fluid film bearings are used across a wide spectrum of industrial applications.

We differentiate ourselves in the industry by combining our industry-leading expertise in engineering, manufacturing technology and metallurgy to produce machinery with a proven history of reliability, industry-recognized superior performance and long service life. We deliver best-in-class customer service, rapid delivery and strong global after-sales support. Lufkin also derives competitive and logistical advantages with its design, manufacturing and product performance testing platforms in both Europe and the United States. We are the only turbo gear manufacturer that offers this full range of global support.

One of the primary markets for Lufkin's high-speed turbo gears is the oil and gas sector. The gearbox is used to transfer power from the prime mover—such as a gas turbine or electric motor—to the driven machine—such as a centrifugal compressor or pump. Our turbo gear products are used on land and on offshore platforms for such applications as gas compression and oil production, on pipelines for crude oil and natural gas transmission, and for oil refining. Other strategic applications for our high-speed units include electrical power generation, petrochemicals production and liquefied natural gas (LNG) production and distribution.

The markets for our low-speed, high-torque gear drives are primarily within the large-scale industrial and commodity production sectors, including steel manufacture, marine propulsion, rubber and plastics manufacture, sugar cane processing and hydro-electric power generation.

During 2011, the Power Transmission Division reported sales of \$195.6 million, up 16.6% from \$167.8 million in 2010. New order intake increased 14.9% to \$199.8 million, up from \$173.9 million in 2010. Demand for energy continued to rise in 2011 with impressive growth rates in China, India, Brazil, Southeast Asia and the Middle East.

Continued stability in the global economic climate in 2011 proved beneficial for several of the division's market sectors, including gasoline refining, petrochemicals, power generation and marine propulsion. The economics of large-scale oil and gas projects, which suffered from rapidly rising construction and equipment procurement costs from 2006 through 2008, continued to improve. Major oil companies began to reactivate once-promising projects that



The above is a Lufkin Model RHS2200HG medium speed reverse reduction marine gear for Inland River Push/Towboat operation.

Photos on opposite page: (Top) Lufkin remains committed to the growing wind power industry. With our Wind Energy Repair facility, we are able to maintain, repair and refurbish the complex gearboxes driving each wind turbine. (Left) One of the primary markets for Lufkin's high-speed turbo gears is the oil and gas sector. (Middle) We differentiate ourselves in the industry by combining our industry-leading expertise in engineering, manufacturing technology and metallurgy to produce machinery with a proven history of reliability, industry-recognized superior performance and long service life. (Bottom Middle) Markets for our low-speed, high torque gear drives include, steel manufacture, marine propulsion, rubber and plastics manufacture, sugar cane processing and hydro-electric power generation. (Bottom Right) Lufkin Gear Repair provides global aftermarket and field service that targets the repair and refurbishment of gear installations worldwide, regardless of the manufacturer.

had been suspended. Our confidence in the continued recovery was validated when numerous projects that the division has monitored closely since 2009 began to produce new orders throughout 2011.

Active markets include large upstream oil and gas development projects, mostly in West Africa and South America. The projects involve power generation gearboxes and mechanical drive applications for turbo compressors and pumps, mostly on floating production storage and offloading facilities (FPSOs) or other offshore production facilities. We are also seeing significant domestic activity in midstream applications for natural gas transportation and gas liquids processing. Power generation activity remains strong.

Within the oil and gas sector, LNG projects proved to be the most promising and show the most concentrated activity. These projects are located primarily offshore eastern and western Australia and the west coast of Africa. During 2011, we were awarded contracts to furnish high-speed gear drives and fluid film bearings for centrifugal compressors destined for the Gladstone, Wheatstone, and Australia Pacific LNG projects in Australia.

We expect to continue to benefit from orders for high-speed, high-power speed increasers that drive centrifugal compressors and from orders for high-end custom-engineered bearings supplied to compressor manufacturers by our Rotating Machinery Technology (RMT) subsidiary.

RMT has built a strong reputation in the industry for high-end bearings for critical service turbo-machinery. RMT's patented bearing product lines, proprietary bearing design software and collaborative relationships with its global clients position RMT as the bearing of choice for critical applications. Lufkin gearbox and RMT bearing product lines have achieved significant synergies with regard to client bases, technical expertise and innovative solutions.

"Green" power generation is another new market where we have achieved significant gains. Our factory in France has designed and is currently manufacturing a large number of complex, high-reliability drives for cooling water pumps destined for two Asian nuclear power stations. This new product line has already positioned the division to compete successfully for similar projects in the nuclear power industry. We also won new business for specialty gear drives for hydro-electric power generation.

We remain committed to the wind power industry. As the installed base of wind turbines steadily expands, we see significant growth opportunity in the underserved aftermarket, especially in North America. We have invested in manufacturing and repair facilities to enhance our capabilities to maintain, repair and refurbish the complex gearboxes driving each wind turbine.

The new service center that we opened in Bakersfield, California, in August 2009 has positioned us well with our regional industrial customers and with wind turbine installations in the western U.S. Broadening our footprint even further, we have established a northeastern regional service and repair center in Wellsville, New York, targeting underserved gearbox repair customers.

Our unique position as the only turbo gear manufacturer with a total package of manufacturing, design and performance testing facilities in North America and Europe positions Lufkin well for future growth, and we will continue to explore promising expansion opportunities to profitably grow our Power Transmission business.

Lufkin France technicians perform a final inspection for a gearbox repair job. Lufkin France operations include sales, engineering technical support, manufacturing, gear repair and field service.





Community Involvement

ANGELINA COUNTY UNITED WAY

Lufkin Industries, Inc. is an active participant in the Angelina County United Way campaign. This was the 64th year for the local agency that provides funds for 23 non-profit Angelina County organizations. The founding fathers of the Angelina County United Way included Mr. S.W. Henderson and Mr. W.W. Trout. Both had a strong family tie to the Company.

In 2011, Lufkin Industries employees and retirees raised 134% of their goal by raising \$323,785. Ten percent of the total amount given by Lufkin Industries is set aside to help Lufkin employees in an emergency.

Lufkin Industries employees donate their time and talents to the local profit agencies, and we are proud of each and every one of our employees and their commitment to our community.

LME & NATIONAL ORPHANS' MONTH

Lufkin Middle East employees helped sponsor a day of fun and games during National Orphans' Month in Cairo, Egypt. Each Friday in April, a different organization sponsored a day and volunteers from the organization spent time with children from the area orphanages.

Orphans' Day in Egypt is a community outreach to allow the chance for everyone to share the minimum of one day a year with these children. This also creates a source of financing, because all orphanages in Egypt survive only on donations.

While the main point of the day was fun, friendship and love for the orphan children of Egypt, the Lufkin Middle East employees who gave their time experienced feelings beyond their expectations.



The 45th annual lighting of Rudolph the Red Nosed Pumping Unit attracted a large crowd in 2011. Through the years, the lighting ceremony has grown, and now it is the official kick-off to the holiday season for Angelina County. We are proud to be able to bring such a timeless gift to our friends and neighbors.

2011 Lufkin Industries Board Members



Douglas V. Smith
Chairman of the Board
Chairman—Executive Committee
Board member since 1993



J.F. Glick
President
Chief Executive Officer
Board member since 2007



H.J. Trout, Jr.
Chairman—Pension Committee
Member—Executive Committee,
Nominating/Governance
Committee
Board member since 1980



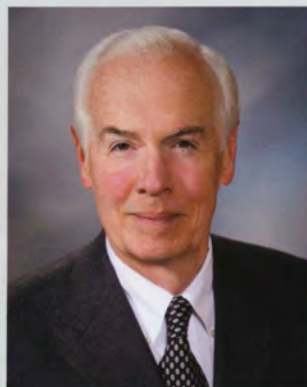
Thomas E. Wiener
Member—Executive Committee,
Pension Committee,
Nominating/Governance
Committee
Board member since 1987



John H. Lollar
Chairman—Compensation
Committee
Member—Audit Committee
Board member since 1997



J.T. Jongebloed
Member—Audit Committee,
Nominating/Governance
Committee
Board member since 2002



John F. Anderson
Member—Executive Committee,
Pension Committee,
Compensation Committee
Board member since 2003



Suzanne V. Baer
Chairman—Audit Committee
Member—Pension Committee
Board member since 2005



Richard R. Stewart
Member—Audit Committee,
Pension Committee
Board member since 2009



John D. Hofmeister
Chairman—Nominating/
Governance Committee
Member—Compensation Committee
Board member since 2010

LUFKIN INDUSTRIES, INC.

The following is a discussion of the Company's business, financial results and financial condition. This report is part of the Company's Annual Report on Form 10-K that has been filed with the Securities and Exchange Commission. Certain parts of this filing in this report have been omitted, such as the cover page and exhibits. A complete copy of the Company's Annual Report on Form 10-K is available on the SEC's website at www.sec.gov or free of charge on the Company's website at www.lufkin.com. The Company will also provide to any shareholder a copy of that report without charge upon written request. Please mail your requests to Investor Relations, P.O. Box 549, Lufkin, Texas 75902.



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2011 Lufkin Industries Board Members



William F. Smith
Chairman of the Board
Lufkin Industries, Inc.
1991-2001



J. Frank Smith
President
Lufkin Industries, Inc.
1991-2001



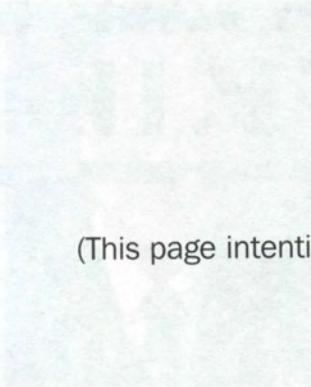
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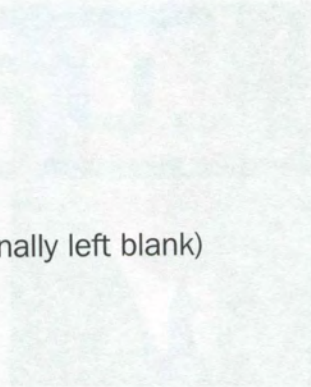
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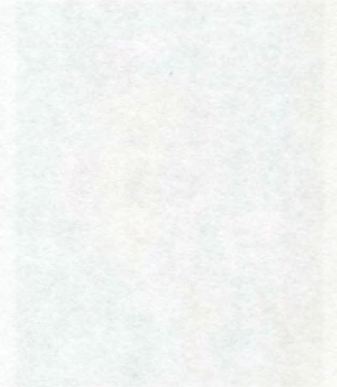
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1991-2001



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Lufkin Industries, Inc.
1991-2001

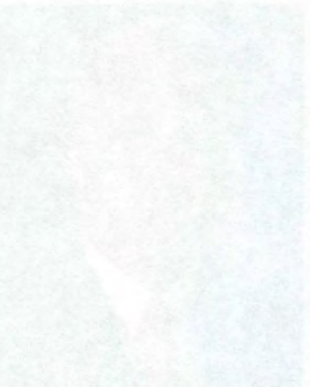


William F. Smith
Chairman of the Board
Lufkin Industries, Inc.
1991-2001



William F. Smith
Chairman of the Board
Lufkin Industries, Inc.
1991-2001

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1991-2001



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1991-2001

PART I

Item 1. Business

Lufkin Industries, Inc. ("the Company") is a global supplier of artificial lift products, technology, services and solutions, including automated control equipment and analytical products for artificial lift equipment, to the oil and gas industry. In addition, the Company designs, manufactures and services power transmission products for use in energy infrastructure and industrial applications. Since being founded in 1902, the Company has expanded its product portfolio through in-house research and development as well as through acquisitions of businesses with complementary product lines and technologies. Through this evolution, the Company has become a global supplier to the oil and gas industry, with offices and facilities in more than a dozen countries and decades of experience in oilfields around the world. The Company's most important asset is its reputation with its customers, which is based on the reliability of its products and the enhanced efficiency those products bring to its customer's operations. The combination of high performance products and experienced personnel has allowed the Company to expand its customer base and its geographical footprint.

Growth in oil and gas production requires both the successful drilling of new wells and improved recovery from existing wells. Artificial lift is a production process used in oil wells and, to a lesser extent, natural gas wells to supplement a reservoir's natural pressure in order to bring more hydrocarbons to the surface. Most wells that are initially free-flowing will eventually require artificial lift as they mature due to a natural decline in reservoir pressure over time. In the case of unconventional oil and gas reservoirs, that decline typically occurs more rapidly than it does in conventional reservoirs. As global demand for energy has increased, and readily accessible oil and natural gas reserves have declined, producers have increasingly focused on enhanced recovery from existing fields to boost production by extending the life of reserves. The Company's goal is to become the preferred source for artificial lift solutions.

Growing economies are creating the need for large-scale energy infrastructure projects such as refineries and power plants. These energy infrastructure projects require a variety of products capable of high performance under extreme operating conditions. The Company designs, manufactures and services custom gearboxes that perform under such conditions in both energy infrastructure and industrial applications. The Company believes that its reputation for engineering skill and reliability in its Power Transmission segment, as well as its global presence, will allow it to continue to grow its business as demand for energy infrastructure projects increases around the world.

The Company's business is comprised of two operating segments: Oilfield and Power Transmission.

Oilfield

The Oilfield segment manufactures and services artificial lift products, including reciprocating rod, gas, plunger and hydraulic lift equipment, progressive cavity pumps, or PCPs, and related well-site products. The Company is a leading supplier to the oil and gas industry of beam pumping units for rod lift applications. The Company's iconic pumping units are among the most recognized in the industry and have a reputation for quality and reliability. Approximately 76% of North American operators have used the Company's products in their operations. There has been a resurgence in rod lift unit sales in recent years as a result of the increased development of oil and liquids-rich plays in the United States, such as the Bakken and Eagle Ford Shale formations, as well as more mature fields in the Permian Basin and California. According to Spears & Associates ("Spears"), rod lift sales represented approximately 29% of the total artificial lift market in 2011 compared to approximately 20% in 2010, and grew more than any other artificial lift technology. In addition, according to Spears, in 2012 the artificial lift market is expected to have a higher growth rate than the oilfield services and equipment market as a whole.

Building on the Company's decades-long success with rod lift equipment, the Company has recently pursued a strategy of expanding its artificial lift products and services portfolio and the geographic scope of its Oilfield segment through a series of strategic acquisitions. Since the beginning of 2009, the Company has acquired:

- International Lift Systems, L.L.C., a manufacturer of gas lift, plunger lift and completion equipment;
- the hydraulic rod pumping unit business of Petro Hydraulic Lift Systems, LLC;
- Pentagon Optimization Services, Inc., or Pentagon, a diversified Canadian well optimization company that assembles and services plunger lift equipment; and
- the reciprocating down-hole pump and PCP business of Quinn's Oilfield Supply Ltd., or Quinn's.

These acquisitions have furthered the Company's strategy of expanding its artificial lift product portfolio while simultaneously extending its sales and service networks.

The Company also designs, manufactures, installs and services automated control equipment and analytical products for artificial lift equipment. These products, referred to as "automation solutions," help lower production costs and optimize well

efficiency for its customers. The Company's automation solutions offerings are enhanced by the use of SCADA, which provides the critical communication link among its products. The data acquisition and communication capabilities of SCADA permit the analysis of well production data in real time, which in turn enables the Company's product solutions to optimize well performance.

The Company expects that in the next several years automation will allow for the dynamic optimization of well efficiency through the collection of real time, down-hole well data, the analysis of that data by surface automation systems, and the automatic adjustment of operating parameters based on that data to more efficiently produce a reservoir. Going forward, the Company's objective is to develop the industry's leading automation solutions across all artificial lift technologies. To help accomplish this objective, the Company has completed or announced the following acquisitions since January 1, 2012:

- Datac Instrumentation Limited, or Datac, a provider of technology that enables artificial lift equipment to transmit and receive performance data as well as remote terminal unit technology;
- RealFlex Technologies Limited, or Realflex, a provider of real-time server software packages for process control systems; and
- Zenith Oilfield Technology Limited, or Zenith, a leading provider of down-hole monitoring, data gathering and control systems for artificial lift applications, including real time optimization and control systems for PCPs and electric submersible pumps, or ESPs, as well as artificial lift completion systems for ESPs.

The Company expects these acquisitions will accelerate its automation solutions strategy and provide its products and services with industry-leading technological capabilities. These capabilities are expected to include the collection and evaluation of down-hole well performance data in real time. With this data, the Company anticipates that its automation solutions will be able to dynamically manage artificial lift equipment to achieve optimal performance.

The Company's automation solutions are expected to be capable of interfacing with artificial lift technologies, including ESPs, manufactured by any of the major artificial lift equipment vendors. The Company believes that this vendor-neutral, integrated approach to automation is unique and will allow it to develop a relationship with customers who have traditionally relied on other vendors for their artificial lift needs. The Company also believes, however, that its automation solutions will continue to be more reliable and perform at optimal levels when used in combination with the Company's own products, and the Company intends to leverage its automation solutions to enhance sales of its artificial lift equipment.

Products:

The Oilfield segment manufactures and services artificial lift products, including reciprocating rod lift, commonly referred to as pumping units, gas lift, plunger lift, and PCP equipment, and related products.

Pumping Units- Five basic types of pumping units are manufactured: an air-balanced unit; a beam-balanced unit; a crank-balanced unit, a Mark II Uitorque unit; and a hydraulic unit. The basic differences between the five types relate to the counterbalancing system. The depth of a well and the desired fluid production determine the type of counterbalancing configuration that is required. The Company manufactures numerous sizes and combinations of Lufkin Oilfield pumping units within the five basic types. In addition, the Company manufactures and services down-hole reciprocating pumps that work with the surface equipment to bring liquids from the reservoir to the surface.

Pumping Unit Service- Through a network of service centers, the Company transports and repairs pumping units. The service centers also refurbish used pumping units.

Automation- The Company designs, manufactures, installs and services computer control equipment and analytical services for artificial lift equipment that lower production costs and optimize well efficiency.

Gas Lift/Plunger Lift- The Company designs, manufactures, installs and services gas lift and plunger lift equipment.

Progressing Cavity Pumps- The Company designs, manufactures, installs and services progressing cavity pump equipment.

Foundry Castings- As part of the Company's vertical integration strategy, the Oilfield segment operates an iron foundry to produce castings for new pumping units. In order to maximize utilization of this facility, castings for third parties are also produced.

Raw Materials & Labor:

Oilfield purchases a variety of raw materials in manufacturing its products. The principal raw materials are structural and plate steel, round alloy steel and iron castings, which are purchased from both its own foundry and third-party foundries. Casting costs are subject to change, as a result of changes in raw material prices on scrap iron and pig iron in addition to changes in natural gas and electricity prices. Due to the many configurations of its products and thus sizes of raw material used, Oilfield does not enter into long-term contracts for raw materials but generally does not experience shortages of raw materials. During the period of 2009 through 2010, Oilfield did not experience any significant material shortages. During 2011, the Company experienced periodic shortages of castings as new third-party suppliers were not able to increase production at the rate required. By the end of 2011, these suppliers had been able to increase production levels to meet the Company's requirements. Raw material prices in North America have remained relatively stable over the last several years. However, the Company has

experienced significant inflation in raw materials in Argentina as a result of local economic issues. Raw material prices may continue to increase and availability may decrease with little notice.

The nature of the products manufactured and serviced by Oilfield generally requires skilled labor. Oilfield's ability to increase capacity could be limited by its ability to hire and train qualified personnel. Also, the main U.S. manufacturing facilities are unionized, so any labor disruption could have a significant impact on Oilfield's ability to maintain production levels. The current labor contract expires in October 2014. Also, the Company has experienced significant wage inflation and occasional work stoppages in its Argentina plant due to local economic issues.

Markets:

Demand for artificial lift equipment primarily depends on the level of new onshore oil well and workover drilling activity as well as the depth and fluid conditions of that drilling. Drilling activity is driven by the available cash flow of the Company's customers as well as their long-term perceptions of the level and stability of the price of oil. The higher energy prices experienced since 2010 have increased the demand for artificial lift equipment and related service and products from higher drilling activity. As the global economy began to recover in 2010 and oil prices and drilling activity rose, demand levels increased to near 2008 levels. This trend is expected to continue in 2012, with higher drilling activity and lower surplus equipment inventory driving demand for new artificial lift equipment. Longer-term, the demand for artificial lift equipment is also expected to continue to increase in international markets. While a majority of the segment's revenues are in North America, international opportunities continue to increase as new drilling increases and existing fields mature, requiring increased use of artificial lift, especially in the South American, Russian and Middle Eastern markets.

Competition:

The primary global competitor for artificial lift equipment is Weatherford International, but Chinese manufacturers of artificial lift equipment are also present in the market. Used pumping units are also an important factor in the North American market, as customers will generally attempt to satisfy requirements through used equipment before purchasing new equipment. There are also various other manufacturers of certain types of artificial lift equipment, such as Dover and Robbins & Myers. While the Company believes that it is one of the larger manufacturers of artificial lift equipment in the world, manufacturers of other types of equipment like electric submersible pumps have a significant share of the total artificial lift market. While Weatherford International is the Company's single largest competitor in the service market, small independent operators provide significant competitive pressures.

Because of the competitive nature of the business and the relative age of many of the product designs, price, delivery time, product quality and customer service are important factors in winning orders. To this end, the Company maintains strategic levels of inventories in order to ensure delivery times and invests in new capital equipment to maintain quality and price levels.

Power Transmission

The Company's Power Transmission segment designs, manufactures and services custom engineered speed increasing and reducing gearboxes for energy infrastructure and industrial applications. Speed increasers convert lower speed and higher torque input to higher speed and lower torque output, while speed reducers convert higher speed and lower torque input to lower speed and higher torque output. The Company's high speed or turbo gears are used in petrochemical production, refining, offshore oil production, oil and gas transmission, natural gas liquefaction and electrical power generation. The Company is one of the only producers of high horsepower, high speed gearboxes for these demanding applications. The Company's low speed industrial gears are used in metals processing, tire and rubber production, sugar processing, marine propulsion and mining. The Company believes that its gear products in both high speed and low speed applications benefit from an excellent reputation for quality and reliability.

As in its Oilfield segment, the Company has recently expanded the product offerings in its Power Transmission segment. In July 2009, the Company acquired Rotating Machinery Technology, Inc., or RMT, a leader in the turbo-machinery industry specializing in the analysis, design and manufacture of precision, custom-engineered tilting-pad bearings and related components for high speed turbo equipment such as compressors and gearboxes.

Financial information by industry segment and geographic area is incorporated herein by reference to Note 15 – "Business Segment Information" in the Notes to Consolidated Financial Statements set forth in Part II, Item 8 of this annual report on Form 10-K.

The Company employed approximately 4,000 people at December 31, 2011, including approximately 2,500 people that were paid on an hourly basis. Certain of the Company's operations are subject to a union contract that expires in October 2014.

No customer represented over 10% of consolidated company sales as of December 31, 2011 or December 31, 2010. An Oilfield customer and its related subsidiaries represented 11.0% of consolidated company sales in 2009.

Products:

The Power Transmission segment designs, manufactures and services speed increasing and reducing gearboxes for industrial applications. Speed increasers convert lower speed and higher torque input to higher speed and lower torque output while speed reducers convert higher speed and lower torque input to lower speed and higher torque output. The Company produces numerous sizes and designs of gearboxes depending on the end use. While there are standard designs, the majority of gearboxes are customized for each application.

