

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 8-K**

---

**CURRENT REPORT**

**Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): December 15, 2008**

---

**Dril-Quip, Inc.**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction  
of incorporation)

**001-13439**  
(Commission File Number)

**74-2162088**  
(IRS Employer  
Identification No.)

**13550 Hempstead Highway**  
**Houston, Texas**  
(Address of principal executive offices)

**77040**  
(Zip Code)

**Registrant's telephone number, including area code: (713) 939-7711**

**Not applicable**  
(Former name or former address, if changed since last report.)

---

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
- 
-

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

(e)

Amended and Restated Employment Agreement

On December 15, 2008, Dril-Quip, Inc. (the “Company”) entered into a new employment agreement (an “Employment Agreement”) with each of Larry Reimert, Gary Smith and Mike Walker, the Company’s Co-Chairmen and Co-Chief Executive Officers, in order to modify their prior employment agreements to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (“Section 409A”). Except for revisions to certain provisions regarding the timing of payments made with respect to annual bonuses, reimbursement of expenses and obligations of the Company upon termination, the benefits and terms of the Employment Agreement are substantially similar in all material respects to the benefits and terms of the prior employment agreements, which have been previously disclosed by the Company. The Employment Agreements will be effective as of December 31, 2008.

Amended and Restated 2004 Incentive Plan and 1997 Incentive Plan

On December 15, 2008, the Board of Directors of the Company approved amended and restated versions of the 2004 Incentive Plan of Dril-Quip, Inc. (as amended and restated, the “2004 Plan”) and the 1997 Incentive Plan of Dril-Quip, Inc. (as amended and restated, the “1997 Plan,” and together with the 2004 Plan, the “Incentive Plans”) to comply with the requirements of Section 409A. The amended and restated Incentive Plans will be effective as of December 31, 2008. Other than as necessary to comply with Section 409A, the benefits and terms of each of the Incentive Plans are substantially similar in all material respects to the benefits and terms of the applicable Incentive Plan currently in effect. The amendments to the Incentive Plans did not require stockholder approval under their terms, applicable law or the rules of the New York Stock Exchange.

Amendments to Form of Standard Nonqualified Stock Option Agreement issuable under 2004 Plan