High-Speed Gearboxes- Single stage gearboxes with pitch line velocities equal to or greater than 35 meters per second or rotational speeds greater than 4500 rpm or multi-stage gearboxes with at least one stage having a pitch line velocity equal to or greater than 35 meters per second and other stages having pitch line velocities equal to or greater than 8 meters per second are classified as high-speed gearboxes. These gearboxes require extremely high precision manufacturing and testing due to the stresses on the gearing. The ratio of increasers to reducers is fairly even. These gearboxes more typically service the energy related markets of petrochemicals, refineries, offshore production and transmission of oil and gas.

Low-Speed Gearboxes- Gearboxes which do not meet the pitch line or rotational speed criteria of high-speed gearboxes are classified as low-speed gearboxes. The majority of low-speed gearboxes are reducers. While still requiring close tolerances, these gearboxes do not require the same precision of manufacturing and testing as high-speed gearboxes. These gearboxes more typically service commodity-related industries like rubber, sugar, paper, steel, plastics, mining and cement as well as marine propulsion.

Parts- The Company manufactures capital spares for customers in conjunction with the production of new gearboxes, in addition to producing parts for aftermarket service.

Gearbox Repair & Service- The Company provides on and off-site repair and service for not only its own products but also those manufactured by other companies. Repair work is performed in dedicated facilities due to the quick turn-around times required.

Lufkin RMT- Through this acquisition in 2009, the Company now participates in the turbo-machinery industry, specializing in the analysis, design and manufacture of precision, custom-engineered tilting-pad bearings and related components for high-speed turbo equipment operating in critical duty applications. RMT also services, repairs and upgrades turbo-expander process units for air and gas separation.

Raw Materials & Labor:

Power Transmission purchases a variety of raw materials in manufacturing its products. The principal raw materials are steel plate, round alloy steel, iron castings and steel forgings. Due to the customized nature of its products, Power Transmission generally does not enter into long-term contracts for raw materials. Though raw material shortages are infrequent, lead times can be long due to the custom nature of many of its orders. Raw material prices are not expected to decline significantly in the short-term and may continue to increase with little notice. Raw material and component part shortages are not expected in the short-term.

The nature of the products manufactured and serviced by Power Transmission generally requires skilled labor. Power Transmission's ability to increase capacity could be limited by its ability to hire and train qualified personnel. Also, the main U.S. manufacturing facilities are unionized, so any labor disruption could have a significant impact on Power Transmission's ability to maintain production levels. The current labor contract expires in October 2014.

Markets:

Power Transmission services many diverse markets, with high-speed gearing for markets such as petrochemicals, refineries, offshore production and transmission of oil and low-speed gearing for the gas, rubber, sugar, paper, steel, plastics, mining, cement and marine propulsion markets, each of which has its own unique set of drivers. Favorable conditions for one market may be unfavorable for another market. Generally, if general global industrial capacity utilizations are not high, spending on new equipment lags. Also impacting demand are government regulations involving safety and environmental issues that can require capital spending. Recent market demand increases have come from energy-related markets such as refining, petrochemical, drilling, coal, marine and power generation in response to higher global energy prices. RMT products generally follow the market for high-speed gearboxes.

Competition:

Despite the highly technical nature of the products in this segment, there are many competitors. While several North American competitors have de-emphasized the market, many European companies remain in the market. Competitors include Flender Graffenstaden, BHS, Renk, Rientjes, CMD, Philadelphia Gear and Horsburgh & Scott. While price is an important factor, proven designs, workmanship and engineering support are critical factors. Due to this, the Company outsources very little of the design and manufacturing processes.

Federal Regulation and Environmental Matters

The Company's operations are subject to various federal, state and local laws and regulations, including those related to air emissions, wastewater discharges, the handling of solid and hazardous wastes and occupational safety and health. Environmental laws have, in recent years, become more stringent and have generally sought to impose greater liability on a larger number of potentially responsible parties. While the Company is not currently aware of any situation involving an environmental claim that would likely have a material effect on its business, it is always possible that an environmental claim with respect to one or more of the Company's current businesses or a business or property that one of its predecessors owned or used could arise that could have a material adverse effect. The Company's operations have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with these laws and regulations in both the United States and abroad. However, the Company does not anticipate the future costs of environmental compliance will have a material adverse effect on its business, financial results or results of operations.

Available Information

The Company makes available, free of charge, through the Company's website, www.lufkin.com, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. Access to these electronic filings is available as soon as reasonably practicable after the Company files such material with, or furnishes it to, the Securities and Exchange Commission. You may also request printed copies of these documents free of charge by writing to the Company Secretary at P.O. Box 849, Lufkin, Texas 75902. Our reports filed with the SEC are also made available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C., 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with or furnished to the SEC are also made available on the SEC's website at www.sec.gov.

Item 1A. Risk Factors.

The risks described below are those which the Company believes are the material risks that it faces. Any of the risk factors described below could significantly and adversely affect its business, prospects, financial condition and results of operations.

A decline in domestic and worldwide oil and gas drilling activity would adversely affect the Company's results of operations.

The Oilfield segment is materially dependent on the level of oil and gas drilling activity in North America and worldwide, which in turn depends on the level of capital spending by major, independent and state-owned exploration and production companies. This capital spending is driven by current prices for oil and gas and the perceived stability and sustainability of those prices. Oil and gas prices have been subject to significant fluctuation in recent years in response to changes in the supply and demand for oil and gas, market uncertainty, world events, governmental actions, and a variety of additional factors that are beyond the Company's control, including:

- the level of North American and worldwide oil and gas exploration and production activity;
- worldwide economic conditions, particularly economic conditions in North America;
- oil and gas production costs;
- weather conditions;
- the expected costs of developing new reserves;
- national government political requirements and the policies of OPEC;
- the price and availability of alternative fuels;
- the effect of worldwide energy conservation measures;
- environmental regulation; and
- tax policies.

Increases in the prices of our raw materials could adversely affect the Company's margins and results of operations.

The Company uses large amounts of steel and iron in the manufacture of its products. The price of these raw materials has a significant impact on the cost of producing products. Steel and iron prices have increased significantly in the last five years, caused primarily by higher energy prices and increased global demand. Since most of the Company's suppliers are not currently parties to long-term contracts with it, the Company is vulnerable to fluctuations in prices of such raw materials. Factors such as supply and demand, freight costs and transportation availability, inventory levels of brokers and dealers, the level of imports and general economic conditions may affect the price of cast iron and steel. Raw material prices may increase significantly in the future. Certain items such as steel round and bearings have continued to experience price increases, price volatility and longer lead times. If the Company is unable to pass future raw material price increases on to its customers, margins, results of operations, cash flow and financial condition could be adversely affected.

Interruption in the Company's supply of raw materials could adversely affect its results of operations.

The Company relies on various suppliers to supply the components utilized to manufacture its products. The availability of the raw materials is not only a function of the availability of steel and iron, but also the alloy materials that are utilized by the Company's suppliers. To date, shortages have not caused a material disruption in availability or in the Company's manufacturing operations. However, material disruptions may occur in the future. Raw material shortages and allocations may result in inefficient operations and a build-up of inventory, which can negatively affect the Company's working capital position. The loss of any of the Company's suppliers or their inability to meet its price, quality, quantity and delivery requirements could have an adverse effect on the Company's business and results of operations.

The Company's customers' industries are undergoing continuing consolidation that may impact its results of operations.

Some of the Company's largest customers have consolidated and are using their size and purchasing power to achieve economies of scale and pricing concessions. This consolidation may result in reduced capital spending by such customers or the acquisition of one or more of the Company's other primary customers, which may lead to decreased demand for the Company's products and services. The Company cannot assure you that it will be able to maintain its level of sales to any customer that has consolidated or replace that revenue with increased business activities with other customers. As a result, this consolidation activity could have a significant negative impact on the Company's results of operations or financial condition. The Company is unable to predict what effect consolidations may have on prices, capital spending by its customers, its selling strategies, its competitive position, its ability to retain customers or its ability to negotiate favorable agreements.

The inherent dangers and complexity of the Company's products and services could subject it to substantial liability claims that may not be covered by its insurance and that could adversely affect its results of operations.

The products that the Company manufactures and the services that it provides are complex, and the failure of its equipment to operate properly or to meet specifications may greatly increase its customers' costs. In addition, many of these products are used in inherently hazardous industries, such as the oil and gas drilling and production industry where an accident or product failure can cause personal injury or loss of life, damage to property, equipment, or the environment, regulatory investigations and penalties and the suspension of the end-user's operations. If the Company's products or services fail to meet specifications or are involved in accidents or failures, the Company could face warranty, contract, or other litigation claims for which it may be held responsible and its reputation for providing quality products may suffer.

The Company's insurance may not be adequate in risk coverage or policy limits to cover all losses or liabilities that the Company may incur or for which the Company may be found responsible. Moreover, in the future, the Company may not be able to maintain insurance at levels of risk coverage or policy limits that it deems adequate or at premiums that it deems reasonable, particularly in the recent environment of significant insurance premium increases. Further, any claims made under the Company's policies will likely cause its premiums to increase.

Any future damages deemed to be caused by the Company's products or services that are assessed against it and that are not covered by its insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's results of operations and financial condition. Litigation and claims for which the Company is not insured can occur, including employee claims, intellectual property claims, breach of contract claims, and warranty claims.

The Company may not be able to successfully integrate future acquisitions, which will cause it to fail to realize expected returns.

The Company continually explores opportunities to acquire related businesses, some of which could be material to the Company. The ability to continue to grow, however, may depend upon identifying and successfully acquiring attractive companies, effectively integrating these companies, achieving cost efficiencies and managing these businesses as part of the Company. The Company may not be able to effectively integrate the acquired companies and successfully implement appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these acquisitions. The Company's efforts to integrate these businesses could be affected by a number of factors beyond its control, such as regulatory developments, general economic conditions and increased competition. In addition, the process of integrating these businesses could cause the interruption of, or loss of momentum in, the activities of the Company's existing business. The diversion of management's attention and any delays or difficulties encountered in connection with the integration of these businesses could negatively impact the Company's business and results of operations. Further, the benefits that the Company anticipates from these acquisitions may not develop.

Labor disputes or the expiration of the Company's current labor contract could have a material adverse effect on its business.

The Company's main U.S. manufacturing facilities are unionized, and the current labor contract with respect to those facilities will expire in October 2014. The Company cannot assure that disputes, work stoppages or strikes will not arise in the future. In addition, when the existing collective bargaining agreement expires, the Company cannot assure that it will be able to reach a new agreement with its employees or that any new agreement will be on substantially similar terms as the existing agreement. Future disputes with and labor concessions to the Company's employees could have a material adverse effect upon its results of operations and financial position.

The inability to hire and retain qualified employees may hinder the Company's growth.

The ability to provide high-quality products and services depends in part on the Company's ability to hire and retain skilled personnel in the areas of management, product engineering, servicing and sales. Competition for such personnel is intense and competitors can be expected to attempt to hire the Company's skilled employees from time to time. In particular, the Company's business and results of operations could be materially adversely affected if it is unable to retain the customer relationships and technical expertise provided by the Company's management team and professional personnel.

Significant competition in the industries in which the Company operates may result in its competitors offering new or better products and services or lower prices, which could result in a loss of customers and a decrease in revenues.

The industries in which the Company operates are highly competitive. The Company competes with other manufacturers and service providers of varying sizes, some of which may have greater financial and technological resources than it does. If the Company is unable to compete successfully with other manufacturers and service providers, it could lose customers and its revenues may decline. In addition, competitive pressures in the industry may affect the market prices of the Company's new and used equipment, which, in turn, may adversely affect its sales margins, results of operations, cash flow and financial condition.

Disruption of the Company's manufacturing operations or management information systems would have an adverse effect on its financial condition and results of operations.

While the Company owns numerous facilities domestically and internationally, its primary manufacturing facilities, located in and around Lufkin, Texas account for a significant percentage of its manufacturing output. An unexpected disruption in the Company's production at these facilities or in its management information systems for any length of time would have an adverse effect on its business, financial condition and results of operations.

A deterioration in future expected profitability or cash flows could result in an impairment of the Company's goodwill.

The Company performs an annual assessment of the recoverability of goodwill and indefinite lived intangibles. Additionally, the Company assesses goodwill and indefinite lived intangibles for impairment whenever events or changes in circumstances indicate that such carrying values may not be recoverable. The Company relies on discounted cash flow analysis, which requires significant judgments and estimates about the Company's future operations, to develop its estimates of fair value. If these projected cash flows change materially, the Company may be required to record impairment losses relative to goodwill or indefinite lived intangibles which could be material to its results of operations in any particular reporting period.

The Company has foreign operations that would be adversely impacted in the event of war, political disruption, civil disturbance, economic and legal sanctions and changes in global trade policies.

The Company has operations in certain international areas, including parts of the Middle East and South America, that are subject to risks of war, political disruption, civil disturbance, economic and legal sanctions (such as restrictions against countries that the U.S. government may deem to sponsor terrorism) and changes in global trade policies. The Company's operations may be restricted or prohibited in any country in which these risks occur. In particular, the occurrence of any of these risks could result in the following events, which in turn, could materially and adversely impact the Company's results of operations:

- disruption of oil and natural gas exploration and production activities;
- restriction of the movement and exchange of funds;
- inhibition of the Company's ability to collect receivables;
- enactment of additional or stricter U.S. government or international sanctions; and
- limitation of the Company's access to markets for periods of time.

The Company is subject to the U.S. Foreign Corrupt Practices Act and other anti-corruption laws, as well as other laws and regulations governing its operations. If the Company fails to comply with these laws, it could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could adversely affect its business, financial condition and results of operations.

The U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Given the industries in which the Company participates, the Company operates in parts of the world that have experienced governmental corruption to some degree, and in which strict compliance with anti-bribery laws may conflict with local customs and practices. The Company's training and compliance program cannot protect it from reckless or criminal acts committed by its employees or agents. Violations of these laws, or allegations of such violations, could disrupt the Company's business and result in a material adverse effect on its results of operations, financial condition, and cash flows.

The Company is also subject to other laws and regulations governing its operations, including regulations administered by the U.S. Department of Commerce's Bureau of Industry and Security, the U.S. Department of Treasury's Office of Foreign Asset Control, and various non-U.S. government entities, including applicable export control regulations, economic sanctions on countries and persons, and customs requirements, which the Company refers to collectively as "Trade Control laws." Trade Control laws are complex and constantly changing, and compliance with them increases the Company's cost of doing business. There is no assurance that the Company will be completely effective in ensuring its compliance with Trade Control laws. If the Company is not in compliance with Trade Control laws, it may be subject to criminal and civil penalties, and other sanctions and remedial measures, and legal expenses, which could have an adverse impact on its business, financial condition, results of operations and liquidity. Likewise, any investigation of any potential violations of Trade Control laws by U.S. or foreign authorities could also have an adverse impact on the Company's reputation, business, financial condition and results of operations.

The Company's results of operations could be adversely affected by actions under U.S. trade laws.

Although the Company is a U.S.-based manufacturing and services company, it owns and operates international manufacturing operations that support its U.S.-based business. If actions under U.S. trade laws were instituted that limited the Company's access to these products, the Company's ability to meet its customer specifications and delivery requirements would be reduced. Any adverse effects on the Company's ability to import products from its foreign subsidiaries could have a material adverse effect on its results of operations.

The Company is subject to currency exchange rate risk, which could adversely affect its results of operations.

The Company is subject to currency exchange rate risk with intercompany debt denominated in U.S. dollars owed by its Canadian subsidiary. The Company cannot assure that future currency exchange rate fluctuations will not have an adverse affect on its results of operations.

The Company may be subject to litigation if another party claims that it has infringed upon its intellectual property rights.

The tools, techniques, methodologies, programs and components the Company uses to provide its services may infringe upon the intellectual property rights of others. Infringement claims generally result in significant legal and other costs and may distract management from running the Company's core business. Royalty payments under licenses from third parties, if available, would increase the Company's costs. If a license were not available the Company might not be able to continue providing a particular service or product, which could adversely affect its financial condition, results of operation and cash flows. Additionally, developing non-infringing technologies would increase its costs.

Significant changes in pension fund investment performance or assumptions relating to pension costs may have a material effect on the valuation of pension obligations, the funded status of pension plans, and the Company's pension cost.

The Company's funding policy for its pension plan is to accumulate plan assets that, over the long-run, will approximate the present value of projected benefit obligations. The Company's pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on plan assets. The Company's pension plan is supported by pension fund investments that are volatile and subject to financial market risk, including fixed income, domestic and foreign equity securities, real estate and hedge funds. Significant changes in investment performance or a change in the portfolio mix of invested assets could result in corresponding increases and decreases in the valuation of plan assets or in a change of the expected rate of return on plan assets. A change in the discount rate would result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of the Company's pension plans as well as the net periodic pension cost in the following fiscal years. Similarly, changes in the expected return on plan assets could result in significant changes in the net periodic pension cost for subsequent fiscal years.

Any capital financing that may be necessary to fund growth may not be available to the Company at economic rates.

Turmoil in the credit markets and the potential impact on liquidity of major financial institutions may have an adverse effect on the Company's ability to fund growth opportunities through borrowings, under either existing or newly created instruments in the public or private markets on terms the Company believes to be reasonable.

Due to the recent financial and credit crisis, certain of the Company's counterparties may be unable to meet their financial obligations to the Company or, alternatively, may be forced to postpone or otherwise cancel their contracts with the Company.

The recent credit crisis and the related turmoil in the global financial system have had an adverse impact on the Company's business and financial condition and the business and financial condition of its counterparties. While the financial markets experienced improvement in 2010 the Company has continued to face challenges due to general financial market volatility. The Company may be subject to increased counterparty risks whereby its counterparties may not be willing or able to meet their financial obligations to the Company or, alternatively, may be forced to postpone or otherwise cancel their contracts with the Company. A sustained decline in the ability of the Company's counterparties to meet their financial obligations to the Company would adversely affect its business, results of operations and financial condition.

An array of international climate change accords focused on limiting and reducing greenhouse gas emissions could result in increased operating costs and reduced demand for our products or services.

The Company services customers in numerous foreign countries. As such, we are subject not only to U.S. climate change legislation but may also be subject to certain international climate change accords. A variety of regulatory developments, proposals or requirements have been introduced and/or adopted in the international regions in which the Company operates that are focused on restricting the emission of carbon dioxide, methane and other greenhouse gases. Among these developments are the United Nations Framework Convention on Climate Change, also known as the "Kyoto Protocol," and the European Union Emissions Trading System, or EU ETS, which was launched as an international "cap and trade" system on allowances for emitting greenhouse gases. These international regulatory developments may curtail production and demand for fossil fuels such as oil and gas in areas of the world where the Company and its customers operate and thus adversely affect future demand for the Company's products and services, which may in turn adversely affect the Company's future results of operations.

Climate change regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for the Company's products or services.

From time to time, Congress has considered legislation on climate change matters, which, if adopted, could increase the Company's costs or affect the demand for its products.

On December 15, 2009, the U.S. Environmental Protection Agency, or the EPA, officially published its findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to human health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the Earth's atmosphere and other climatic changes. These findings by the EPA allow the agency to proceed with the adoption and implementation of regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. In response to its endangerment findings, the EPA adopted regulations that require a reduction in emissions of greenhouse gases from motor vehicles. The EPA has asserted that the motor vehicle greenhouse gas emissions standards triggered the Clean Air Act construction and operating permit requirements for stationary sources, commencing when the motor vehicle standards took effect on January 2, 2011. The EPA also adopted rules which will lead to the imposition of greenhouse gas emission limitations in Clean Air Act permits for certain stationary sources. In addition, on September 22, 2009, the EPA issued a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States beginning in 2011 for emissions occurring in 2010.

The adoption and implementation of any regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our equipment and operations could require the Company to incur costs to reduce emissions of greenhouse gases associated with operations, could adversely impact customers' operations or demand for customers' products, or could adversely affect demand for the Company's products or services.

The Company's common stock has experienced, and may continue to experience, price volatility.

The market price of the Company's common stock has historically experienced and continues to experience high volatility been. The Company's common stock price may increase or decrease in response to a number of events and factors, including:

- trends in the Company's industries and the markets in which it operates;
- changes in the market price of the products the Company sells;
- the introduction of new technologies or products by the Company or its competitors;
- changes in expectations as to the Company's future financial performance, including financial estimates by securities analysts and investors;
- operating results that vary from the expectations of securities analysts and investors;
- announcements by the Company or its competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, financings or capital commitments;
- the price of oil;
- changes in laws and regulations; and
- general economic and competitive conditions.

Volatility or depressed market prices of the Company's common stock could make it difficult for you to resell shares of its common stock when you want or at attractive prices.

There may be future dilution of the Company's common stock or other equity, which may adversely affect the market price of its common stock.

The Company is not restricted from issuing additional shares of its common stock or securities convertible or exchangeable for its common stock. If the Company issues additional shares of its common stock or convertible or exchangeable securities, it may adversely affect the market price of its common stock. The Company's certificate of incorporation authorizes its board of directors to issue up to 60,000,000 shares of its common stock, par value \$1.00 per share, and up to 2,000,000 shares of our preferred stock, par value \$1.00 per share.

The Company is able to issue shares of preferred stock with greater rights than its common stock.

The Company's certificate of incorporation authorizes its board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from its stockholders. Any preferred stock that is issued may rank ahead of the Company's common stock in terms of dividends, liquidation rights or voting rights. If the Company issues preferred stock, it may adversely affect the market price of its common stock.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties

The Company's major manufacturing facilities which are located in and near Lufkin, Texas, are company-owned and include approximately 150 acres, a foundry, machine shops, structural shops, assembly shops and warehouses. The facilities by segment are:

Oilfield:	
Pumping Unit Manufacturing	240,000 sq. ft.
Foundry Operations	687,000 sq. ft.

Power Transmission:	
New Unit Manufacturing	458,000 sq. ft.
Repair Operations	84,000 sq. ft.

Former Trailer Manufacturing	388,000 sq. ft.
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Corporate Facilities	33,000 sq. ft.
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Through the acquisitions of ILS and RMT in 2009, the Company added two leased manufacturing facilities:

Lufkin ILS- Houston, TX	50,000 sq. ft.
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Lufkin RMT- Wellsville, NY	23,500 sq. ft.
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Also, the Company has numerous service centers throughout the United States to support the Oilfield and Power Transmission segments. The majority of these locations are company-owned, with some leased. None of these leases qualify as capital leases.

The Company also owns several international facilities for the production and servicing of pumping units and power transmission products. The facilities by segment are:

Oilfield:	
Nisku, Alberta, Canada	66,000 sq. ft.
Red Deer, Alberta, Canada	80,000 sq. ft.
Edmonton, Alberta, Canada	75,000 sq. ft.
Comodoro Rivadavia, Argentina	125,000 sq. ft.

The Company is in the process of building a new Oilfield manufacturing center in Ploesti, Romania. This 375,000 sq. ft. facility will manufacture artificial lift products for the Eastern Hemisphere and is expected be operational by the end of 2012.

Power Transmission:	
Fougerolles, France	377,000 sq. ft.

Also, the Company has several international service centers to support the Oilfield segment. The majority of these locations are owned by the Company, with some leased. None of these leases qualify as capital leases.

Item 3. Legal Proceedings

On March 7, 1997, a class action complaint was filed against Lufkin Industries, Inc. ("Lufkin") in the U.S. District Court for the Eastern District of Texas by an employee and a former employee of Lufkin who alleged race discrimination in employment. Certification hearings were conducted in Beaumont, Texas in February 1998 and in Lufkin, Texas in August 1998. In April 1999, the District Court issued a decision that certified a class for this case, which included all black employees employed by Lufkin from March 6, 1994, to the present. The case was administratively closed from 2001 to 2003 while the parties unsuccessfully attempted mediation. Trial for this case began in December 2003, and after the close of plaintiff's evidence, the court adjourned and did not complete the trial until October 2004. Although plaintiff's class certification encompassed a wide variety of employment practices, plaintiffs presented only disparate impact claims relating to discrimination in initial assignments and promotions at trial.

On January 13, 2005, the District Court entered its decision finding that Lufkin discriminated against African-American employees in initial assignments and promotions. The District Court also concluded that the discrimination resulted in a shortfall in income for those employees and ordered that Lufkin pay those employees back pay to remedy such shortfall, together with pre-judgment interest in the amount of 5%. On August 29, 2005, the District Court determined that the back pay award for the class of affected employees was \$3.4 million (including interest to January 1, 2005) and provided a formula for attorney fees that Lufkin estimated would not exceed \$2.5 million. In addition to back pay with interest, the District Court (i) enjoined and ordered Lufkin to cease and desist all racially biased assignment and promotion practices and (ii) ordered Lufkin to pay court costs and expenses.

Lufkin reviewed this decision with its outside counsel and on September 19, 2005, appealed the decision to the U.S. Court of Appeals for the Fifth Circuit. On April 3, 2007, the Company appeared before the appellate court in New Orleans for oral argument in this case. The appellate court subsequently issued a decision on February 29, 2008 that reversed and vacated the plaintiff's claim regarding the initial assignment of black employees into the Foundry Division. The court also denied plaintiff's appeal for class certification of a class disparate treatment claim. Plaintiff's claim on the issue of Lufkin's promotional practices was affirmed but the back pay award was vacated and remanded for re-computation in accordance with the opinion. The District Court's injunction was vacated and remanded with instructions to enter appropriate and specific injunctive relief. Finally, the issue of plaintiff's attorney's fees was remanded to the District Court for further consideration in accordance with prevailing authority.

On December 5, 2008, U.S. District Court Judge Clark held a hearing in Beaumont, Texas during which he reviewed the Fifth Circuit class action decision and informed the parties that he intended to implement the decision in order to conclude this litigation. At the conclusion of the hearing Judge Clark ordered the parties to submit positions regarding the issues of attorney fees, a damage award and injunctive relief. Subsequently, Lufkin reviewed the plaintiff's submissions which described the formula and underlying assumptions that supported their positions on attorney fees and damages. After careful review of the plaintiff's submission to the court Lufkin continued to have significant differences regarding legal issues that materially impacted the plaintiff's requests. As a result of these different results, the court requested further evidence from the parties regarding their positions in order to render a final decision. The judge reviewed both parties arguments regarding legal fees, and awarded the plaintiffs an interim fee, but at a reduced level from the plaintiffs original request. Lufkin and the plaintiffs reconciled the majority of the differences and the damage calculations which also lowered the originally requested amounts of the plaintiffs on those matters. Due to the resolution of certain legal proceedings on damages during the first half of 2009 and the District Court awarding the plaintiffs an interim award of attorney fees and cost totaling \$5.8 million, Lufkin recorded an additional provision of \$5.0 million in the first half of 2009 above the \$6.0 million recorded in the fourth quarter of 2008. The plaintiffs filed an appeal of the District Court's interim award of attorney fees with the Fifth Circuit. The Fifth Circuit subsequently dismissed these appeals on August 28, 2009 on the basis that an appealable final judgment in this case had not been issued. The court commented that this issue can be reviewed with an appeal of final judgment.

On January 15, 2010, the U.S. District Court for the Eastern District of Texas notified Lufkin that it had entered a final judgment related to the Lufkin's ongoing class-action lawsuit. On January 15, 2010, the plaintiffs filed a notice of appeal with the Fifth Circuit of the District Court's final judgment. On January 21, 2010, Lufkin filed a notice of cross-appeal with the same court.

On January 15, 2010, in its final judgment, the Court ordered Lufkin to pay the plaintiffs \$3.3 million in damages, \$2.2 million in pre-judgment interest and 0.41% interest for any post-judgment interest. Lufkin had previously estimated the total liability for damages and interest to be approximately \$5.2 million. The Court also ordered the plaintiffs to submit a request for legal fees and expenses from January 1, 2009 through the date of the final judgment. The plaintiffs were required to submit this request within 14 days of the final judgment. On January 21, 2010, Lufkin filed a motion with the District Court to stay the

payment of damages referenced in the District Court's final judgment pending the outcome of the Fifth Circuit's decision on both parties' appeals. The District Court granted this motion to stay.

On January 29, 2010, the plaintiffs filed a motion with the U.S. District Court for the Eastern District of Texas for a supplemental award of \$0.7 million for attorney's fees, costs and expenses incurred between January 1, 2009 and January 15, 2010, as allowed in the final judgment. In the fourth quarter of 2009, Lufkin recorded a provision of \$1.0 million for these legal expenses and accrual adjustments for the final judgment award of damages. On September 28, 2010, the District Court granted plaintiffs' motion for supplemental attorney's fees, costs and expenses in the amount of \$0.7 million for the period of January 1, 2009 through January 15, 2010. In order to cover these costs, Lufkin recorded an additional provision of \$1.0 million in September 2010 for anticipated costs through the end of 2010.

On February 2, 2011 the Fifth Circuit accepted the oral arguments from the plaintiffs and Lufkin on their respective appeals to the court.

On July 7, 2011, in light of the United States Supreme Court's decision in *Wal-Mart Stores, Inc. v. Dukes*, Lufkin moved to file supplemental briefs in the pending Fifth Circuit appeal to address two legal principles essential to plaintiffs' theory of liability, which Lufkin believed were foreclosed by the Supreme Court's Wal-Mart decision. Plaintiffs filed an opposition to the motion. On July 14, 2011, the Fifth Circuit denied Lufkin's motion.

On August 8, 2011, the Fifth Circuit issued a final opinion on all appeals before the Court. Lufkin filed a petition for certiorari to the United States Supreme Court on September 16, 2011.

On November 14, 2011, the United States Supreme Court denied Lufkin's petition for certiorari. The District Court subsequently entered an order on November 18, 2011, ordering Lufkin to distribute funds to class members in accordance with that Court's January 15, 2010 final judgment.

On December 13, 2011, Lufkin entered into a settlement agreement with plaintiffs' counsel, pursuant to which Lufkin agreed to pay aggregate attorney fees of approximately \$2.7 million. This amount covers all fees of plaintiffs' counsel in respect of work performed prior to entry of the District Court's final judgment on January 15, 2010, work performed since January 15, 2010, and all future work performed in connection with the action. As previously disclosed, Lufkin has recorded provisions in the amount of approximately \$900,000 for work performed by plaintiffs' counsel since January 15, 2010. As a result, the settlement resulted in a net pre-tax impact to Lufkin of approximately \$1.8 million in the fourth quarter of 2011.

Intellectual Property Matter

In 2009, Lufkin Industries, Inc. ("Lufkin") brought suit in a Texas state court against the former owners of a business acquired by Lufkin in order to protect certain of Lufkin's intellectual property rights. The former owners responded by counter suit against Lufkin as well as its outside counsel, Andrews Kurth LLP ("AK"), claiming that Lufkin had acquired title to their inventions improperly. The case was removed from the Texas state court to a U.S. District Court in Midland, Texas in order to address intellectual property and patent issues as well as other claims made by the parties. After reviewing the facts and positions of the parties, in February 2011, the U.S. District Court granted summary judgment for Lufkin disposing of all federal claims and remanded the remainder of the case back to the Texas state court.

As a defendant, AK independently elected to appeal to the U.S. Court of Appeals for the Federal Circuit (and provisionally to the Fifth Circuit) the decision of the U.S. District Court to remand the case, as well as other issues. Thereafter, both plaintiffs, as well as defendant Lufkin (through its own counsel), filed separate appeals to the U.S. Court of Appeals for the Federal Circuit (and provisionally to the Fifth Circuit) to challenge other decisions of the U.S. District Court. The plaintiffs filed motions to dismiss these appeals based on lack of jurisdiction. In addition, the plaintiffs asked the Texas state court to proceed with a trial on the remanded case. The Texas state court set the case for trial over defendants' objections. The defendants then returned to the U.S. District Court and obtained an injunction against the plaintiffs and their counsel from pursuing the Texas state court case until resolution of the federal appeals. Plaintiffs filed a motion with the U.S. District Court to reconsider that injunction. In July 2011, the U.S. District Court denied the plaintiffs' motion for reconsideration. Plaintiffs appealed the injunction to the U.S. Court of Appeals for the Federal Circuit (and provisionally to the Fifth Circuit). On February 1, 2012, the Federal Circuit issued an order dismissing both sets of appeals for lack of jurisdiction and transferring the appeals to the Fifth Circuit. On February 15, 2012, plaintiff Gibbs filed in the Fifth Circuit "Gibbs F.R.A.P. 8 Motion Seeking Suspension of Injunction Prohibiting Litigation in State Court of Remanded Case." The parties are currently briefing that issue. Due to the number of issues on the initial appeal, it is unclear what issues would be left for trial after appeal and, further, whether that trial would proceed in federal or state court. Until the issues for trial, if any, are resolved, Lufkin cannot determine the potential range of exposure from this litigation, which Lufkin intends to defend vigorously. The Company does not believe that the ultimate outcome of this matter will have a material adverse effect on the Company's financial position.

Other Matters

There are various other claims and legal proceedings arising in the ordinary course of business pending against or involving the Company wherein monetary damages are sought. For certain of these claims, the Company maintains insurance coverage while retaining a portion of the losses that occur through the use of deductibles and retention limits. Amounts in excess of the self-insured retention levels are fully insured to limits believed appropriate for the Company's operations. Self-insurance accruals are based on claims filed and an estimate for claims incurred but not reported. While the Company does maintain insurance above its self-insured levels, a decline in the financial condition of its insurer, while not currently anticipated, could result in the Company recording additional liabilities. It is management's opinion that the Company's liability under such circumstances or involving any other non-insured claims or legal proceedings would not materially affect its consolidated financial position, results of operations, or cash flow.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Information

The Company's common stock is traded on the NASDAQ National Market under the symbol "LUFK." As of January 31, 2012, there were approximately 426 record holders of the Company's common stock. This number does not include any beneficial owners for whom shares of common stock may be held in "nominee" or "street" name. The following table sets forth, for each quarterly period during fiscal 2011 and 2010, the high and low sales price per share of the Company's common stock and the dividends paid per share on the Company's common stock.

Quarter	2011			2010		
	Stock Price		Dividend	Stock Price		Dividend
	High	Low		High	Low	
First	\$ 94.29	\$ 57.79	\$ 0.125	\$ 40.85	\$ 29.80	\$ 0.125
Second	97.05	77.67	\$ 0.125	45.10	35.13	\$ 0.125
Third	90.81	53.12	\$ 0.125	44.97	36.22	\$ 0.125
Fourth	74.46	42.10	\$ 0.125	63.50	42.63	\$ 0.125

The Company has paid cash dividends for 71 consecutive years. Total dividend payments were \$15.2 million, \$15.0 million and \$14.9 million in 2011, 2010 and 2009, respectively.

Equity Compensation Plan Information

The following table sets forth securities of the Company authorized for issuance under equity compensation plans at December 31, 2011.

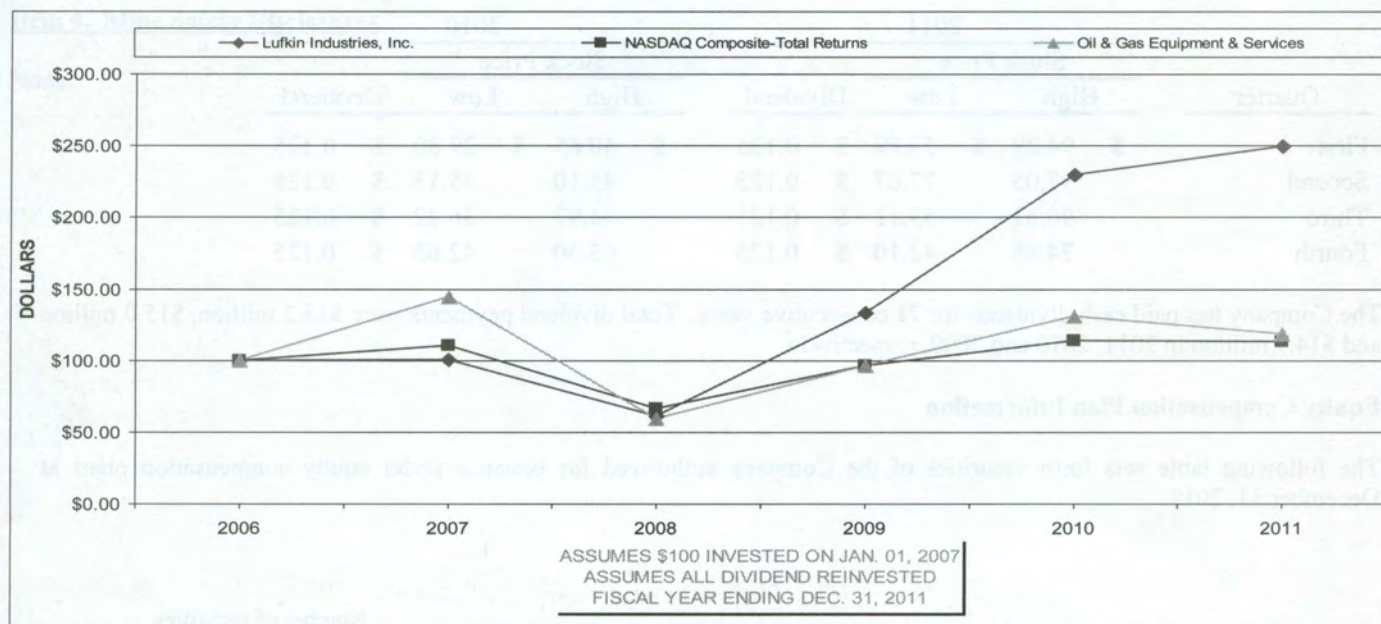
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,504,311	\$42.26	707,313
Equity compensation plans not approved by security holders	-	-	-
Total	<u>1,504,311</u>	\$42.26	<u>707,313</u>

600,000 shares were authorized for issuance pursuant to the 1996 Nonemployee Director Stock Option Plan and 5,600,000 shares were authorized for issuance pursuant to the Incentive Stock Compensation Plan 2000. Awards may be granted pursuant to the Incentive Stock Compensation Plan 2000 include options, restricted stock, performance awards, phantom shares, bonus shares and other stock-based awards.

Performance Graph- Total Stockholder Return

The following is a line graph comparing the Company's cumulative, five-year total shareholder return with that of a general market index (the NASDAQ Market Index) and a published industry index of oil and gas equipment/service providers (Hemscott Industry Group 124).

The graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.



Item 6. Selected Financial Data

Five Year Summary of Selected Consolidated Financial Data

The following table sets forth certain selected historical consolidated financial data from continuing operations for each of the five years in the period ended December 31, 2011 and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included elsewhere in this annual report on Form 10-K. The following information may not be indicative of future operating results.

(In millions, except per share data)	2011	2010	2009	2008	2007
Sales	\$ 932.1	\$ 645.6	\$ 521.4	\$ 741.2	\$ 555.8
Earnings from continuing operations	66.0	43.5	22.5	88.0	71.8
Earnings per share from continuing operations:					
Basic	2.17	1.45	0.76	2.98	2.41
Diluted	2.14	1.44	0.76	2.96	2.38
Total assets	1,096.7	621.1	541.6	530.7	500.7
Total Debt	350.0	-	-	-	-
Cash dividends per share	0.50	0.50	0.50	0.50	0.44

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Lufkin Industries, Inc. (the "Company") is a global supplier of oilfield and power transmission products. Through its Oilfield segment, the Company manufactures and services artificial lift equipment and related products, which are used to extract crude oil and other fluids from wells. Through its Power Transmission segment, the Company manufactures and services high-speed and low-speed increasing and reducing gearboxes for energy and industrial applications. While these markets are price-competitive, technological and quality differences can provide product differentiation.

The Company's objective is to extend its position as a leading global supplier of high quality, mission critical artificial lift and power transmission products, and related aftermarket services. The Company intends to accomplish its objective and capitalize on long-term industry growth trends through the execution of the following strategies:

- ***Position the Company as the preferred source for artificial lift solutions.*** The Company believes it offers one of the industry's broadest portfolios of artificial lift products, including reciprocating rod, gas, plunger and hydraulic lift equipment, PCPs, and measurement and control equipment for all types of artificial lift, including ESPs. The Company has developed a specialized optimization team which focuses on assisting producers with well completion design and production management. The Company is integrating its portfolio of artificial lift products, automation technologies, global service team and optimization team to deliver complete artificial lift solutions to its customers. The Company believes that the combination of its more than 80 years of artificial lift experience and its optimization expertise will allow its customers to offset the diminishing artificial lift knowledge base in their organizations.
- ***Continue to expand the Company's global reach.*** The Company intends to continue to expand its global reach by establishing manufacturing, engineering and service platforms on three continents, which will in turn support a network of regional service centers in areas with high actual or potential demand for artificial lift solutions. These platforms include:
 - Lufkin, Texas, which supports its operations in the United States and Canada;
 - Comodoro Rivadavia, Argentina, which supports its operations in South America;
 - Ploiesti, Romania and Eastern France, which support or will support the Company's operations in Europe, the Middle East, North Africa and elsewhere in the Eastern Hemisphere.

The Company also plans to exploit new market opportunities by deploying sales, distribution, service and manufacturing resources in markets where it believes it is currently under-represented. The Company believes that this strategy has already strengthened its customer relationships and that further expansion will allow it to respond more quickly to its customers' needs. The Company also expects that a broad geographical footprint will improve its support logistics and reduce its costs.

- ***Expand the Company's portfolio of artificial lift products and solutions through acquisitions and internal development.*** The Company intends to continue to selectively pursue acquisitions that increase its exposure to the most important growth trends in the industry, fill critical product gaps and expand its geographic scope. Since the beginning of 2009 the Company has successfully acquired and integrated several businesses across both its segments, including Pentagon and Quinn's reciprocating down-hole pump and PCP businesses. In 2012, the Company completed the acquisitions of Datac and RealFlex and announced its pending acquisition of Zenith. The Company believes these transactions demonstrate its ability to identify and complete strategic transactions that are consistent with its long-term strategy.
- ***Develop the next generation of automation solutions.*** As producers increasingly focus on maximizing the production from existing wells and deploy their capital resources in newer, unconventional plays where reservoir pressures deplete more rapidly, the Company is developing the technologies that will allow its customers to automatically control surface and down-hole pumps, based on real time temperature, pressure and flow data, to optimize artificial lift performance across a variety of well conditions, thereby maximizing recovery rates. The Company's optimization team provides expertise to help producers design full field optimization programs in order to produce their reserves at a lower cost and with greater reliability. This expertise includes the selection of the appropriate artificial lift and automation technology, facility layout and field electrification. As automation technology evolves, the Company intends to take advantage of opportunities to retrofit existing equipment and then provide its customers with ongoing upgrades.

Trends/Outlook

The Company's business is largely dependent on the level of capital expenditures in the energy industry, which affects the drilling of new wells, the use of artificial lift technologies to improve the recovery from existing wells and the construction of new energy infrastructure. The Company believes the significant trends impacting its industry include the following:

- World oil and natural gas consumption continues to increase, driven by growing economies in emerging markets;
- Growing economies are creating the need for large-scale energy infrastructure projects, such as refineries and LNG facilities; and
- Natural gas is gaining market share as a source of fuel for power generation.

In addition, the following trends are influencing demand for artificial lift solutions:

- Producers are increasingly focused on optimizing the ultimate recoveries from mature oilfields, such as the Permian Basin in west Texas and in central California;
- North American exploration and production activity is shifting toward unconventional plays such as the Bakken and Eagle Ford Shale formations, which often require some form of artificial lift earlier in the production life of the well than production from a conventional reservoir does. This trend towards shale exploration is expected to spread globally in coming years; and
- Producers are facing a shortage of experienced personnel due to retirements, and are increasingly relying on outside expertise.

We believe the outlook for the global energy industry is favorable. According to the EIA, oil was the single most significant component of world energy consumption in 2010, representing 34% of total demand. Forecasts published by the EIA anticipate that worldwide demand for oil will grow 28% from 87.4 million barrels per day in 2010 to 112.2 million barrels per day in 2035.

As more readily accessible oil reserves are depleted, producers have been required to make increasing investments in order to maintain their production and increase their reserves to meet the growing demand for energy resources worldwide. As a result, many producers are focused on extending the ultimate recovery from existing producing wells, through enhanced oil recovery methods such as infill drilling, CO₂ injection and artificial lift, as a profitable alternative to finding and developing new reservoirs. The benefits of enhanced oil recovery can be dramatic. For example, according to BP, the average recovery factor for a typical oil reservoir is only 35%, and a 5% increase in the average recovery factor for all reservoirs would add an estimated 300 to 600 billion additional barrels of oil to the global reserve pool, an amount equal to the total reserves that have been attributable to all discoveries over the last 20 years.

In their search for new reserves, oil and gas producers are increasingly turning to unconventional reservoirs such as shale formations. Due to their geologic characteristics, shale reservoirs have a natural pressure that typically declines more rapidly than a conventional reservoir's. As a result, the Company expects that current trends in shale development will result in increased demand for artificial lift solutions worldwide.

According to Spears, the global artificial lift market was approximately \$8.4 billion in 2011 and grew at an average annual rate of 16.3% between 1999 and 2011. International sales accounted for more than 40% of the total worldwide market for artificial lift in 2011, according to Spears, and the Company expects international sales to continue to comprise a significant portion of the global artificial lift market going forward.

The Power Transmission segment also benefits from many of these industry trends. Approximately two-thirds of the products the Company sells in this segment are for applications in the oil and gas, refining and power generation industries. The Company believes growing global populations and energy consumption will create increased demand for energy infrastructure, and with it increased demand for custom engineered, mission critical gearboxes. The Company also believes that the combination of engineering knowledge, specialized machine tools, mechanical test capabilities and reliability that is required in the power transmission industry constitute a significant barrier to entry to potential new competitors and limit the competitive landscape to a relatively small number of suppliers.

Other

During 2011, 2010 and 2009, the Company booked pre-tax contingent liability provisions of \$1.8 million, \$1.0 million and \$6.0 million, respectively, for the class-action lawsuit. For additional information, please see Part I, Item 3 "Legal Proceedings" of this annual report on Form 10-K. Also, the Company incurred pre-tax acquisition-related expenses of \$7.1 million in 2011 in connection with its Pentagon and Quinn's acquisitions.

Summary of Results

The Company generally monitors its performance through analysis of sales, gross margin (gross profit as a percentage of sales) and net earnings.

Overall, sales for 2011 increased to \$932.1 million from \$645.6 million for 2010, or 44.4%. This increase in 2011 was primarily driven by higher sales of Oilfield products and services in the North American markets. In 2009, when oil drilling activity was depressed, sales were \$521.4 million.

Gross margin for 2011 decreased slightly to 24.4% from 24.6% for 2010, due primarily to the favorable impact of higher plant utilization on fixed cost coverage being offset by the costs of new employee training, machine downtime and supply chain shortages. Gross margin in 2009 was 21.6%. Additional segment data on gross margin is provided later in this section.

Higher selling, general and administrative expenses negatively impacted net earnings, with these expenses increasing to \$110.7 million during 2011 from \$89.9 million during 2010 and \$75.1 million during 2009. This increase in 2011 was primarily related to resources added from the acquisitions, higher employee-related expenses in support of international expansion efforts and new product development. As a percentage of sales, selling, general and administrative expenses decreased to 12.8% during 2011 compared 13.9% during 2010 and 14.4% in 2009.

The Company reported net earnings from continuing operations of \$66.0 million, or \$2.14 per share (diluted), for 2011, compared to net earnings from continuing operations of \$43.5 million, or \$1.44 per share (diluted), for 2010, and net earnings from continuing operations of \$22.5 million, or \$0.76 per share (diluted), for 2009.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010:

The following table summarizes the Company's sales and gross profit by operating segment (in thousands of dollars):

Year Ended December 31	2011	2010	Increase/ (Decrease)	% Increase/ (Decrease)
Sales				
Oilfield	\$ 736,488	\$ 477,867	\$ 258,621	54.1
Power Transmission	195,647	167,776	27,871	16.6
Total	<u>\$ 932,135</u>	<u>\$ 645,643</u>	<u>\$ 286,492</u>	44.4
Gross Profit				
Oilfield	\$ 172,879	\$ 112,236	\$ 60,643	54.0
Power Transmission	54,178	46,282	7,896	17.1
Total	<u>\$ 227,057</u>	<u>\$ 158,518</u>	<u>\$ 68,539</u>	43.2

Oilfield

Oilfield sales increased to \$736.5 million, or 54.1%, for the year ended December 31, 2011, from \$477.9 million for the year ended December 31, 2010. New pumping unit sales for 2011 were \$403.7 million, up \$149.4 million, or 58.7%, compared to \$254.4 million during 2010, primarily from higher North American demand from increased oil drilling in the Bakken, Eagle Ford and Permian fields. For 2011, pumping unit service sales of \$128.5 million were up \$24.4 million, or 23.5%, compared to \$104.1 million during 2010 from higher installation and general field activity. Automation sales of \$134.9 million during 2011 were up \$51.1 million, or 61.0%, compared to \$83.8 million during 2010 from new oil well completions and greater market penetration in existing fields. Sales from gas and plunger lift equipment of \$35.2 million during 2011 were up \$10.8 million, or 44.2%, compared to \$24.4 million in 2010. Quinn sales for the month of December were \$13.1 million. Commercial casting sales of \$21.0 million during 2011 were up \$9.7 million, or 87.0%, compared to \$11.3 million during 2010. Oilfield's backlog increased to \$164.2 million as of December 31, 2011 from \$131.4 million at December 31, 2010. The increase was due to higher orders in the North American market, especially in the Bakken.

Gross margin (gross profit as a percentage of sales) for Oilfield remained at 23.5% for year ended December 31, 2011, compared to the year ended December 31, 2010. Despite higher sales, pricing remained very competitive during 2011 and the Company's U.S. manufacturing facilities experienced inefficiencies from new employee training, machine downtime due to excessive heat during the summer and inadequate castings from new vendors.

Direct selling, general and administrative expenses for Oilfield increased to \$47.8 million, or 30.2%, for the year ended December 31, 2011, from \$36.7 million for the year ended December 31, 2010. This increase was due to expanded international sales and support offices and higher research and development spending. Direct selling, general and administrative expenses as a percentage of sales decreased to 6.5% for the year ended December 31, 2011, from 7.7% for the year ended December 31, 2010.

Power Transmission

Power Transmission sales increased to \$195.7 million, or 16.6%, for the year ended December 31, 2011, compared to \$167.8 million for the year ended December 31, 2010. New unit sales of \$141.0 million during 2011 were up \$26.7 million, or 23.4%, compared to \$114.2 million during 2010, as demand for high-speed units for the energy markets improved. Repair and service sales of \$48.9 million during 2011 were up \$0.1 million, or 0.2%, compared to \$48.8 million during 2010. Lufkin RMT sales of \$5.8 million during 2011 were up \$1.1 million, or 23.0%, as compared to \$4.7 million in 2010, from higher sales to the LNG market. Power Transmission backlog at December 31, 2011 increased to \$107.4 million from \$103.1 million at December 31, 2010, primarily from increased bookings of new units for the energy-related markets.

Gross margin for Power Transmission increased slightly to 27.7% for the year ended December 31, 2011, compared to 27.6% for the year ended December 31, 2010, or 0.1 percentage points. The benefit of higher production activity on fixed cost leverage was offset by a competitive pricing environment, new employee training costs and machine downtime costs.

Direct selling, general and administrative expenses for Power Transmission increased to \$30.2 million, or 9.8%, for the year ended December 31, 2011, from \$27.5 million for the year ended December 31, 2010. This increase was primarily due to increased personnel necessary to support higher sales volumes in 2011. However, direct selling, general and administrative

expenses as a percentage of sales decreased to 15.5% for the year ended December 31, 2011, from 16.4% for the year ended December 31, 2010.

Corporate/Other

Corporate administrative expenses, which are allocated to the segments primarily based on budgeted sales levels, were \$34.5 million for the year ended December 31, 2011, an increase of \$8.8 million, or 34.4%, from \$25.6 million for the year ended December 31, 2010, primarily due to higher employee related expenses, legal costs and insurance claims.

Interest income, interest expense and other income and expense for the year ended December 31, 2011 increased to \$2.0 million of expense compared to \$0.2 million of expense for the year ended December 31, 2010. This increase in expense is related to higher interest expense related to the new debt financing put in place in connection with the Company's 2011 acquisitions and the unfavorable impact of exchange rate changes.

The net tax rate for the year ended December 31, 2011 was 37.4% compared to 35.5% for the year ended December 31, 2010. This increase is primarily due to the non-deductibility of certain acquisition-related expenses.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009:

The following table summarizes the Company's sales and gross profit by operating segment (in thousands of dollars):

Year Ended December 31	2010	2009	Increase/ (Decrease)	% Increase/ (Decrease)
Sales				
Oilfield	\$ 477,867	\$ 349,168	\$ 128,699	36.9
Power Transmission	167,776	172,191	(4,415)	(2.6)
Total	<u>\$ 645,643</u>	<u>\$ 521,359</u>	<u>\$ 124,284</u>	23.8
Gross Profit				
Oilfield	\$ 112,236	\$ 65,510	\$ 46,726	71.3
Power Transmission	46,282	47,034	(752)	(1.6)
Total	<u>\$ 158,518</u>	<u>\$ 112,544</u>	<u>\$ 45,974</u>	40.8

Oilfield

Oilfield sales increased to \$477.9 million, or by 36.9%, for the year ended December 31, 2010, from \$349.2 million for the year ended December 31, 2009. New pumping unit sales of \$254.4 million during 2010 were up \$66.2 million, or 35.2%, compared to \$188.2 million during 2009, primarily from higher U.S. demand. Pumping unit service sales of \$104.1 million during 2010 were up \$19.2 million, or 22.6%, compared to \$84.9 million during 2009. Automation sales of \$83.8 million during 2010 were up \$32.4 million, or 62.9%, compared to \$51.4 million during 2009. Commercial casting sales of \$11.3 million during 2010 were up \$1.9 million, or 20.4%, compared to \$9.3 million during 2009. Sales from Lufkin ILS of \$24.4 million during 2010 were up \$9.1 million, or 62.9%, compared to \$15.3 million in 2009, which represents 10 months of operations. Oilfield's backlog increased to \$131.4 million as of December 31, 2010, from \$43.3 million at December 31, 2009. This increase was caused primarily by higher orders for new pumping units as U.S. and international customers increased production due to higher oil prices.

Gross margin (gross profit as a percentage of sales) for the Oilfield segment increased to 23.5% for year ended December 31, 2010, compared to 18.8% for the year ended December 31, 2009, or 4.7 percentage points. This gross margin increase was related to the positive impact of higher plant utilization on fixed cost coverage.

Direct selling, general and administrative expenses for Oilfield increased to \$36.7 million, or by 37.4%, for the year ended December 31, 2010, from \$26.7 million for the year ended December 31, 2009. This increase was due to higher employee-related and legal expenses. Direct selling, general and administrative expenses as a percentage of sales increased only 0.1% to 7.7% for the year ended December 31, 2010, from 7.6% for the year ended December 31, 2009.

Power Transmission

Sales for the Company's Power Transmission segment decreased to \$167.8 million, or by 2.6%, for the year ended December 31, 2010, compared to \$172.2 million for the year ended December 31, 2009. New unit sales of \$114.2 million during 2010 were down \$17.6 million, or 13.3%, compared to \$131.8 million during 2009. Repair and service sales of \$48.8 million during 2010 were up \$10.5 million, or 27.3%, compared to \$38.4 million during 2009. Sales from Lufkin RMT increased to \$4.7 million during 2010, up from \$2.0 million during 2009. A portion of this increase is due to 2009 representing only 6 months of operations. Power Transmission backlog at December 31, 2010, increased to \$101.6 million from \$97.0 million at December 31, 2009, primarily from increased bookings of new units for the energy-related markets.

Gross margin for the Power Transmission segment increased to 27.6% for the year ended December 31, 2010, compared to 27.3% for the year ended December 31, 2009, or 0.3 percentage points. This gross margin increase was primarily from the favorable impact of higher production levels in manufacturing and repair on fixed cost coverage and an improved product mix.

Direct selling, general and administrative expenses for Power Transmission increased to \$27.5 million, or by 17.0%, for the year ended December 31, 2010, compared to \$23.5 million for the year ended December 31, 2009. Direct selling, general and administrative expenses as a percentage of sales increased to 16.4% for the year ended December 31, 2010, from 13.7% for the year ended December 31, 2009.

Corporate/Other

Corporate administrative expenses, which are allocated to the segments primarily based on budgeted sales levels, were \$25.6 million for the year ended December 31, 2010, an increase of \$0.7 million or 2.8%, from \$24.9 million for the year ended December 31, 2009.

Interest income, interest expense and other income and expense for the year ended December 31, 2010, decreased to \$0.2 million of expense compared to \$1.6 million of income for the year ended December 31, 2009, primarily from a decrease in gains of currency exchange and other interest from tax overpayments.

Pension expense, which is reported as a component of cost of sales, decreased to \$7.9 million for the year ended December 31, 2010, compared to \$10.7 million for the year ended December 31, 2009. This decrease in expense was primarily due to the impact of favorable demographic trends.

The net tax rate for the year ended December 31, 2010, was 35.5%, compared to 31.9% for the year ended December 31, 2009. The net tax rate in 2009 benefitted from adjustments to prior period tax filings in the United States related to changes in tax laws.

Liquidity and Capital Resources

The Company has historically relied on cash flows from operations and third-party borrowings to finance its operations, including acquisitions, dividend payments and stock repurchases. The Company believes that its cash flows from operations and its available borrowing capacity under its credit agreements will be sufficient to fund its operations, including planned capital expenditures, business combinations, debt repayments and dividend payments, through December 31, 2012, and the foreseeable future.

The Company's cash balance totaled \$38.4 million at December 31, 2011, compared to \$88.6 million at December 31, 2010. For the year ended December 31, 2011, net cash provided by operating activities was \$46.7 million, net cash used in investing activities totaled \$433.5 million and net cash provided by financing activities amounted to \$337.4 million. Significant components of cash provided by operating activities included net earnings from continuing operations, adjusted for non-cash expenses, of \$119.0 million, partially offset by an increase in working capital of \$72.4 million. This working capital increase was primarily due to an increase in trade receivables and inventory balances of \$59.6 million and \$27.0 million, respectively, due to increased sales volumes during 2011, partially offset by an increase in accounts payable and accrued liabilities of \$17.3 million. Net cash used in investing activities included net capital expenditures totaling \$103.6 million and the Pentagon and Quinn's acquisitions totaling \$331.5 million. Capital expenditures in 2011 were primarily for new facilities to support geographical and product line expansions in the Oilfield and Power Transmission segments. Capital expenditures for 2012, which will be funded by operating cash flows, are projected to increase over 2011 spending levels, primarily for the new Romanian manufacturing facility, other new manufacturing and service facilities to support geographical and product line expansions and equipment replacement for efficiency improvements in the Oilfield and Power Transmission segments. Significant components of net cash provided by financing activities included term loan borrowings of \$350.0 million and dividend payments of \$15.2 million, or \$0.50 per share. Proceeds from stock option exercises of \$5.2 million partially offset financing cash outflows.

The Company has a five year secured credit facility with a group of lenders (the "Bank Facility") consisting of a revolving line of credit that provides up to \$175.0 million of aggregate borrowing and a \$350.0 million term loan. Under the Bank Facility the Company has granted a first priority lien, security interest and collateral assignment of substantially all of its current assets. The Bank Facility matures on November 30, 2016. Borrowings under the Bank Facility bear interest, at the Company's option, at either (A) the highest of (i) the Prime Rate, (ii) the Federal Funds Effective Rate plus 0.5%, and (iii) the Adjusted LIBO Rate for an Interest Period of one month plus 1.0%, in each case plus an Applicable Margin based on the Company's Leverage Ratio or (B) the interest rate equal to (i) the rate for US dollar deposits in the London interbank market for such Interest Period multiplied by (ii) the Statutory Reserve Rate, plus (iii) the Applicable Margin. Throughout the term of the Bank Facility, the Company pays an Unused Commitment Fee which ranges from 0.25 percent to 0.50 percent based on the Company's Leverage Ratio. As of December 31, 2011, all \$350.0 million of the term loan was outstanding and there was \$13.8 million in letters of credit outstanding against the revolving credit facility. As of December 31, 2011 the interest rate was 3.06% on the credit facility and the Company paid \$0.9 million of interest expense in the year ended December 31, 2011. The carrying value of debt is not materially different from its fair value. The Company was in compliance with all financial covenants under the Bank Facility as of December 31, 2011 and had borrowing capacity of \$161.2 million.

On February 27, 2012, the Company announced that it had entered into a definitive agreement to acquire Zenith for \$127 million in cash, net of acquired cash. The parties have agreed that the transaction will close on February 29, 2012. To fund this acquisition, the Company drew \$135 million from the revolving credit facility. Combined with a draw of \$15 million in January 2012 from the revolving credit facility to fund general working capital requirements, approximately \$10 million is remaining available from the revolving credit facility at February 27, 2012.

On February 27, 2012, the Company entered into a new short term credit agreement in order to obtain a \$25.0 million delayed draw temporary term loan to enhance its short-term liquidity. Amounts borrowed under the delayed draw temporary term loan will be utilized, if necessary, for liquidity purposes. As of February 27, 2012, no amount was drawn on this delayed draw temporary loan. Also, on February 27, 2012, the Company entered into an amendment to its Second Amended and Restated Credit Agreement. Among other things, the amendment (i) allowed the Company to enter a definitive agreement to acquire Zenith, (ii) allowed the Company to enter into its new short-term credit agreement mentioned above and (iii) modified the prepayment provisions in its Second Amended and Restated Credit Agreement. The Company may explore other longer-term financing opportunities to reduce the borrowings under the delayed draw temporary loan and the revolving credit facility.

The following table summarizes the Company's expected cash outflows from financial contracts and commitments as of December 31, 2011. Information on recurring purchases of materials for use in manufacturing and service operations has not been included. These amounts are not long-term in nature (less than six months) and are generally consistent from year to year.

(In thousands of dollars)

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Operating lease obligations	\$ 17,467	\$ 2,469	\$ 6,720	\$ 3,805	\$ 4,473
Debt obligations	350,000	17,500	78,750	253,750	
Interest expense		10,663	18,911	10,991	
Contractual commitments for capital expenditures	59,006	56,006	3,000	-	-
Total	<u>\$426,473</u>	<u>\$ 86,638</u>	<u>\$ 107,381</u>	<u>\$ 268,546</u>	<u>\$ 4,473</u>

Since the Company has no significant tax loss carry forwards, the Company expects to make quarterly estimated tax payments in 2012 based on taxable income levels. Also, the Company has various qualified retirement plans for which the Company has committed a certain level of benefit. The Company expects to make contributions to its pension plans of \$16-20 million and to its post-retirement health and life plans of approximately \$0.5 million in 2012. Contribution levels to these plans after 2012 will depend on participation in the plans, possible plan changes, discount rates and actual rates of return on plan assets.

As discussed in Note 15 – “Business Segment Information” in the Notes to Consolidated Financial Statements, set forth in Part II, Item 8 of this Form 10-K, the Consolidated Balance Sheet at December 31, 2011 includes approximately \$2.1 million of liabilities associated with uncertain tax positions in the jurisdictions in which the Company conducts business. Due to the uncertain and complex application of tax regulations, combined with the difficulty in predicting when tax audits throughout the world may be concluded, Lufkin cannot make reliable estimates of the timing of cash outflows relating to these liabilities.

Off-Balance Sheet Arrangements

None.

Recently Issued Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2009-13, *Revenue Recognition (Topic 605): Multiple – Deliverable Revenue Arrangements* – a consensus of the FASB Emerging Issues Task Force (“ASU 2009-13”), which changes the accounting for certain revenue arrangements. The new requirements change the allocation methods used in determining how to account for multiple payment streams and will result in the ability to separately account for more deliverables, and potentially less revenue deferrals. Additionally, ASU 2009-13 requires enhanced disclosures in financial statements. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010 on a prospective basis, with early application permitted. The Company adopted ASU 2009-13 on January 1, 2011. The adoption of ASU 2009-13 did not have a material impact on the balance sheet, statement of earnings, or statement of cash flow.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* – (“ASU 2011-05”), which changes the presentation of comprehensive income. The topic requires the Company to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements, which differs from our current presentation within the statement of stockholders’ equity. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early application permitted. Upon adoption, the requirements under ASU 2011-05 will be retrospectively applied.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* – which defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments.

In September 2011, the FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment* – (“ASU 2011-08”), which simplifies how entities test for goodwill impairment. The topic allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under ASU 2011-08, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08

includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early application permitted. The requirements under this (ASU 2011-08, once adopted, will be applied prospectively.

Management believes the impact of other recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

Critical Accounting Policies and Estimates

The discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company evaluates its estimates on an ongoing basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in preparation of its consolidated statements.

The Company extends credit to customers in the normal course of business. Management performs ongoing credit evaluations of our customers and adjusts credit limits based upon payment history and the customer's current credit worthiness. An allowance for doubtful accounts has been established to provide for estimated losses on receivable collections. The balance of this allowance is determined by regular reviews of outstanding receivables and historical experience. As the financial condition of customers change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable and collectability is reasonably assured. In some cases, a customer is not able to take delivery of a completed product and requests that the Company store the product for a defined period of time. The Company will process a Bill-and-Hold invoice and recognize revenue at the time of the storage request if all of the following criteria are met:

- The customer has accepted title and risk of loss;
- The customer has provided a written purchase order for the product;
- The customer, not the Company, requested the product to be stored and to be invoiced under a Bill-and-Hold arrangement. The customer must also provide the business purpose for the storage request;
- The customer must provide a storage period and future shipping date;
- The Company must not have retained any future performance obligations on the product;
- The Company must segregate the stored product and not make it available to use on other orders; and
- The product must be completed and ready for shipment.

The Company has made significant investments in inventory to service its customers. On a routine basis, the Company uses estimates in determining the level of reserves required to state inventory at the lower of cost or market. Management's estimates are primarily influenced by market activity levels, production requirements, the physical condition of products and technological innovation. Changes in any of these factors may result in adjustments to the carrying value of inventory. Also, the Company accounts for a significant portion of its inventory under the last-in, first-out (LIFO) method. The LIFO reserve can be impacted by changes in the LIFO layers and by inflation index adjustments. Generally, annual increases in the inflation rate or the first-in, first-out (FIFO) value of inventory cause the value of the LIFO reserve to increase.

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of long-lived assets by determining whether the carrying value can be recovered through projected undiscounted cash flows, based on expected future operating results. Future adverse market conditions or poor operating results could result in the inability to recover the current carrying value and thereby possibly requiring an impairment charge in the future.

Goodwill acquired in connection with business combinations represent the excess of consideration over the fair value of net assets acquired. The Company performs impairment tests on the carrying value of goodwill at least annually or whenever events or changes in circumstances indicate the carrying value of goodwill may be greater than fair value, such as significant underperformance relative to historical or projected operating results and significant negative industry or economic trends. The Company's fair value is primarily determined using discounted cash flows, which requires management to make judgments about future operating results, working capital requirements and capital spending levels. Changes in cash flow assumptions or other

factors which negatively impact the fair value of the operations would influence the evaluation and may result in a determination that goodwill is impaired and a corresponding impairment charge.

The application of income tax law is inherently complex. The Company is required to determine if an income tax position meets the criteria of more-likely-than-not to be realized based on the merits of the position under tax laws, in order to recognize an income tax benefit. This requires the Company to make many assumptions and judgments regarding merits of income tax positions and the application of income tax law. Additionally, if a tax position meets the recognition criteria of more-likely-than-not, the Company is required to make judgments and assumptions to measure the amount of the tax benefits to recognize based on the probability of the amount of tax benefits that would be realized if the tax position was challenged by the taxing authorities. Interpretations and guidance surrounding income tax laws and regulations change over time. As a consequence, changes in assumptions and judgments can materially affect amounts recognized in the consolidated financial statements.

Deferred tax assets and liabilities are recognized for the differences between the book basis and tax basis of the net assets of the Company. In providing for deferred taxes, management considers current tax regulations, estimates of future taxable income and available tax planning strategies. Changes in state, federal and foreign tax laws as well as changes in the financial position of the Company could also affect the carrying value of deferred tax assets and liabilities. If management estimates that it is more-likely-than-not that some or all of any deferred tax assets will expire before realization or that the future deductibility may not occur, a valuation allowance would be recorded.

The Company is subject to claims and legal actions in the ordinary course of business. The Company maintains insurance coverage for various aspects of its businesses and operations. The Company retains a portion of the insured losses that occur through the use of deductibles. Management regularly reviews estimates of reported and unreported insured and non-insured claims and legal actions and provides for losses through reserves. As circumstances develop and additional information becomes available, adjustments to loss reserves may be required.

The Company sells certain of its products to customers with a product warranty that provides repairs at no cost to the customer or the issuance of credit to the customer. The length of the warranty term depends on the product being sold, but ranges from one year to five years. The Company accrues its estimated exposure to warranty claims based upon historical warranty claim costs as a percentage of sales multiplied by prior sales still under warranty at the end of any period. Management reviews these estimates on a regular basis and adjusts the warranty provisions as actual experience differs from historical estimates or other information becomes available.

The Company offers defined benefit plans and other benefits upon the retirement of its employees. Assets and liabilities associated with these benefits are calculated by third-party actuaries under the rules provided by various accounting standards, with certain estimates provided by management. These estimates include the discount rate, expected rate of return of assets and the rate of increase of compensation and health claims. On a regular basis, management reviews these estimates by comparing them to actual experience and those used by other companies. If a change in an estimate is made, the carrying value of these assets and liabilities may have to be adjusted. Assuming all other variables held constant, differences in the discount rate and expected long-term rate of return on plan assets within reasonably likely ranges would have had the following estimated impact on 2011 results:

(Thousands of dollars)	Pension Benefits	Other Benefits
<u>Discount rate</u>		
Effect of change on net periodic benefit cost (income):		
.25 percentage point increase	\$ (665)	\$ (18)
.25 percentage point decrease	697	20
Effect of change on PBO/APBO:		
.25 percentage point increase	\$ (8,889)	\$ (473)
.25 percentage point decrease	9,382	496
<u>Long-term rate of return on plan assets</u>		
Effect of change on net periodic benefit cost (income):		
.25 percentage point increase	\$ (498)	\$ -
.25 percentage point decrease	498	-

Forward-Looking Statements and Assumptions

This annual report on Form 10-K contains forward-looking statements and information, within the meaning of the Private Securities Litigation Reform Act of 1995, that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this report, the words "will," "anticipate," "believe," "estimate," "expect," "plan," "schedule," "could," "may," "might," "should," "project" or similar expressions are intended to identify forward-looking statements. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking statements. Undue reliance should not be placed on forward-looking statements. Such statements reflect the Company's current views with respect to certain events and are subject to certain assumptions, risks and uncertainties, many of which are outside the control of the Company. These risks and uncertainties include, but are not limited to:

- oil prices;
- declines in domestic and worldwide oil and gas drilling;
- capital spending levels of oil producers;
- availability and prices for raw materials;
- the inherent dangers and complexities of the Company's operations; uninsured judgments or a rise in insurance premiums;
- the inability to effectively integrate acquisitions;
- labor disruptions and increasing labor costs;
- the availability of qualified and skilled labor;
- disruption of the Company's operating facilities or management information systems;
- the impact on foreign operations of war, political disruption, civil disturbance, economic and legal sanctions and changes in global trade policies;
- currency exchange rate fluctuations in the markets in which the Company operates;
- changes in the laws, regulations, policies or other activities of governments, agencies and similar organizations where such actions may affect the production, licensing, distribution or sale of the Company's products, the cost thereof or applicable tax rates;
- costs related to legal and administrative proceedings, including adverse judgments against the Company if the Company fails to prevail in reversing such judgments; and
- general industry, political and economic conditions in the markets where the Company's procures materials, components and supplies for the production of the Company's principal products or where the Company's products are produced, distributed or sold.

These and other risks are described in greater detail in "Risk Factors" included elsewhere in this annual report on Form 10-K. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. The Company undertakes no obligations to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's financial instruments include cash, accounts receivable, accounts payable, invested funds and debt obligations. The book value of accounts receivable, short-term debt and accounts payable are considered to be representative of their fair market value because of the short maturity of these instruments. While the Company's accounts receivable are concentrated with customers in the energy industry, the Company performs credit evaluations on current and potential customers and adjusts credit limits as appropriate. In certain circumstances, the Company will obtain collateral to mitigate higher credit risk.

The Company does not utilize financial or derivative instruments for trading purposes or to hedge exposures to interest rates, foreign currency rates or commodity prices. In addition, the Company primarily invoices and purchases in the same currency as the functional currency of its operations, which minimizes exposure to currency rate fluctuations.

The Company is exposed to interest rate fluctuations on its credit facility of \$350.0 million. As of December 31, 2011, if the interest rate increased by .25 points the net income impact would be \$0.9 million of expense.

The Company uses large amounts of steel, iron and electricity in the manufacture of its products. The prices of these raw materials have a significant impact on the cost of producing products. Steel and electricity prices have increased significantly in the last five years, caused primarily by higher energy prices and increased global demand. Since the Company does not enter into long-term contracts with most of its suppliers, the Company is vulnerable to fluctuations in prices of such raw materials. Factors such as supply and demand, freight costs and transportation availability, inventory levels of brokers and dealers, the level of imports and

general economic conditions may affect the price of cast iron and steel. Raw material prices may increase significantly in the future. Certain items such as steel round and bearings have continued to experience price increases, price volatility and longer lead times. If the Company is unable to pass future raw material price increases on to its customers, margins, results of operations, cash flow and financial condition could be adversely affected.

The Company is exposed to currency fluctuations with intercompany debt denominated in U.S. dollars owed by its French and Canadian subsidiaries. As of December 31, 2011, this inter-company debt was comprised of a \$0.1 million payable and a \$1.4 million receivable from France and Canada, respectively. As of December 31, 2011, if the U.S. dollar strengthened or weakened by 10% against these currencies, the net income and expense impact would be negligible. Also, certain assets and liabilities, primarily employee and tax related in Argentina, denominated in the local currency of foreign operations whose functional currency is the U.S. dollar are exposed to fluctuations in currency rates. As of December 31, 2011, if the U.S. dollar strengthened or weakened by 10% against these currencies, the net income and expense impact would be negligible.

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control over Financial Reporting

The management of Lufkin Industries, Inc. (the "Company"), is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended). The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control- Integrated Framework."

Based on this assessment, management believes that, as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

For purposes of evaluating internal controls over financial reporting, management determined that the internal controls of Quinn's Oilfield Supply, Ltd. ("Quinn"), of which Lufkin acquired on December 1, 2011, would be excluded from the internal control assessment as of December 31, 2011, due to the timing of the closing of the acquisition and as permitted by the rules and regulations of the Securities and Exchange Commission. Quinn is one of the largest reciprocating rod pump manufacturers in North America and also manufactures and distributes progressive cavity pumps and related equipment. For the year ended December 31, 2011, Quinn's financial statements constitute 31.1% of total assets, 1.4% of total revenues and 1.1% of net income of the Company.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2011, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

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Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Earnings
Consolidated Statements of Shareholders' Equity & Comprehensive Income
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lufkin Industries, Inc.
Lufkin, Texas

We have audited the accompanying consolidated balance sheets of Lufkin Industries, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting at Item 8, management excluded from its assessment the internal control over financial reporting of Quinn's Oilfield Supply Ltd, ("Quinn") which was acquired on December 1, 2011 and whose financial statements constitute 31.1% of total assets, 1.4% of total revenues and 1.1% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at Quinn. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting at Item 8. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lufkin Industries, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

DELOITTE & TOUCHE LLP

Houston, Texas

February 27, 2012

LUFKIN INDUSTRIES, INC. **CONSOLIDATED BALANCE SHEETS**

December 31, 2011 and 2010

(Thousands of dollars, except share and per share data)

	2011	2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 38,438	\$ 88,592
Receivables, net	216,607	127,298
Income tax receivable	6,732	3,547
Inventories	166,148	116,874
Deferred income tax assets	1,140	3,554
Other current assets	6,417	4,696
Current assets from discontinued operations	-	636
Total current assets	<u>435,482</u>	<u>345,197</u>
Property, plant and equipment, net	346,430	203,717
Goodwill, net	232,932	53,011
Other assets, net	81,861	19,153
Total assets	<u>\$ 1,096,705</u>	<u>\$ 621,078</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 65,065	\$ 26,972
Current portion of long-term debt	17,500	-
Accrued liabilities:		
Payroll and benefits	17,610	16,446
Warranty expenses	4,847	3,620
Taxes payable	10,536	6,763
Other	26,194	30,548
Current liabilities from discontinued operations	-	228
Total current liabilities	<u>141,752</u>	<u>84,577</u>
Long-term debt	332,500	-
Deferred income tax liabilities	3,886	11,953
Postretirement benefits	7,515	6,453
Other liabilities	103,519	32,098
Long-term liabilities from discontinued operations	-	37
Shareholders' equity:		
Common stock, \$1.00 par value per share; 60,000,000 shares authorized; 32,317,467 and 32,132,817 shares issued, respectively	32,318	32,133
Capital in excess par	87,598	74,811
Retained earnings	501,455	450,714
Treasury stock, 1,824,336 and 1,828,336 shares, respectively, at cost	(34,902)	(35,052)
Accumulated other comprehensive loss	(78,936)	(36,646)
Total shareholders' equity	<u>507,533</u>	<u>485,960</u>
Total liabilities and shareholders' equity	<u>\$ 1,096,705</u>	<u>\$ 621,078</u>

See notes to consolidated financial statements.

LUFKIN INDUSTRIES, INC. CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 2011, 2010 and 2009
(Thousands of dollars, except per share data)

	2011	2010	2009
Sales	\$ 932,135	\$ 645,643	\$ 521,359
Cost of sales	<u>705,078</u>	<u>487,125</u>	<u>408,815</u>
Gross profit	227,057	158,518	112,544
Selling, general and administrative expenses	110,733	89,859	75,120
Acquisition expenses	7,066		
Litigation reserve	<u>1,780</u>	<u>1,000</u>	<u>6,000</u>
Operating income	107,478	67,659	31,424
Interest income	116	54	899
Interest expense	(1,643)	(562)	(650)
Other (expense) income, net	<u>(482)</u>	<u>294</u>	<u>1,339</u>
Earnings from continuing operations before income tax provision	105,469	67,445	33,012
Income tax provision	<u>39,498</u>	<u>23,914</u>	<u>10,533</u>
Earnings from continuing operations	65,971	43,531	22,479
Earnings (loss) from discontinued operations, net of tax	<u>-</u>	<u>292</u>	<u>(453)</u>
Net earnings	<u><u>\$ 65,971</u></u>	<u><u>\$ 43,823</u></u>	<u><u>\$ 22,026</u></u>
Basic earnings per share			
Earnings from continuing operations	\$ 2.17	\$ 1.45	\$ 0.76
Earnings (loss) from discontinued operations	<u>-</u>	<u>0.01</u>	<u>(0.02)</u>
Net earnings	<u><u>\$ 2.17</u></u>	<u><u>\$ 1.46</u></u>	<u><u>\$ 0.74</u></u>
Diluted earnings per share			
Earnings from continuing operations	\$ 2.14	\$ 1.44	\$ 0.76
Earnings (loss) from discontinued operations	<u>-</u>	<u>0.01</u>	<u>(0.02)</u>
Net earnings	<u><u>\$ 2.14</u></u>	<u><u>\$ 1.45</u></u>	<u><u>\$ 0.74</u></u>

See notes to consolidated financial statements.

LUFKIN INDUSTRIES, INC. **CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY & COMPREHENSIVE INCOME**

Years Ended December 31, 2011, 2010 and 2009 (Thousands of dollars, except share data)	Common Stock Shares, net of Treasury	Common Stock	Capital In Excess of Par	Retained Earnings	Treasury Stock	Compre- hensive Income	Accumulated Other Compre- hensive Income (Loss)	Total
Balance, Dec. 31, 2008	29,721,590	\$ 31,584	\$ 48,140	\$ 414,748	\$ (35,835)		\$ (44,700)	\$ 413,937
Comprehensive income:								
Net earnings				22,026		22,026		22,026
Other comprehensive income, net of tax:								
Foreign currency translation adjustments						3,525	3,525	3,525
Defined benefit pension plans						3,993	3,993	3,993
Defined benefit post-retirement plans						(744)	(744)	(744)
Total comprehensive income						<u>\$ 28,800</u>		
Cash dividends				(14,866)				(14,866)
Treasury stock purchases	-				11			11
Tax settlement on stock-based compensation			3,880					3,880
Stock-based compensation			2,943					2,943
Exercise of stock options	49,250	34	654		285			973
Balance, Dec. 31, 2009	29,770,840	\$ 31,618	\$ 55,617	\$ 421,908	\$ (35,539)		\$ (37,926)	\$ 435,678
Comprehensive income:								
Net earnings				43,823		43,823		43,823
Other comprehensive income, net of tax:								
Foreign currency translation adjustments						(960)	(960)	(960)
Defined benefit pension plans						1,556	1,556	1,556
Defined benefit post-retirement plans						684	684	684
Total comprehensive income						<u>\$ 45,103</u>		
Cash dividends				(15,017)				(15,017)
Stock-based compensation			4,627					4,627
Exercise of stock options	533,641	515	14,567		487			15,569
Balance, Dec. 31, 2010	30,304,481	\$ 32,133	\$ 74,811	\$ 450,714	\$ (35,052)		\$ (36,646)	\$ 485,960
Comprehensive income:								
Net earnings				65,971		65,971		65,971
Other comprehensive income, net of tax:								
Foreign currency translation adjustments						(3,316)	(3,316)	(3,316)
Defined benefit pension plans						(38,441)	(38,441)	(38,441)
Defined benefit post-retirement plans						(533)	(533)	(533)
Total comprehensive income						<u>\$ 23,681</u>		
Cash dividends				(15,230)				(15,230)
Stock-based compensation			5,310					5,310
Exercise of stock options	188,649	185	7,477		150			7,812
Balance, Dec. 31, 2011	30,493,130	\$ 32,318	\$ 87,598	\$ 501,455	\$ (34,902)		\$ (78,936)	\$ 507,533

See notes to consolidated financial statements.

LUFKIN INDUSTRIES, INC. **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2011, 2010 and 2009
(Thousands of dollars)

	2011	2010	2009
Cash flows from operating activities:			
Net earnings	\$ 65,971	\$ 43,823	\$ 22,026
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation and amortization	24,266	21,158	18,457
Recovery of losses on receivables	(57)	(86)	(1,840)
LIFO expense (income)	3,327	(1,185)	(2,964)
Litigation expense	1,780		
Deferred income tax provision/(benefit)	9,566	1,436	(913)
Excess tax benefit from share-based compensation	(2,701)	(2,344)	(259)
Share-based compensation expense	5,310	4,627	2,943
Pension expense	9,813	7,861	10,665
Postretirement expense	156	422	539
Loss (gain) on disposition of property, plant and equipment	1,614	(451)	(354)
(Loss) income from discontinued operations	-	(292)	453
Changes in:			
Receivables, net	(59,574)	(34,965)	58,461
Income tax receivable	(2,466)	(2,359)	(3,248)
Inventories	(27,021)	(4,986)	28,650
Other current assets	(639)	(357)	(1,376)
Accounts payable	13,641	6,550	(22,878)
Accrued liabilities	3,671	20,646	(6,531)
Net cash provided by operating activities	46,657	59,498	101,831
Cash flows from investing activities:			
Additions to property, plant and equipment	(103,559)	(60,363)	(39,825)
Proceeds from disposition of property, plant and equipment	970	1,021	923
Decrease (increase) in other assets	552	(265)	(1,216)
Acquisition of other companies	(331,484)	(9,857)	(51,658)
Net cash used in investing activities	(433,521)	(69,464)	(91,776)
Cash flows from financing activities:			
Issuance of long-term debt	350,000		
Debt issuance cost	(5,247)		
Payments of notes payable	-	(2,888)	(3,426)
Dividends paid	(15,230)	(15,017)	(14,866)
Excess tax benefit from share-based compensation	2,701	2,344	259
Proceeds from exercise of stock options	5,162	13,277	612
Purchases of treasury stock	-	-	11
Net cash provided by financing activities	337,386	(2,284)	(17,410)
Effect of translation on cash and cash equivalents	(676)	(15)	457
Net (decrease) in cash and cash equivalents	(50,154)	(12,266)	(6,898)
Cash and cash equivalents at beginning of period	88,592	100,858	107,756
Cash and cash equivalents at end of period	\$ 38,438	\$ 88,592	\$ 100,858

See notes to consolidated financial statements.

LUFKIN INDUSTRIES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Corporate Organization and Summary of Significant Accounting Policies

Lufkin Industries, Inc. and its consolidated subsidiaries (collectively, the "Company") manufacture and sell oilfield pumping units and power transmission products throughout the world. The impact of subsequent events on these financial statements has been evaluated through the date of issuance.

Principles of consolidation: The consolidated financial statements include the accounts of Lufkin Industries, Inc. and its wholly-owned subsidiaries after elimination of all inter-company accounts and transactions.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Foreign currencies: Assets and liabilities of foreign operations where the applicable foreign currency is the functional currency are translated into U.S. dollars at the exchange rate in effect at the end of each accounting period, with any resulting translation adjustment reflected in accumulated other comprehensive income (loss) within shareholders' equity section. Income statement accounts are translated at the average exchange rates prevailing during the period. Gains and losses resulting from balance sheet remeasurement of foreign operations where the U.S. dollar is the functional currency are included in the consolidated statement of earnings as incurred.

Any gains or losses on transactions denominated in a foreign currency are included in the consolidated statements of earnings as incurred.

Cash equivalents: The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Revenue recognition: Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable and collectability is reasonably assured. The Company will process a Bill-and-Hold invoice and recognize revenue at the time of the storage request if all of the following criteria are met:

- The customer has accepted title and risk of loss;
- The customer has provided a written purchase order for the product;
- The customer, not the Company, requested the product to be stored and to be invoiced under a Bill-and-Hold arrangement. The customer must also provide the business purpose for the storage request;
- The customer must provide a storage period and future shipping date;
- The Company must not have retained any future performance obligations on the product;
- The Company must segregate the stored product and not make it available to use on other orders; and
- The product must be completed and ready for shipment.

The Company had 3.23%, 3.14%, and 4.35% of revenues in Bill-and-Hold transaction outstanding as of December 31, 2011, 2010, and 2009, respectively.

Amounts billed for shipping are classified as sales and costs incurred for shipping are classified as cost of sales in the consolidated statements of earnings.

Accounts & Notes Receivable and Allowance for Doubtful Accounts: Accounts and notes receivable are stated at cost net of write-offs and allowance for doubtful accounts. The Company establishes an allowance for doubtful accounts based on historical experience and any specific customer issues that the Company has identified. Uncollected receivables are generally reserved before being past due over one year or when the Company has determined that the balance will not be collected.

Inventories: The Company reports its inventories by using the last-in, first-out (LIFO) and the first-in, first-out (FIFO) methods less reserves necessary to report inventories at the lower of cost or estimated market. Inventory costs include material, labor and factory overhead. On a routine basis, the Company uses estimates in determining the level of reserves required to state inventory at the lower of cost or market. Management's estimates are primarily influenced by market activity levels, production requirements, the physical condition of products and technological innovation. Changes in any of these factors may result in adjustments to the carrying value of inventory.

Property, plant and equipment (P. P. & E.): The Company records investments in these assets at cost. Improvements are capitalized, while repair and maintenance costs are charged to operations as incurred. Gains or losses realized on the sale or retirement of these assets are reflected in income. The Company periodically reviews its P. P. & E. for possible impairment whenever events or changes in circumstance might indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Depreciation for financial reporting purposes is provided on a straight-line method based upon the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. The following is a summary of the Company's P. P. & E. useful lives:

	Useful Life (in years)
Land	-
Land improvements	10.0 - 25.0
Buildings	12.5 - 40.0
Machinery and equipment	3.0 - 15.0
Furniture and fixtures	5.0 - 12.5
Computer equipment and software	3.0 - 7.0

Goodwill and other intangible assets: Goodwill and intangible assets with indefinite lives are not amortized and are tested for impairment at least annually. During the fourth quarter of 2011, the Company completed its annual impairment evaluation by comparing the fair value of each reporting unit to its carrying amount. No impairment was necessary.

The Company amortizes intangible assets with finite lives over the years expected to be benefited.

Income taxes: The Company computes taxes on income in accordance with the tax rules and regulations of the many taxing jurisdictions where the income is earned. The income tax rates imposed by these taxing authorities vary substantially. Taxable income may differ from pretax income for financial accounting purposes. To the extent that differences are due to revenue or expense items reported in one period for tax purposes and in another period for financial accounting purposes, an appropriate provision for deferred income taxes is made. Any effect of changes in income tax rates or tax laws is included in the provision for income taxes in the period of enactment. When it is more likely than not that all or a portion of a deferred tax asset will not be realized in the future, the Company provides a corresponding valuation allowance against deferred tax assets.

Appropriate U.S. and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted in the near future. The cumulative amount of undistributed earnings of foreign subsidiaries that the Company intends to permanently reinvest and upon which no deferred U.S. income taxes have been provided is \$88.5 million at December 31, 2011, the majority of which has been generated in Argentina, Canada and France. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes (subject to adjustment for foreign tax credits) and foreign withholding taxes, which amounts could be significant. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings after consideration of available foreign tax credits.

The Company is required to determine if an income tax position meets the criteria of more-likely-than-not to be realized based on the merits of the position under tax laws, in order to recognize an income tax benefit. This requires the Company to make many assumptions and judgments regarding merits of income tax positions and the application of income tax law. Additionally, if a tax position meets the recognition criteria of more-likely-than-not the Company is required to make judgments and assumptions to measure the amount of the tax benefits to recognize based on the probability of the amount of tax benefits that would be realized if the tax position was challenged by the taxing authorities. Interpretations and guidance surrounding income tax laws and regulations change over time. As a consequence, changes in assumptions and judgments can materially affect amounts recognized in the consolidated financial statements.

Financial instruments: The Company's financial instruments include cash, accounts receivable, debt obligations, and accounts payable. The book value of accounts receivable, short-term debt and accounts payable are considered to be representative of their fair value because of the short maturity of these instruments. As of December 31, 2011 and 2010, the Company had no derivative financial instruments.

Stock-based compensation: Employee services received in exchange for stock are expensed. The fair value of the employee services received in exchange for stock is measured based on the grant-date fair value. The fair value is estimated using the Black-Scholes option-pricing model for the stock option. Awards granted are expensed pro-ratably over the service period of the award. As stock based compensation expense is recognized based on awards ultimately expected to vest, compensation expense is reduced for estimated forfeitures based on historical forfeiture rates. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods to reflect actual forfeitures.

Product warranties: The Company sells certain of its products to customers with a product warranty that provides repairs at no cost to the customer or the issuance of credit to the customer. The length of the warranty term depends on the product being sold, but ranges from one year to five years. The Company accrues its estimated liability for warranty claims based upon historical warranty claim costs as a percentage of sales multiplied by prior sales still under warranty at the end of any period. Management reviews these estimates on a regular basis and adjusts the warranty provisions as actual experience differs from historical estimates or other information becomes available.

Recently issued accounting pronouncements:

In September 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, *Revenue Recognition (Topic 605): Multiple – Deliverable Revenue Arrangements* – a consensus of the FASB Emerging Issues Task Force ("ASU 2009-13"), which changes the accounting for certain revenue arrangements. The new requirements change the allocation methods used in determining how to account for multiple payment streams and will result in the ability to separately account for more deliverables, and potentially less revenue deferrals. Additionally, ASU 2009-13 requires enhanced disclosures in financial statements. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010 on a prospective basis, with early application permitted. The Company adopted ASU 2009-13 on January 1, 2011. The adoption of ASU 2009-13 did not have a material impact on the balance sheet, statement of earnings, or statement of cash flow.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* – ("ASU 2011-05"), which changes the presentation of comprehensive income. The topic requires the Company to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements, which differs from its presentation within the statement of stockholders' equity. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early application permitted. Upon adoption, the requirements under ASU 2011-05 will be retrospectively applied.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* – which defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments.

In September 2011, the FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment* – ("ASU 2011-08"), which simplifies how entities test for goodwill impairment. The topic allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under ASU 2011-08, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15,

2011, with early application permitted. The requirements under ASU 2011-08, once adopted, will be applied prospectively.

Management believes the impact of other recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

(2) Acquisitions

On March 1, 2009, the Company acquired International Lift Systems ("ILS"), a Louisiana limited partnership. As a result of this acquisition, the Company entered into a hold back agreement with the former owners of ILS. The total hold back is \$4.5 million payable in three equal installments of \$1.5 million each plus interest. Interest is calculated annually at 4% of the remaining balance of the hold back portion. The first installment was paid on March 1, 2010; the second installment, plus interest to date, was paid on March 1, 2011; and the third installment, plus interest to date, is payable on March 1, 2012. These hold back payments are not contingent upon any subsequent events. The liability for this hold back payment is included in accrued liabilities in the Company's consolidated balance sheet. Total purchase price for ILS was \$50.0 million and the Company recorded goodwill of \$28.6 million in the Oilfield segment. There were no changes to the previously disclosed purchase price allocation.

On November 1, 2010, the Company completed the acquisition of Petro Hydraulic Lift Systems, LLC ("PHL") and certain related companies, based in South Louisiana. PHL specializes in the design, manufacture and leasing of hydraulic rod pumping units for oil and gas wells. In connection with the acquisition, the Company also entered into a royalty agreement with the former owners of PHL. The agreement is for a ten year period, beginning November 1, 2010, and is payable at a rate of 5% for the first five years and 8% for the subsequent five years. Royalties are payable quarterly and are based on product revenues. The fair value of these royalties, which are based on estimates, are included in the purchase price consideration. Any changes in this estimate will impact earnings in future periods. Total purchase price for PHL was \$15.9 million and the Company recorded goodwill of \$7.8 million in the Oilfield segment. There were no changes to the previously disclosed purchase price allocation.

On September 1, 2011, the Company completed the acquisition of Pentagon Optimization Services, Inc. ("Pentagon"), a Canadian corporation based in Red Deer, Alberta, Canada. Pentagon, a diversified well optimization company serving the oil and gas industry, provides a wide range of products and services, including plunger lift systems and well engineering and testing. The addition of the proprietary "Angel" pump, which can pump both liquid and gas simultaneously without gas locking, will upgrade the Company's product portfolio and provide a cost effective method to produce pressure-depleted gas wells.

In connection with the Pentagon acquisition, the Company entered into a royalty agreement with the former owners of Pentagon. The agreement is for a ten year period, beginning October 1, 2011, and is payable at a rate of 10%. Royalties are payable quarterly and are based on certain product revenues. The fair value of these royalties, which are based on estimates, are included in the purchase price consideration. Any changes in this estimate will impact earnings in future periods.

The Pentagon acquisition was recorded using the acquisition method of accounting, and accordingly, the acquired operations have been included in the results of operations since the date of acquisition. The preliminary purchase price consideration consists of the following (in thousands of dollars):

Cash paid at closing, net	\$ 18,982
Royalty consideration	<u>2,381</u>
Total consideration paid	<u>\$ 21,363</u>

The following table indicates (in thousands of dollars) the preliminary purchase price allocation to net assets acquired, which was based on estimated fair values as of the acquisition date. The excess of the purchase price over the net assets acquired, which totaled \$11.5 million, was recorded as goodwill in the Company's consolidated balance sheet in the Oilfield segment. Based on the structure of the transaction, the majority of the goodwill related to the transaction is not expected to be deductible for tax purposes.

Purchase price	<u>\$ 21,363</u>
Receivables	1,763
Inventories	1,183
Other current assets	-
Property, plant and equipment	680
Intangible assets	4,195
Accounts payable	(258)
Other accrued liabilities	2,316
Goodwill recorded	<u>\$ 11,484</u>

The Pentagon preliminary purchase price allocations, which are based on relevant facts and circumstances, are subject to change upon completion of the final valuation analysis by the Company's management. The final valuations for Pentagon, which are required to be completed by September 2012, are not expected to result in material changes to the preliminary allocations.

On December 1, 2011, the Company completed the acquisition of Quinn's Oilfield Supply Ltd., including certain affiliates ("Quinn's"), a Canadian corporation based in Red Deer, Alberta, Canada. Quinn's is one of the largest reciprocating rod pump manufacturers in North America and, also manufactures and distributes progressive cavity pumps ("PCPs") and related equipment.

The Quinn's acquisition was recorded using the acquisition method of accounting, and accordingly, the acquired operations have been included in the results of operations since the date of acquisition. The preliminary purchase price consideration consists of the following (in thousands of dollars):

Cash paid at closing, net	<u>\$ 311,003</u>
Total consideration paid	<u>\$ 311,003</u>

The following table indicates (in thousands of dollars) the preliminary purchase price allocation to net assets acquired, which was based on estimated fair values as of the acquisition date. The excess of the purchase price over the net assets acquired, which totaled \$168.4 million, was recorded as goodwill in the Company's consolidated balance sheet in the Oilfield segment. Based on the structure of the transaction, the majority of the goodwill related to the transaction is not expected to be deductible for tax purposes.

Purchase price	<u>\$ 311,003</u>
Receivables	28,989
Inventories	25,169
Other current assets	1,349
Property, plant and equipment	63,051
Intangible assets	57,400
Accounts payable	(24,345)
Other accrued liabilities	(9,036)
Goodwill recorded	<u>\$ 168,426</u>

Quinn's is recognized as a long time leader in the service and repair of reciprocating rod pumps with facilities across Western Canada and facilities situated throughout New Mexico, Texas, Mississippi, California and Alabama. The acquisition of Quinn's will drive sturdy growth for the Company.

The Quinn's preliminary purchase price allocations, which are based on relevant facts and circumstances are subject to change upon completion of the final valuation analysis by the Company's management. The final valuations for Quinn's, which are required to be completed by December 2012, are not expected to result in material changes to the preliminary allocations.

Supplemental Pro Forma Data

Revenues and earnings to date for the Pentagon acquisition are not material and pro forma information is not provided. Results of operations for all acquisitions have been included in the Company's financial statements for periods subsequent to the effective date of the acquisition. For the one month ended December 31, 2011 Quinn contributed \$13.1 million in revenue and \$0.7 million of net income. The following unaudited supplemental pro forma data ("pro forma data") presents consolidated information as if the Quinn's acquisition had been completed on January 1, 2010:

Years ended December 31, 2011 and 2010
(Thousands of dollars, except per share data)

	2011	2010
Sales	\$ 1,070,623	\$ 761,327
Net earnings	\$ 75,601	\$ 39,467
Diluted earnings per share from continuing operations	\$ 2.45	\$ 1.36

The pro forma data was prepared based on the historical financial information of Quinn's and Lufkin and has been adjusted to give effect to pro forma adjustments that are (i) directly attributable to the transactions, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The pro forma data is not necessarily indicative of what Quinn's results of operations actually would have been had the transactions been completed on January 1, 2010. Additionally, the pro forma data does not project the future results of operations of the combined company nor do they reflect the expected realization of synergies associated with the transactions. The pro forma data reflects the application of the following adjustments:

- Additional depreciation and amortization expense associated with fair value adjustments to acquired identifiable intangible assets and property, plant and equipment.
- Increase in interest expense resulting from the issuance of debt to finance the purchase price, as well as the amortization of related deferred financing costs.
- Elimination of transaction costs incurred in 2011 that are directly related to the transactions, and do not have a continuing impact on the combined company's operating results.

(3) Receivables

The following is a summary of the Company's receivable balances at December 31:

(Thousands of dollars)	2011	2010
Accounts receivable	\$ 214,608	\$ 126,671
Notes receivable	16	139
Other receivables	2,108	748
Gross receivables	216,732	127,558
Allowance for doubtful accounts receivable	(125)	(260)
Net receivables	\$ 216,607	\$ 127,298

Collections on previous bad debts related to receivables resulted in a recovery of \$0.1 million at December 31, 2011 and 2010 and \$1.8 million at December 31, 2009.

(4) Inventories

Inventories used in determining cost of sales were as follows:

(Thousands of dollars)	2011	2010
Gross inventories @ FIFO:		
Finished goods	\$ 11,914	\$ 7,757
Work in progress	27,749	26,680
Raw materials & component parts	144,731	99,440
Maintenance, tooling & supplies	17,001	14,156
Total gross inventories @ FIFO	201,395	148,033
Less reserves:		
LIFO	32,103	28,776
Valuation	3,144	2,383
Total inventories as reported	\$ 166,148	\$ 116,874

Gross inventories on a FIFO basis shown above that were accounted for on a LIFO basis were \$97.9 million and \$80.9 million at December 31, 2011 and 2010, respectively.

(5) Property, Plant & Equipment

The following is a summary of the Company's P. P. & E. balances at December 31:

(Thousands of dollars)	2011	2010
Land	\$ 28,021	\$ 19,775
Land improvements	17,376	10,449
Buildings	212,428	106,199
Machinery and equipment	310,352	289,579
Furniture and fixtures	9,144	6,839
Computer equipment and software	36,942	23,407
Total property, plant and equipment	614,263	456,248
Less accumulated depreciation	(267,833)	(252,531)
Total property, plant and equipment, net	\$ 346,430	\$ 203,717

Depreciation expense related to property, plant and equipment was \$21.6 million, \$19.4 million and \$17.1 million in 2011, 2010 and 2009, respectively.

(6) Goodwill & Acquired Intangible Assets

Goodwill

The changes in the carrying amount of goodwill during the years ended December 31, 2011 and 2010 are as follows (in thousands of dollars):

(Thousands of dollars)	Oil Field	Power Transmission	Total
Balance as of 01/01/10	\$ 38,018	\$ 6,983	\$ 45,001
Goodwill acquired during the period	7,839	331	8,170
Foreign currency translation	5	(165)	(160)
Balance as of 12/31/10	45,862	7,149	53,011
Goodwill acquired during the period	179,910	-	179,910
Foreign currency translation	(2)	13	11
Balance as of 12/31/11	\$ 225,770	\$ 7,162	\$ 232,932

Intangible Assets

The Company amortizes identifiable intangible assets on a straight-line basis over the periods expected to be benefitted. All of the below intangible assets relate to acquisitions since 2009. The components of these intangible assets are as follows (in thousands of dollars):

	December 31, 2011			Weighted Average Amortization Period (years)
	Gross Carrying Amount	Accumulated Amortization	Net	
Non-compete agreements and trademarks	\$ 6,258	\$ 1,091	\$ 5,167	5.1
Customer relationships and contracts	72,818	4,572	68,246	9.6
	<u>\$ 79,076</u>	<u>\$ 5,663</u>	<u>\$ 73,413</u>	<u>7.4</u>

	December 31, 2010			Weighted Average Amortization Period (years)
	Gross Carrying Amount	Accumulated Amortization	Net	
Non-compete agreements and trademarks	\$ 2,550	\$ 619	\$ 1,931	6.3
Customer relationships and contracts	15,183	2,375	12,808	10.0
	<u>\$ 17,733</u>	<u>\$ 2,994</u>	<u>\$ 14,739</u>	<u>7.0</u>

Amortization expense of intangible assets was approximately \$2.7 million, \$1.7 million and \$1.3 million during 2011, 2010 and 2009, respectively. Expected amortization expense by year is (in thousands of dollars):

For the year ended 12/31/12	\$ 10,239
For the year ended 12/31/13	10,047
For the year ended 12/31/14	9,439
For the year ended 12/31/15	9,402
For the year ended 12/31/16	9,311
Thereafter	\$ 24,975

(7) Other Current Accrued Liabilities

The following is a summary of the Company's other current accrued liabilities balances at December 31:

(Thousands of dollars)	2011	2010
Customer prepayments	\$ 10,659	\$ 11,999
Litigation reserves	2,743	6,493
Deferred compensation & benefit plans	6,884	6,548
Acquisition hold back & royalty consideration	2,219	2,132
Other accrued liabilities	3,689	3,376
Total other current accrued liabilities	<u>\$ 26,194</u>	<u>\$ 30,548</u>

(8) Debt Obligations

The following is a summary of the Company's outstanding debt balances (in thousands of dollars):

	December 31, 2011	December 31, 2010
Long-term notes payable	\$ 350,000	\$ -
Less current portion of long-term debt	<u>(17,500)</u>	<u>-</u>
Long-term debt	<u>\$ 332,500</u>	<u>\$ -</u>

Scheduled maturities of long-term debt in future years as of December 31, 2011 are as follows (in thousands of dollars):

2013	\$ 26,250
2014	52,500
2015	87,500
2016	<u>166,250</u>
Total	<u>\$ 332,500</u>

The Company has a five year secured credit facility with a group of lenders (the "Bank Facility") consisting of a revolving line of credit that provides up to \$175.0 million of aggregate borrowing and a \$350.0 million term loan. Under the Bank Facility the Company has granted a first priority lien, security interest and collateral assignment of substantially all of its current assets. The Bank Facility matures on November 30, 2016. Borrowings under the Bank Facility bear interest, at the Company's option, at either (A) the highest of (i) the Prime Rate, (ii) the Federal Funds Effective Rate plus 0.5%, and (iii) the Adjusted LIBO Rate for an Interest Period of one month plus 1.0%, in each case plus an Applicable Margin based on the Company's Leverage Ratio or (B) the interest rate equal to (i) the rate for US dollar deposits in the London interbank market for such Interest Period multiplied by (ii) the Statutory Reserve Rate, plus (iii) the Applicable Margin. Throughout the term of the Bank Facility, the Company pays an Unused Commitment Fee which ranges from 0.25 percent to 0.50 percent based on the Company's Leverage Ratio. As of December 31, 2011, all \$350.0 million of the term loan was outstanding and there was \$13.8 million in letters of credit outstanding against the revolving credit facility. As of December 31, 2011 the interest rate was 3.06% on the credit facility and the Company paid \$0.9 million of interest expense in the year ended December 31, 2011. The carrying value of debt is not materially different from its fair value. The Company was in compliance with all financial covenants under the Bank Facility as of December 31, 2011 and had borrowing capacity of \$161.2 million.

(9) Retirement Benefits

The Company has a qualified noncontributory pension plan covering substantially all U.S. employees. The benefits provided by this plan are measured by length of service, compensation and other factors, and are currently funded by trusts established under the plan. Funding of retirement costs for the plan complies with the minimum funding requirements specified by the Employee Retirement Income Security Act, as amended. As of December 31, 2011, the qualified noncontributory pension plan was closed to new participants. In addition, the Company has two unfunded non-qualified deferred compensation pension plans for certain U.S. employees. The Pension Restoration Plan provides supplemental retirement benefits. The benefit is based on the same benefit formula as the qualified pension plan except that it does not limit the amount of a participant's compensation or maximum benefit. The Supplemental Executive Retirement Plan credits an individual with 0.5 years of service for each year of service credited under the qualified plan. The benefits calculated under the non-qualified pension plans are offset by the participant's benefit payable under the qualified plan. The liabilities for the non-qualified deferred compensation pensions plans are included in "Other current accrued liabilities" and "Other liabilities" in the Consolidated Balance Sheet.

The Company is also required by the French government to provide a lump sum benefit payable upon retirement to its French employees. A dedicated insurance policy is in place that can reimburse the Company for these retirement payments.

The Company sponsors two defined benefit postretirement plans that cover both salaried and hourly employees. One plan provides medical benefits, and the other plan provides life insurance benefits. Both plans are contributory, with retiree contributions adjusted periodically. The Company accrues the estimated costs of the plans over the employee's service periods. The Company's postretirement health care plan is unfunded. For measurement purposes, the submitted claims medical trend was assumed to be 9.25% in 1997. Thereafter, the Company's obligation is fixed at the amount of the Company's contribution for 1997.

The Company also has qualified defined contribution retirement plans covering substantially all of its U.S. and Canadian employees. For U.S. salaried employees, the Company makes contributions of 75% of employee contributions up to a maximum employee contribution of 6% of employee earnings. For U.S. hourly employees, the Company made contributions of 75% of employee contributions from January 1, 2011 through September 30, 2011 and then 100% of employee contributions thereafter up to a maximum employee contribution of 6% of employee earnings. The plan was amended to include the change for U.S. hourly employees on October 1, 2011. Employees may contribute up to an additional 18% (in 1% increments), which is not subject to matching by the Company. For Canadian employees, the Company makes contributions of 3%-8% of an employee's salary with no individual employee matching required. All obligations of the Company are funded through December 31, 2011. In addition, the Company provides an unfunded non-qualified deferred compensation defined contribution plan for certain U.S. employees. The Company's and individual's contributions are based on the same formula as the qualified contribution plan except that it does not limit the amount of a participant's compensation or maximum benefit. The contribution calculated under the non-qualified defined contribution plan is offset by the Company's and participant's contributions under the qualified plan. The Company's expense for these plans totaled \$4.6 million, \$3.8 million and \$3.3 million in the years ended December 31, 2011, 2010 and 2009, respectively. The liability for the non-qualified deferred defined contribution plan is included in "Other current accrued liabilities" in the Consolidated Balance Sheet.

**Obligations and Funded Status
At December 31**

(Thousands of dollars)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Changes in benefit obligation				
Benefit obligation at beginning of year	\$ 227,259	\$ 208,747	\$ 6,961	\$ 8,486
Service cost	6,881	5,655	129	92
Interest cost	11,842	11,584	347	350
Plan participants' contributions	-	-	646	770
Actuarial loss (gain)	48,250	11,116	673	(1,325)
Benefits paid	(10,333)	(9,767)	(862)	(1,412)
Other	(33)	(76)	-	-
Benefit obligation at end of year	283,866	227,259	7,894	6,961
Change in plan assets				
Fair value of plan assets at beginning of year	205,054	192,630	-	-
Actual return on plan assets	(4,595)	21,896	-	-
Employer contributions	441	339	216	642
Plan participants' contributions	-	-	646	770
Benefits paid	(10,333)	(9,767)	(862)	(1,412)
Other	(20)	(44)	-	-
Fair value of plan assets at end of year	190,547	205,054	-	-
Unfunded status at end of year	\$ (93,319)	\$ (22,205)	\$ (7,894)	\$ (6,961)

Amounts recognized in the balance sheet consist of:

(Thousands of dollars)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Other current accrued liabilities	\$ (383)	\$ (354)	\$ (379)	\$ (508)
Postretirement benefits	-	-	(7,515)	(6,453)
Other long-term liabilities	(92,936)	(21,851)	-	-
	\$ (93,319)	\$ (22,205)	\$ (7,894)	\$ (6,961)

Amounts recognized in accumulated other comprehensive income consist of:

(Thousands of dollars)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Prior service cost	\$ 3,247	\$ 3,872	\$ 245	\$ 284
Net loss (gain)	78,238	39,500	(1,320)	(1,933)
	\$ 81,485	\$ 43,372	\$ (1,075)	\$ (1,649)

The accumulated benefit obligation for all defined benefit pension plans was \$268.3 million and \$211.7 million at December 31, 2011, and 2010, respectively.

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

(Thousands of dollars)	Pension Benefits			Other Benefits		
	2011	2010	2009	2011	2010	2009
Net Periodic Benefit Cost						
Service cost	\$ 6,881	\$ 5,654	\$ 4,769	\$ 129	\$ 92	\$ 145
Interest cost	11,842	11,585	11,970	346	350	503
Expected return on plan assets	(13,564)	(12,752)	(12,285)	-	-	-
Amortization of prior service cost	946	785	795	51	51	54
Amortization of net (gain) loss	3,917	3,712	4,566	(223)	(291)	(217)
Curtailment	-	-	1,542	-	-	(145)
Net periodic benefit cost (income)	<u>\$ 10,022</u>	<u>\$ 8,984</u>	<u>\$ 11,357</u>	<u>\$ 303</u>	<u>\$ 202</u>	<u>\$ 340</u>

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$8.8 million and \$0.9 million, respectively. The estimated net gain and prior service cost for the defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$0.2 million and \$0.1 million, respectively.

Additional Information

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31

	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Discount rate	4.09% - 4.19%	5.19% - 5.26%	4.05%	4.97%
Rate of compensation increase	4.90%	5.12% - 5.21%	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31

	Pension Benefits			Other Benefits		
	2011	2010	2009	2011	2010	2009
Discount rate	5.19% - 5.26%	5.26% - 5.80%	6.00% - 6.40%	4.97%	5.58%	6.25%
Expected long-term return on plan assets	6.80%	6.80%	7.30%	N/A	N/A	N/A
Rate of compensation increase	4.90%	5.12%	4.50%	N/A	N/A	N/A

For 2011, the Company assumed a long-term asset rate of return of 6.8%. In developing the 6.8% expected long-term rate of return assumption, the Company evaluated input from its third-party pension plan asset manager, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year and 15-year compounded return (period ended December 31, 2010), which were in-line to higher than the Company's long-term rate of return assumption, and analyzed expected long-term rate of return projections by asset class.

Plan Assets

The Company's qualified pension plan assets at December 31, 2011 are as follows:

Fair Value Measurements at December 31, 2011 (in thousands)

<u>Asset Category</u>	<u>Total</u>	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 3,661	\$ 3,661		
Equity securities:				
Common stock	49,234	49,234		
International stock - commingled funds (a)	28,391		\$ 28,391	
International stock - mutual fund	8,465	8,465		
Fixed income securities:				
U.S. Treasuries	14,055	14,055		
Mortgage-backed securities	6,953		6,953	
Collateralized mortgage obligations	2,156			\$ 2,156
Corporate bonds (b)	20,698		20,698	
Other types of investments:				
Equity long/short hedge funds (c)	35,288			35,288
Insurance policy (d)	645			645
Real Estate (e)	21,001			21,001
Total	<u>\$ 190,547</u>	<u>\$ 75,415</u>	<u>\$ 56,042</u>	<u>\$ 59,090</u>

- (a) This category represents International Equity Commingled Funds which invests in international stocks. The benchmark is the MSCI EAFE Index.
- (b) This category represents investment grade bonds of U.S. issuers from diverse industries.
- (c) This category includes hedge funds that invest both long and short in primarily U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position; however it is expected that the equity long/short hedge funds will have a net long position.
- (d) This category includes a private insurance policy used for French retirement benefits.
- (e) This category includes a RREEF America II Fund and Black Rock Granite Properties which consists of commingled private real estate.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Equity Long/Short Hedge Funds	Real Estate	Insurance Contracts	Collateralized Mortgage Obligations	Total
Beginning balance at December 31, 2010	\$ 36,305	\$ 13,663	\$ 643		\$ 50,611
Actual return on plan assets:					
Relating to assets still held at the reporting date	(1,017)	1,338			321
Relating to assets sold during the period					-
Purchases, sales, and settlements		6,000			6,000
Other			2	\$ 2,156	2,158
Transfers in and/or out of Level 3					-
Ending balance at December 31, 2011	\$ 35,288	\$ 21,001	\$ 645	\$ 2,156	\$ 59,090

The Company invests in a diversified portfolio consisting of an array of assets classes that attempts to maximize returns while minimizing volatility. These asset classes include U.S. domestic equities, developed market equities, international equities, fixed income, real estate and hedged investments. Fixed income securities include medium-term government notes, corporate bonds and highly-rated mortgage-backed securities and collateralized mortgage obligations. Real estate primarily includes REIT investments focused on U.S. commercial warehouses. Hedged investments are primarily concentrated in funds focused on long/short investment strategies.

Equity Long/Short Hedge Funds

Hedge fund-of-funds are based on daily closing or institutional evaluation prices of underlying securities consistent with industry practices.

Real Estate

Real estate securities are valued based on recent market appraisals of underlying property as well as valuation methodologies to determine the most probable cash price in a competitive market.

Insurance Contracts

Insurance contracts are valued based upon underlying securities consistent with industry practices.

No equity or debt securities of the Company were held by the plan at December 31, 2011 or 2010.

The unqualified pension plans and the postretirement benefit plan of the Company are unfunded and thus had no plan assets as of December 31, 2011 and 2010.

The following table illustrates the related tax effect allocated to each component of other comprehensive income:

Statement of Comprehensive Income

(Thousands of dollars)	Pre-Tax Amount	Tax (Expense)/ Benefit	Net Amount
Year ended December 31, 2009			
Foreign currency translation adjustments	\$ 3,525	\$ -	\$ 3,525
Defined benefit pension plans:			
Amortization of net prior service cost	795	(293)	502
Amortization of net loss	4,566	(1,682)	2,884
Net loss arising during period	(1,717)	632	(1,085)
Other	2,678	(986)	1,692
Total defined benefit pension plans	6,322	(2,329)	3,993
Defined benefit postretirement plans:			
Amortization of net prior service cost	54	(20)	34
Amortization of net gain	(217)	80	(137)
Net loss arising during period	(471)	174	(297)
Net prior service cost	(640)	235	(405)
Other	96	(35)	61
Total defined benefit postretirement plans	(1,178)	434	(744)
Other comprehensive income	<u>\$ 8,669</u>	<u>\$ (1,895)</u>	<u>\$ 6,774</u>
Year ended December 31, 2010			
Foreign currency translation adjustments	\$ (960)	\$ -	\$ (960)
Defined benefit pension plans:			
Amortization of net prior service cost	785	(290)	495
Amortization of net loss	3,712	(1,371)	2,341
Net loss arising during period	(2,030)	750	(1,280)
Total defined benefit pension plans	2,467	(911)	1,556
Defined benefit postretirement plans:			
Amortization of net prior service cost	51	(19)	32
Amortization of net gain	(291)	108	(183)
Net loss arising during period	1,325	(490)	835
Total defined benefit postretirement plans	1,085	(401)	684
Other comprehensive income	<u>\$ 2,592</u>	<u>\$ (1,312)</u>	<u>\$ 1,280</u>
Year ended December 31, 2011			
Foreign currency translation adjustments	\$ (3,316)	\$ -	\$ (3,316)
Defined benefit pension plans:			
Amortization of net prior service cost	946	(350)	596
Amortization of net loss	3,917	(1,449)	2,468
Net loss arising during period	(65,879)	24,374	(41,505)
Total defined benefit pension plans	(61,016)	22,575	(38,441)
Defined benefit postretirement plans:			
Amortization of net prior service cost	51	(19)	32
Amortization of net gain	(223)	83	(140)
Net loss arising during period	(673)	248	(425)
Total defined benefit postretirement plans	(845)	312	(533)
Other comprehensive income	<u>\$ (65,177)</u>	<u>\$ 22,887</u>	<u>\$ (42,290)</u>

The following table illustrates the balances of accumulated other comprehensive income:

(Thousands of dollars)	Foreign Currency Translation	Defined Benefit Pension Plans	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Loss
Balance, Dec. 31, 2009	\$ 6,037	\$ (44,928)	\$ 965	\$ (37,926)
Current-period change	(960)	1,556	684	1,280
Balance, Dec. 31, 2010	5,077	(43,372)	1,649	(36,646)
Current-period change	(3,316)	(38,441)	(533)	(42,290)
Balance, Dec. 31, 2011	<u>\$ 1,761</u>	<u>\$ (81,813)</u>	<u>\$ 1,116</u>	<u>\$ (78,936)</u>

(10) Earnings per Share

A reconciliation of the number of weighted shares used to compute basic and diluted net earnings per share for 2011, 2010 and 2009, are illustrated below:

	2011	2010	2009
Weighted average common shares outstanding for basic EPS	30,445,772	29,978,034	29,729,874
Effect of dilutive securities: employee stock options	396,741	328,328	76,068
Adjusted weighted average common shares outstanding for diluted EPS	<u>30,842,513</u>	<u>30,306,362</u>	<u>29,805,942</u>

Options to purchase a total of 154,449, 125,543 and 1,042,328 shares of the Company's common stock were excluded from the calculation of fully diluted earnings per share for 2011, 2010 and 2009, respectively, because their effect on fully diluted earnings per share for the period were antidilutive.

(11) Stock Option Plans

The Company currently has two stock compensation plans. The 1996 Nonemployee Director Stock Option Plan and the 2000 Incentive Stock Compensation Plan provide for the granting of stock options to officers, employees and non-employee directors at an exercise price equal to the fair market value of the stock at the date of grant. Unrestricted options granted to employees vest over two to four years and are exercisable up to ten years from the grant date. Upon retirement, any unvested options become exercisable immediately. Options granted to directors vest at the grant date and are exercisable up to ten years from the grant date. The 2000 Incentive Stock Compensation Plan also provides for other forms of stock-based compensation such as restricted stock. The Company granted 57,300 shares of restricted stock to employees which vest over a three year period and had a fair value of \$57.40 on date of issuance. As of December 31, 2011, there was \$2.9 million of total unrecognized compensation expense related to restricted stock. The cost is expected to be recognized over a weighted-average period of 2.7 years.

The following table is a summary of the stock-based compensation expense recognized for the years ended December 31, 2011, 2010 and 2009:

(Thousands of dollars)	2011	2010	2009
Stock-based compensation expense	\$ 5,310	\$ 4,627	\$ 2,943
Tax benefit	(1,964)	(1,712)	(1,089)
Stock-based compensation expense, net of tax	<u>\$ 3,346</u>	<u>\$ 2,915</u>	<u>\$ 1,854</u>

The fair value of each option grant during the years ended December 31, 2011, 2010 and 2009 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2011	2010	2009
Expected dividend yield	0.60% - 0.80%	0.94% - 1.60%	0.87% - 1.40%
Expected stock price volatility	48.10% - 57.90%	51.20% - 57.80%	23.40% - 28.15%
Risk free interest rate	0.28% - 2.39%	0.53% - 2.96%	0.55% - 1.37%
Expected life of options	3 - 4 years	2 - 6 years	3 - 7 years
Weighted-average fair value per share at grant date	\$26.29	\$17.05	\$10.13

The expected life of options was determined based on the exercise history of employees and directors since the inception of the plans. The expected volatility is based upon the historical weekly and daily stock price for the prior number of year's equivalent to the expected life of the stock option. The expected dividend yield was based on the dividend yield of the Company's common stock at the date of the grant. The risk free interest rate was based upon the yield of U.S. Treasuries which terms were equivalent to the expected life of the stock option.

A summary of stock option activity under the plans during the year ended December 31, 2011, is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000's)
Outstanding at January 1, 2011	1,321,637	\$33.26		
Granted	434,948	62.69		
Exercised	(188,649)	27.37		
Forfeited or expired	(63,625)	39.36		
Outstanding at December 31, 2011	<u>1,504,311</u>	<u>\$42.26</u>	<u>7.9</u>	<u>\$38,733</u>
Exercisable at December 31, 2011	<u>666,613</u>	<u>\$34.53</u>	<u>6.8</u>	<u>\$22,419</u>

As of December 31, 2011, there was \$12.7 million of total unrecognized compensation expense related to non-vested stock options. That cost is expected to be recognized over a weighted-average period of 2.3 years. The intrinsic value of stock options exercised in 2011, 2010 and 2009 was \$9.2 million, \$11.4 million and \$1.0 million, respectively.

(12) Capital Stock

The Company is authorized to issue 2,000,000 shares of preferred stock, the terms and conditions to be determined by the Board of Directors in creating any particular series. As of December 31, 2011 and 2010, no shares of preferred stock had been issued.

(13) Income Taxes

Earnings from continuing operations before income taxes for 2011, 2010 and 2009 consisted of the following:

(Thousands of dollars)	2011	2010	2009
United States	\$ 76,025	\$ 50,278	\$ 17,880
Foreign	29,444	17,167	15,132
Total earnings before income taxes	<u>\$ 105,469</u>	<u>\$ 67,445</u>	<u>\$ 33,012</u>

The income tax provision for 2011, 2010 and 2009 consisted of the following:

(Thousands of dollars)	2011	2010	2009
Current:			
U.S. federal and state income taxes	\$ 21,466	\$ 15,815	\$ 7,286
Foreign	8,465	6,663	4,793
Total current	<u>29,931</u>	<u>22,478</u>	<u>12,079</u>
Deferred:			
U.S. federal and state income taxes	9,820	2,819	(1,186)
Foreign	(253)	(1,383)	(360)
Total deferred	<u>9,567</u>	<u>1,436</u>	<u>(1,546)</u>
Total	<u>\$ 39,498</u>	<u>\$ 23,914</u>	<u>\$ 10,533</u>

Cash payments for income taxes totaled \$30.5 million, \$18.8 million and \$22.0 million for 2011, 2010 and 2009, respectively.

A reconciliation of the income tax provision as computed at the statutory U.S. income tax rate and the income tax provision presented in the consolidated financial statements is as follows:

(Thousands of dollars)	2011	2010	2009
Tax provision computed at statutory rate	\$ 36,914	\$ 23,606	\$ 11,554
Tax effect of:			
Expenses for which no benefit was realized	1,569	279	335
Change in effective state tax rate	(6)	13	(44)
Tax credit	(817)	(1,065)	(962)
State taxes net of federal benefit	1,779	1,813	504
Benefit of manufacturing deduction	(1,492)	(1,127)	(481)
Acquisition costs	1,919		
Other, net	(368)	395	(373)
Total provision for taxes	<u>\$ 39,498</u>	<u>\$ 23,914</u>	<u>\$ 10,533</u>

Appropriate U.S. and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted in the near future. The cumulative amount of undistributed earnings of foreign subsidiaries that the Company intends to permanently reinvest and upon which no deferred U.S. income taxes have been provided was \$88.5 million at December 31, 2011, the majority of which has been generated in Argentina, Canada, and France. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes (subject to adjustment for foreign tax credits) and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings after consideration of available foreign tax credits.

The primary components of the deferred tax assets and liabilities and the related valuation allowances are as follows:

(Thousands of dollars)	2011	2010
Deferred income tax assets:		
Pension costs	\$ 36,430	\$ 10,138
Payroll and benefits	1,365	1,313
Accrued warranty expenses	1,425	1,078
Postretirement benefits	8,143	6,356
Accrued liabilities	591	2,526
Other, net	1,680	758
Total deferred income tax assets	49,634	22,169
Less valuation allowance	(1,117)	(389)
Total deferred income tax assets	48,517	21,780
Noncurrent deferred income tax liabilities:		
Prepaid expenses	(993)	(644)
Depreciation	(34,143)	(21,004)
Inventories	(1,758)	(1,486)
Intangible assets	(8,784)	(2,099)
Other, net	(5,585)	(4,877)
Total noncurrent deferred income tax liabilities, net	(51,263)	(30,110)
Total net deferred tax liability	\$ (2,746)	\$ (8,330)
Current deferred tax asset		
Continuing operations	\$ 1,140	\$ 3,554
Discontinued operations	-	69
Total current deferred tax asset	1,140	3,623
Non-current deferred tax liability		
Continuing operations	(3,886)	(11,953)
Total non-current deferred tax liability	(3,886)	(11,953)
Total net deferred tax liability	\$ (2,746)	\$ (8,330)

At December 31, 2011, 2010 and 2009 there are \$2.1 million, \$1.8 million and \$1.5 million, respectively, of unrecognized tax benefits that if recognized would affect the annual effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Thousands of dollars)	2011	2010	2009
Balance at January 1,	\$ 1,838	\$ 1,509	\$ 1,368
Gross increases- current year tax positions	791	372	593
Gross increases- tax positions from prior periods	115	233	93
Gross decreases- tax positions from prior periods	(657)	(262)	(372)
Settlements	(27)	(14)	(173)
Balance at December 31,	<u>\$ 2,060</u>	<u>\$ 1,838</u>	<u>\$ 1,509</u>

The Company conducts business globally and, as a result, Lufkin Industries, Inc. and its subsidiaries file income tax returns in the U.S. federal and state jurisdictions, and various foreign jurisdictions. For U.S. federal purposes, tax years prior to 2008 are closed to assessment. Statutes for years prior to 2008 remain subject to review in certain U.S. state jurisdictions; however, the outcome of any future audit is not expected to have a material effect on the Company's results of operations. The Company also remains subject to income tax examinations in the following material international jurisdictions: Canada (2008-2010), France (2009-2010), and Argentina (2005- 2010).

The Company has unrecognized tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months. The unrecognized tax benefits relate to tax credits and other various deductions. The Company estimates the change to be approximately \$425,000.

The Company's continuing policy is to recognize interest and penalties related to income tax matters in administrative costs. The Company had \$160,500 accrued for interest and penalties at December 31, 2010. Interest and penalties of \$45,000 were accrued during the twelve months ended December 31, 2011.

(14) Commitments and Contingencies

Legal proceedings: On March 7, 1997, a class action complaint was filed against Lufkin Industries, Inc. ("Lufkin") in the U.S. District Court for the Eastern District of Texas by an employee and a former employee of Lufkin who alleged race discrimination in employment. Certification hearings were conducted in Beaumont, Texas in February 1998 and in Lufkin, Texas in August 1998. In April 1999, the District Court issued a decision that certified a class for this case, which included all black employees employed by Lufkin from March 6, 1994, to the present. The case was administratively closed from 2001 to 2003 while the parties unsuccessfully attempted mediation. Trial for this case began in December 2003, and after the close of plaintiff's evidence, the court adjourned and did not complete the trial until October 2004. Although plaintiff's class certification encompassed a wide variety of employment practices, plaintiffs presented only disparate impact claims relating to discrimination in initial assignments and promotions at trial.

On January 13, 2005, the District Court entered its decision finding that Lufkin discriminated against African-American employees in initial assignments and promotions. The District Court also concluded that the discrimination resulted in a shortfall in income for those employees and ordered that Lufkin pay those employees back pay to remedy such shortfall, together with pre-judgment interest in the amount of 5%. On August 29, 2005, the District Court determined that the back pay award for the class of affected employees was \$3.4 million (including interest to January 1, 2005) and provided a formula for attorney fees that Lufkin estimates will result in a total not to exceed \$2.5 million. In addition to back pay with interest, the District Court (i) enjoined and ordered Lufkin to cease and desist all racially biased assignment and promotion practices and (ii) ordered Lufkin to pay court costs and expenses.

Lufkin reviewed this decision with its outside counsel and on September 19, 2005, appealed the decision to the U.S. Court of Appeals for the Fifth Circuit. On April 3, 2007, the Company appeared before the appellate court in New Orleans for oral argument in this case. The appellate court subsequently issued a decision on February 29, 2008 that reversed and vacated the plaintiff's claim regarding the initial assignment of black employees into the Foundry Division. The court also denied plaintiff's appeal for class certification of a class disparate treatment claim. Plaintiff's claim on the issue of Lufkin's promotional practices was affirmed but the back pay award was vacated and remanded for re-computation in accordance with the opinion. The District Court's injunction was vacated and remanded with instructions to enter appropriate and specific injunctive relief. Finally, the issue of plaintiff's attorney's fees was remanded to the District Court for further consideration in accordance with prevailing authority.

On December 5, 2008, U.S. District Court Judge Clark held a hearing in Beaumont, Texas during which he reviewed the Fifth Circuit class action decision and informed the parties that he intended to implement the decision in order to conclude this litigation. At the conclusion of the hearing Judge Clark ordered the parties to submit positions regarding the issues of attorney fees, a damage award and injunctive relief. Subsequently, Lufkin reviewed the plaintiff's submissions which described the formula and underlying assumptions that supported their positions on attorney fees and damages. After careful review of the plaintiff's submission to the court Lufkin continued to have significant differences regarding legal issues that materially impacted the plaintiff's requests. As a result of these different results, the court requested further evidence from the parties regarding their positions in order to render a final decision. The judge reviewed both parties arguments regarding legal fees, and awarded the plaintiffs an interim fee, but at a reduced level from the plaintiffs original request. Lufkin and the plaintiffs reconciled the majority of the differences and the damage calculations which also lowered the originally requested amounts of the plaintiffs on those matters. Due to the resolution of certain legal proceedings on damages during the first half of 2009 and the District Court awarding the plaintiffs an interim award of attorney fees and cost totaling \$5.8 million, Lufkin recorded an additional provision of \$5.0 million in the first half of 2009 above the \$6.0 million recorded in the fourth quarter of 2008. The plaintiffs filed an appeal of the District Court's interim award of attorney fees with the Fifth Circuit. The Fifth Circuit subsequently dismissed these appeals on August 28, 2009 on the basis that an appealable final judgment in this case had not been issued. The court commented that this issue can be reviewed with an appeal of final judgment.

On January 15, 2010, the U.S. District Court for the Eastern District of Texas notified Lufkin that it had entered a final judgment related to the Lufkin's ongoing class-action lawsuit. On January 15, 2010, the plaintiffs filed a notice of appeal with the Fifth Circuit of the District Court's final judgment. On January 21, 2010, Lufkin filed a notice of cross-appeal with the same court.

On January 15, 2010, in its final judgment, the Court ordered Lufkin to pay the plaintiffs \$3.3 million in damages, \$2.2 million in pre-judgment interest and 0.41% interest for any post-judgment interest. Lufkin had previously estimated the total liability for damages and interest to be approximately \$5.2 million. The Court also ordered the plaintiffs to submit a request for legal fees and expenses from January 1, 2009 through the date of the final judgment. The plaintiffs were required to submit this request within 14 days of the final judgment. On January 21, 2010, Lufkin filed a motion with the District Court to stay the payment of damages referenced in the District Court's final judgment pending the outcome of the Fifth Circuit's decision on both parties' appeals. The District Court granted this motion to stay.

On January 29, 2010, the plaintiffs filed a motion with the U.S. District Court for the Eastern District of Texas for a supplemental award of \$0.7 million for attorney's fees, costs and expenses incurred between January 1, 2009 and January 15, 2010, as allowed in the final judgment. In the fourth quarter of 2009, Lufkin recorded a provision of \$1.0 million for these legal expenses and accrual adjustments for the final judgment award of damages. On September 28, 2010, the District Court granted plaintiffs' motion for supplemental attorney's fees, costs and expenses in the amount of \$0.7 million for the period of January 1, 2009 through January 15, 2010. In order to cover these cost, Lufkin recorded an additional provision of \$1.0 million in September 2010 for anticipated costs through the end of 2010.

On February 2, 2011 the Fifth Circuit accepted the oral arguments from the plaintiffs and Lufkin on their respective appeals to the court.

On July 7, 2011, in light of the United States Supreme Court's decision in *Wal-Mart Stores, Inc. v. Dukes*, Lufkin moved to file supplemental briefs in the pending Fifth Circuit appeal to address two legal principles essential to plaintiffs' theory of liability, which Lufkin believed were foreclosed by the Supreme Court's Wal-Mart decision. Plaintiffs filed an opposition to the motion. On July 14, 2011, the Fifth Circuit denied Lufkin's motion.

On August 8, 2011, the Fifth Circuit issued a final opinion on all appeals before the Court. Lufkin filed a petition for certiorari to the United States Supreme Court on September 16, 2011.

On November 14, 2011, the United States Supreme Court denied Lufkin's petition for certiorari. The District Court subsequently entered an order on November 18, 2011, ordering Lufkin to distribute funds to class members in accordance with that Court's January 15, 2010 final judgment.

On December 13, 2011, Lufkin entered into a settlement agreement with plaintiffs' counsel, pursuant to which Lufkin agreed to pay aggregate attorney fees of approximately \$2.7 million. This amount covers all fees of plaintiffs' counsel in respect of work performed prior to entry of the District Court's final judgment on January 15, 2010, work performed since January 15, 2010, and all future work performed in connection with the action. As previously disclosed, Lufkin has recorded provisions in the amount of approximately \$900,000 for work performed by plaintiffs' counsel since January 15, 2010. As a result, the settlement resulted in a net pre-tax impact to Lufkin of approximately \$1.8 million in the fourth quarter of 2011.

Intellectual Property Matter

In 2009, Lufkin Industries, Inc. ("Lufkin") brought suit in a Texas state court against the former owners of a business acquired by Lufkin in order to protect certain of Lufkin's intellectual property rights. The former owners responded by counter suit against Lufkin as well as its outside counsel, Andrews Kurth LLP ("AK"), claiming that Lufkin had acquired title to their inventions improperly. The case was removed from the Texas state court to a U.S. District Court in Midland, Texas in order to address intellectual property and patent issues as well as other claims made by the parties. After reviewing the facts and positions of the parties, in February 2011, the U.S. District Court granted summary judgment for Lufkin disposing of all federal claims and remanded the remainder of the case back to the Texas state court.

As a defendant, AK independently elected to appeal to the U.S. Court of Appeals for the Federal Circuit (and provisionally to the Fifth Circuit) the decision of the U.S. District Court to remand the case, as well as other issues. Thereafter, both plaintiffs, as well as defendant Lufkin (through its own counsel), filed separate appeals to the U.S. Court of Appeals for the Federal Circuit (and provisionally to the Fifth Circuit) to challenge other decisions of the U.S. District Court. The plaintiffs filed motions to dismiss these appeals based on lack of jurisdiction. In addition, the plaintiffs asked the Texas state court to proceed with a trial on the remanded case. The Texas state court set the case for trial over defendants' objections. The defendants then returned to the U.S. District Court and obtained an injunction against the plaintiffs and their counsel from pursuing the Texas state court case until resolution of the federal appeals. Plaintiffs filed a motion with the U.S. District Court to reconsider that injunction. In July 2011, the U.S. District Court denied the plaintiffs' motion for reconsideration. Plaintiffs appealed the injunction to the U.S. Court of Appeals for the Federal Circuit (and provisionally to the Fifth Circuit). On February 1, 2012, the Federal Circuit issued an order dismissing both sets of appeals for lack of jurisdiction and transferring the appeals to the Fifth Circuit. On February 15, 2012, plaintiff Gibbs filed in the Fifth Circuit "Gibbs F.R.A.P. 8 Motion Seeking Suspension

of Injunction Prohibiting Litigation in State Court of Remanded Case.” The parties are currently briefing that issue. Due to the number of issues on the initial appeal, it is unclear what issues would be left for trial after appeal and, further, whether that trial would proceed in federal or state court. Until the issues for trial, if any, are resolved, Lufkin cannot determine the potential range of exposure from this litigation, which Lufkin intends to defend vigorously. The Company does not believe that the ultimate outcome of this matter will have a material adverse effect on the Company’s financial position.

Other Matters

There are various other claims and legal proceedings arising in the ordinary course of business pending against or involving the Company wherein monetary damages are sought. For certain of these claims, the Company maintains insurance coverage while retaining a portion of the losses that occur through the use of deductibles and retention limits. Amounts in excess of the self-insured retention levels are fully insured to limits believed appropriate for the Company’s operations. Self-insurance accruals are based on claims filed and an estimate for claims incurred but not reported. While the Company does maintain insurance above its self-insured levels, a decline in the financial condition of its insurer, while not currently anticipated, could result in the Company recording additional liabilities. It is management’s opinion that the Company’s liability under such circumstances or involving any other non-insured claims or legal proceedings would not materially affect its consolidated financial position, results of operations, or cash flow.

Product warranties: The change in the aggregate product warranty liability for the years ended December 31, 2011 and 2010, is as follows:

(Thousands of dollars)	2011	2010
Beginning balance	\$ 3,620	\$ 4,220
Claims paid or accrued	(3,032)	(3,213)
Additional warranties issued	4,225	3,244
Revisions in estimates	67	(678)
Foreign currency translation	(33)	47
Ending balance	<u>\$ 4,847</u>	<u>\$ 3,620</u>

Operating leases: Future minimum rental payments for operating leases having initial or remaining noncancelable lease terms in excess of one year are:

(Thousands of dollars)	
2012	\$ 2,469
2013	3,714
2014	3,005
2015	2,359
2016	1,446
Thereafter	\$ 4,473

Expenses for rentals and leases, including short-term rental contracts, were \$9.9 million, \$7.8 million and \$6.0 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Capital expenditures: As of December 31, 2011, the Company had contractual commitments for capital expenditures of \$56.0 million and \$3.0 million that are expected to be paid in 2012 and 2013, respectively.

(15) Business Segment Information

The Company operates with two business segments: Oilfield and Power Transmission. The two operating segments are supported by a common corporate group. The accounting policies of the segments are the same as those described in the summary of major accounting policies. Corporate expenses and certain assets are allocated to the operating segments primarily based upon third party revenues. Sales by geographic region are determined by the shipping destination of a product or the site of service work. Inter-segment sales and transfers are accounted for as if the sales and transfers were to third parties, that is, at current market prices, as available. The following is a summary of key business segment and product group information:

(Thousands of dollars)	2011	2010	2009
Sales by segment:			
Oilfield	\$ 736,488	\$ 477,867	\$ 349,168
Power Transmission	195,647	167,776	172,191
Total sales	\$ 932,135	\$ 645,643	\$ 521,359
Sales by geographic region:			
United States	\$ 582,947	\$ 390,129	\$ 290,924
Europe	64,926	46,799	50,362
Canada	88,317	33,668	19,039
Latin America	100,287	103,390	94,972
Middle East/North Africa	69,703	43,913	40,310
Other	25,955	27,744	25,752
Total sales	\$ 932,135	\$ 645,643	\$ 521,359
Earnings (loss) before income taxes:			
Oilfield	\$ 91,278	\$ 57,690	\$ 21,405
Power Transmission	16,402	10,937	17,040
Corporate & Other*	(2,211)	(1,182)	(5,433)
Total earnings (loss) before income taxes	\$ 105,469	\$ 67,445	\$ 33,012
Assets by segment:			
Oilfield	\$ 869,519	\$ 376,324	\$ 293,140
Power Transmission	153,429	134,004	128,789
Corporate & Other	73,757	110,114	118,850
Total assets	\$ 1,096,705	\$ 620,442	\$ 540,779
Property, plant & equipment, net, by geographic region			
United States	\$ 175,921	\$ 145,842	\$ 121,419
Europe	86,213	33,051	14,827
Canada	69,047	8,655	9,072
Latin America	14,884	15,924	14,211
Other	365	245	241
Total P, P & E, net	\$ 346,430	\$ 203,717	\$ 159,770
Capital expenditures by segment			
Oilfield	\$ 83,871	\$ 43,938	\$ 27,384
Power Transmission	5,995	8,445	12,168
Corporate & Other	13,693	7,980	273
Total capital expenditures	\$ 103,559	\$ 60,363	\$ 39,825
Depreciation/amortization by segment:			
Oilfield	\$ 16,548	\$ 13,484	\$ 11,561
Power Transmission	6,893	6,752	5,951
Corporate & Other	825	922	945
Total depreciation/amortization	\$ 24,266	\$ 21,158	\$ 18,457

Additional key segment information is presented below:

Year Ended December 31, 2011

(Thousands of dollars)	<u>Oilfield</u>	<u>Power Transmission</u>	<u>Corporate & Other*</u>	<u>Total</u>
Gross sales	\$ 743,545	\$ 206,978	\$ -	\$ 950,523
Inter-segment sales	(7,057)	(11,331)	-	(18,388)
Net sales	<u>\$ 736,488</u>	<u>\$ 195,647</u>	<u>\$ -</u>	<u>\$ 932,135</u>
Operating income (loss)	\$ 93,058	\$ 16,298	\$ (1,878)	\$ 107,478
Other (expense) income, net	(1,780)	104	(333)	(2,009)
Earnings (loss) before income tax provision	<u>\$ 91,278</u>	<u>\$ 16,402</u>	<u>\$ (2,211)</u>	<u>\$ 105,469</u>

Year Ended December 31, 2010

(Thousands of dollars)	<u>Oilfield</u>	<u>Power Transmission</u>	<u>Corporate & Other*</u>	<u>Total</u>
Gross sales	\$ 479,732	\$ 171,155	\$ -	\$ 650,887
Inter-segment sales	(1,865)	(3,379)	-	(5,244)
Net sales	<u>\$ 477,867</u>	<u>\$ 167,776</u>	<u>\$ -</u>	<u>\$ 645,643</u>
Operating income (loss)	\$ 57,749	\$ 10,911	\$ (1,001)	\$ 67,659
Other (expense) income, net	(59)	26	(181)	(214)
Earnings (loss) before income tax provision	<u>\$ 57,690</u>	<u>\$ 10,937</u>	<u>\$ (1,182)</u>	<u>\$ 67,445</u>

Year Ended December 31, 2009

(Thousands of dollars)	<u>Oilfield</u>	<u>Power Transmission</u>	<u>Corporate & Other*</u>	<u>Total</u>
Gross sales	\$ 351,766	\$ 175,476	\$ -	\$ 527,242
Inter-segment sales	(2,598)	(3,285)	-	(5,883)
Net sales	<u>\$ 349,168</u>	<u>\$ 172,191</u>	<u>\$ -</u>	<u>\$ 521,359</u>
Operating income (loss)	\$ 20,458	\$ 16,966	\$ (6,000)	\$ 31,424
Other income, net	947	74	567	1,588
Earnings (loss) before income tax provision	<u>\$ 21,405</u>	<u>\$ 17,040</u>	<u>\$ (5,433)</u>	<u>\$ 33,012</u>

* Corporate & Other includes the litigation reserve.

The following table reconciles total assets for the years ended December 31:

(Thousands of dollars)	2011	2010	2009
Assets from continuing operations	\$ 1,096,705	\$ 620,442	\$ 540,779
Assets from discontinued operations	-	636	811
Total assets	<u>\$ 1,096,705</u>	<u>\$ 621,078</u>	<u>\$ 541,590</u>

(16) Concentrations of Credit Risk

The Company's concentration with respect to trade accounts receivable is limited. The large number of customers and diversified customer base across the two segments significantly reduces the Company's credit risk. The Company also has strict policies regarding the granting of credit to customers and does not offer credit terms to those customers that do not meet certain financial criteria and other guidelines. The Company is monitoring the payment practices of customers and is reviewing credit limits more frequently and conservatively than in prior periods. No customer represented over 10% of consolidated company sales as of December 31, 2011 and 2010. At December 31, 2009, one customer represented 11.0% of the consolidated Company sales.

(17) Quarterly Financial Data (Unaudited)

The following table sets forth unaudited quarterly financial data for 2011 and 2010:

Quarterly Financial Data (Unaudited)

(Millions of dollars, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011				
Sales	\$ 194.4	\$ 226.8	\$ 231.7	\$ 279.3
Gross profit	46.2	57.4	53.9	69.0
Net earnings	12.4	18.5	14.4	20.7
Basic earnings per share	0.41	0.61	0.47	0.68
Diluted earnings per share	0.40	0.60	0.47	0.67
2010				
Sales	\$ 127.1	\$ 152.9	\$ 172.1	\$ 193.5
Gross profit	28.6	37.3	43.3	49.2
Net earnings	6.0	10.6	12.6	14.3
Basic earnings per share	0.21	0.35	0.42	0.47
Diluted earnings per share	0.20	0.35	0.42	0.47

(18) Subsequent Events

Zenith Acquisition

On February 27, 2012, the Company announced that it had entered into a definitive agreement to acquire Zenith for \$127 million in cash, net of acquired cash. The parties have agreed that the transaction will close on February 29, 2012. Zenith, based in Scotland, is a leading provider of down-hole monitoring, data gathering and control systems for artificial lift applications, including real-time optimization and control systems for ESPs and PCPs, as well as artificial lift completion systems for ESPs. We expect that Zenith's equipment will enhance our automation solutions by providing our surface automation equipment with real time data from down-hole. This information will in turn allow our control systems to optimize the operation of artificial lift equipment, improving recovery rates and lowering operating costs for our customers.

The Company will fund this acquisition from its revolving credit facility. The Company may explore options for a longer term source of financing in the future.

The Company has not obtained the required information for the Zenith acquisition that would allow the disclosure of the purchase price allocation and other information as required by ASC-805.

Short Term Credit Agreement

On February 27, 2012, the Company entered into a new short term credit agreement in order to obtain a \$25.0 million delayed draw temporary term loan to enhance its short-term liquidity. Amounts borrowed under the delayed draw temporary term loan will be utilized, if necessary, for liquidity purposes. As of February 27, 2012, no amount was drawn against this delayed draw temporary loan.

Amended and Restated Revolving Credit Facility

On February 27, 2012, the Company entered into an amendment to its Second Amended and Restated Credit Agreement. Among other things, the amendment:

- allowed the Company to enter into a definitive agreement to acquire Zenith;
- allowed the Company to enter into our new short term credit agreement;
- modified the prepayment provisions in the Company's Second Amended and Restated Credit Agreement to provide that the net cash proceeds from the issuance of equity securities will be applied, first, to repay the borrowings outstanding under its new short term credit agreement, if any, and second, to repay the borrowings outstanding under the revolving credit facility, with not less than 50% of any remainder being applied to repay the borrowings outstanding under its term loan; and
- amended the "Net Cash Proceeds" definition under its Second Amended and Restated Credit Agreement to extend it to proceeds from the issuance of equity securities.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures as of December 31, 2011, the Chief Executive Officer of the Company, John F. Glick, and the Chief Financial Officer of the Company, Christopher L. Boone, have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are effective to ensure that information required to be disclosed in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and effective to ensure that information required to be disclosed in such reports is accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of the Independent Registered Public Accounting Firm thereon are set forth in Part II, Item 8 of this report and are incorporated herein by reference.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 regarding directors is incorporated by reference from the information under the captions "Nominees for Director" and "Information About Current and Continuing Directors" in the Company's definitive Proxy Statement for the 2012 Annual Meeting of Stockholders (the "Proxy Statement"), which will be filed within 120 days after December 31, 2011. The information required by Item 10 regarding audit committee financial expert disclosure and the identification of the Company's audit committee is incorporated by reference from the information under the caption "Information About Current and Continuing Directors – Board Committees" in the Proxy Statement. The information required by Item 10 regarding the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is incorporated by reference from the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement. The information required by Item 10 regarding executive officers is incorporated by reference from the information under the caption "Information About Current Executive Officers" in the Proxy Statement.

The Company has adopted a written code of ethics, entitled the "Code of Ethics for Senior Financial Officers of the Company." The Company requires all of its senior financial officers, including the Company's principal executive officer, principal financial officer and principal accounting officer, to adhere to the Code of Ethics for Senior Financial Officers of the Company in addressing the legal and ethical issues encountered in conducting their work. The Company has also adopted a written Corporate Code of Conduct applicable to all salaried employees of the Company, including the senior financial officers. The Company has made available to stockholders the Code of Ethics for Senior Financial Officers of the Company and the Corporate Code of Conduct on its website at www.lufkin.com or a copy can be obtained by writing to the Company Secretary, P.O. Box 849, Lufkin, Texas 75902. Any amendment to, or waiver from, the Code of Ethics for Senior Financial Officers of the Company and the Corporate Code of Conduct will be disclosed in a current report on Form 8-K within four business days of such amendment or waiver as required by the Marketplace Rules of the Nasdaq Stock Market, Inc.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from the information under the captions "Executive Compensation," "Compensation Committee Report," "Stock Option Plans," "Compensation Committee Interlocks and Insider Participation," "Board Committees" and "Director Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 related to security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference from the information under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement. Information concerning securities authorized for issuance under the Company's equity compensation plans is set forth under the caption "Equity Compensation Plan Information" in Part II, Item 5 of this annual report of Form 10-K and is incorporated in Item 12 of this report by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

Since January 1, 2011, there have been no transactions with management and others, no business relationships regarding directors or nominees for directors and no indebtedness of management required to be disclosed pursuant to this Item 13. The information required by Item 13 related to director independence is incorporated by reference from the information under the caption "Information About Current and Continuing Directors" in the Proxy Statement. The information required by Item 13 regarding related-person transactions is incorporated by reference to the information under the caption "Related Person Transactions" in the Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference from the information under the caption "Report of the Audit Committee" and "Independent Public Accountants" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) Documents filed as part of the report
1. Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm
 Consolidated Balance Sheets
 Consolidated Statements of Earnings
 Consolidated Statements of Shareholders' Equity & Comprehensive Income
 Consolidated Statements of Cash Flows
 Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule II- Valuation and Qualifying Accounts

All other financial statement schedules are omitted because of the absence of conditions under which they are required or because all material information required to be reported are included in the consolidated financial statements and notes thereto.

3. Exhibits

- 3.1 Fourth Restated Articles of Incorporation, as amended, included as Exhibit 4.1 to Lufkin Industries, Inc.'s (the "Company") registration statement on Form S-8 filed February 17, 2004 (File No. 333-112890), which exhibit is incorporated herein by reference.
- 3.2 Articles of Amendment to Fourth Restated Articles of Incorporation, included as Exhibit 3.1 to the Company's current report on Form 8-K of the registrant filed December 10, 1999, which exhibit is incorporated herein by reference.
- 3.3 Amended and Restated Bylaws, included as Exhibit 3.1 to the Company's current report on Form 8-K of the registrant filed October 9, 2007 (File No. 0-02612), which exhibit is incorporated herein by reference.
- 4.1 Form of Common Stock Certificate, included as Exhibit 4.1 to the Company's quarterly report on Form 10-Q of the registrant filed May 9, 2005 (File No. 0-02612), which exhibit is incorporated herein by reference.
- *10.1 1990 Stock Option Plan, included as Exhibit 4.3 to the Company's registration statement on Form S-8 dated August 23, 1995 (File No. 33-62021), which plan is incorporated herein by reference.
- *10.2 1996 Nonemployee Director Stock Option Plan, included as Exhibit 4.3 to the Company's registration statement on Form S-8 dated June 28, 1996 (File No. 333-07129), which plan is incorporated herein by reference.
- *10.3 Amended and Restated Incentive Stock Compensation Plan 2000, included as Exhibit 10.1 to the Company's current report on Form 8-K dated August 2, 2007 (File No. 0-02612), which exhibit is incorporated herein by reference.

- *10.4 Form of Employee Stock Option Agreement for the Company's 2000 Incentive Stock Compensation Plan, included as Exhibit 10.5 to the Company's current report on Form 8-K dated May 13, 2008 (File No. 0-02612), which exhibit is incorporated herein by reference.
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- *10.6 Thrift Plan Restoration Plan for Salaried Employees of Lufkin Industries, Inc., as amended, included as exhibit 10.13 to the Company's annual report on Form 10-K of the registrant filed March 1, 2007 (File No. 0-02612), which exhibit is incorporated herein by reference.
- *10.7 Retirement Plan Restoration Plan for Salaried Employees of Lufkin Industries, Inc. as amended, included as exhibit 10.14 to the Company's annual report on Form 10-K of the registrant filed March 1, 2007 (File No. 0-02612), which exhibit is incorporated herein by reference.
- *10.8 Lufkin Industries, Inc. Supplemental Retirement Plan, as amended, as amended, included as exhibit 10.15 to the Company's annual report on Form 10-K of the registrant filed March 1, 2007 (File No. 0-02612), which exhibit is incorporated herein by reference.
- *10.9 Amended and Restated Severance Agreement, dated January 21, 2008, between Lufkin Industries, Inc. and Mark E. Crews, included as Exhibit 10.1 to the Company's current report on Form 8-K filed on December 31, 2008 (File No. 0-02612), which exhibit is incorporated herein by reference.
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- *10.12 Amended and Restated Severance Agreement, dated January 1, 2005, between Lufkin Industries, Inc. and Scott H. Semlinger, included as Exhibit 10.6 to the Company's current report on Form 8-K filed on December 31, 2008 (File No. 0-02612), which exhibit is incorporated herein by reference.
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- *10.16 Severance Agreement, dated as of May 9, 2011, between Lufkin Industries, Inc. and Alejandro "Alex" Cestero included as Exhibit 10.1 to the Company's current report on Form 8-K filed on May 9, 2011 (File No. 0-02612), which exhibit is incorporated herein by reference.
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- 21 Subsidiaries of the registrant
- 23 Consent of Independent Registered Public Accounting Firm
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
- 32.1 Section 1350 Certification of the Chief Executive Officer certification
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* Management contract or compensatory plan or arrangement.

SCHEDULE II

Lufkin Industries, Inc.
Valuation & Qualifying Accounts
(in thousands of dollars)

Description	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year
		Charged to Expense	Charged to Other Accounts		
Allowance for Doubtful Receivables:					
Year Ended December 31, 2011	\$ 260	(57)	11	(89)	\$ 125
Year Ended December 31, 2010	240	(93)	-	113	260
Year Ended December 31, 2009	\$ 735	(1,844)	-	1,349	\$ 240
Inventory: Valuation Reserves:					
Year Ended December 31, 2011	\$ 2,383	229	556	(24)	\$ 3,144
Year Ended December 31, 2010	2,643	(224)	-	(36)	2,383
Year Ended December 31, 2009	\$ 4,535	100	-	(1,992)	\$ 2,643
Inventory: LIFO Reserves:					
Year Ended December 31, 2011	\$ 28,776	3,327	-	-	\$ 32,103
Year Ended December 31, 2010	29,961	(1,185)	-	-	28,776
Year Ended December 31, 2009	\$ 32,926	(2,965)	-	-	\$ 29,961

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LUFKIN INDUSTRIES, INC.

BY /s/ Christopher L. Boone

Christopher L. Boone

Signing on behalf of the registrant and as

Vice President/Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: February 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
By <u>/s/ J. F. Glick</u> J. F. Glick	President/Chief Executive Officer (Principal Executive Officer)	February 27, 2012
By <u>/s/ C. L. Boone</u> C. L. Boone	Vice President/Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2012
By <u>/s/ D. V. Smith</u> D. V. Smith	Chairman of the Board of Directors	February 27, 2012
By <u>/s/ J. F. Anderson</u> J.F. Anderson	Director	February 27, 2012
By <u>/s/ S. V. Baer</u> S. V. Baer	Director	February 27, 2012
By <u>/s/ J. D. Hofmeister</u> J. D. Hofmeister	Director	February 27, 2012
By <u>/s/ J. T. Jongebloed</u> J. T. Jongebloed	Director	February 27, 2012
By <u>/s/ J. H. Lollar</u> J. H. Lollar	Director	February 27, 2012
By <u>/s/ R. R. Stewart</u> R. R. Stewart	Director	February 27, 2012
By <u>/s/ H. J. Trout, Jr.</u> H. J. Trout, Jr.	Director	February 27, 2012
By <u>/s/ T. E. Wiener</u> T. E. Wiener	Director	February 27, 2012

INDEX TO EXHIBITS

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- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
- 32.1 Section 1350 Certification of the Chief Executive Officer certification
- 32.2 Section 1350 Certification of the Chief Financial Officer certification

* Management contract or compensatory plan or arrangement.

EXHIBIT (21)**LUFKIN INDUSTRIES, INC. AND SUBSIDIARIES****SUBSIDIARIES OF THE REGISTRANT**

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation or Organization</u>	<u>Name Under Which such Subsidiary Does Business</u>
Lufkin Industries Canada, Ltd.	Canada	Same
Lufkin Argentina, S.A.	Argentina	Same
Lufkin Inversora S.A.	Argentina	Same
Lufkin France, S.A.S.	France	Same
Lufkin Middle East	Egypt	Same
Lufkin & Partners	Oman	Same
Lufkin Industries Australia Pty. Ltd.	Australia	Same
Lufkin Industries SRL	Romania	Same
Lufkin do Brasil	Brazil	Same
Lufkin Canada Holdings I Ltd.	Canada	Same
Pentagon Optimization Services, Inc.	Canada	Same
Quinn Pumps Canada Ltd.	Canada	Same
Quinn Pumps Inc.	Texas	Same
Quinn Pumps North Dakota Inc.	North Dakota	Same
Quinn Pumps (California) Inc.	California	Same
Grenco Energy Services Inc.	Canada	Same
Grenco Energy Services LP	Canada	Same
Grenco Energy Services (USA) Inc.	Texas	Same
Lufkin Finance I ULC	Canada	Same
Lufkin Finance II ULC	Canada	Same
Lufkin Finance III ULC	Canada	Same
Lufkin Finance (US) LP	Texas	Same
Lufkin Finance Canada LP	Canada	Same
Lufkin MENA Services Ltd.	British Virgin Islands	Same
Lufkin MENA Ltd.	Dubai UAE	Same
Lufkin Eastern Energy Malaysia SDN. BHD.	Malaysia	Same

EXHIBIT (23)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-62021, 333-112890, and 333-07129 on Form S-8 of our report dated February 27, 2012, relating to the consolidated financial statements and financial statement schedule of Lufkin Industries, Inc., and the effectiveness of Lufkin Industries, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K of Lufkin Industries, Inc. for the year ended December 31, 2011.

DELOITTE & TOUCHE LLP

Houston, Texas
February 27, 2012

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John F. Glick, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lufkin Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2012

/s/ John F. Glick

John F. Glick

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Christopher L. Boone, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lufkin Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2012

/s/ Christopher L. Boone

Christopher L. Boone
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Lufkin Industries, Inc. (the "Company") on Form 10-K for the period ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Glick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John F. Glick

John F. Glick
Chief Executive Officer
February 27, 2012

This certification is made solely for the purpose of 18 U.S.C. §1350, and not for any other purpose.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lufkin Industries, Inc. (the "Company") on Form 10-K for the period ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher L. Boone, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher L. Boone

Christopher L. Boone
Chief Financial Officer
February 27, 2012

This certification is made solely for the purpose of 18 U.S.C. §1350, and not for any other purpose.

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EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 904 OF THE AMERICAN-DAIRY ACT OF 1982**

In connection with the Annual Report of Lactan Industries, Inc. (the "Company") Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the 4th day of February 2012, the undersigned, Christopher L. Thomas, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to 1906 of the American-Dairy Act of 1982, that:

The Report fully complies with the requirements of Section 13(a) or 13(d), as applicable, of the Securities Exchange Act of 1934, and;

The information contained in the Report fully presents, in all material respects, the financial condition and results of operations of the Company.

Christopher L. Thomas

Christopher L. Thomas
Chief Financial Officer
February 7, 2012

This certification is made solely for the purposes of 18 U.S.C. § 1350, and not for any other purpose.

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Corporate Information

CORPORATE OFFICERS

J.F. Glick

President
Chief Executive Officer

C.L. Boone

Vice President, Chief Financial Officer

A. Cestero

Vice President, General Counsel,
Corporate Secretary

M.E. Crews

Vice President, General Manager—
Oilfield Division

C.D. Hay

Vice President, General Manager—
Power Transmission Division

S.H. Semlinger

Vice President, Manufacturing Technology

B.J. Gifford

Vice President of Human Resources

CORPORATE OFFICE

Lufkin Industries, Inc.
P.O. Box 849
Lufkin, TX 75902-0849
936-634-2211

ANNUAL MEETING

The Annual Meeting of Shareholders of Lufkin Industries, Inc. will be held at the Crown Colony Country Club, 900 Crown Colony Drive, Lufkin, TX on May 2, 2012, at 9:00 a.m. CDT.

WORLD WIDE WEB

For information on Lufkin Industries Inc.'s products and services, and the latest industry news visit www.lufkin.com.

COMMON STOCK TRANSFER AGENT

Computershare Investor Services, LLC
250 Royall Street
Canton, MA 02021
888-294-8217

AUDITORS

Deloitte & Touche, LLP
1111 Bagby Street, Suite 4500
Houston, TX 77002-4196
713-982-2000

INVESTOR RELATIONS COUNSEL

Dennard Rupp Gray & Lascar, LLC
1800 West Loop South, Suite 200
Houston, TX 77027
713-529-6600

Lufkin Industries, Inc.

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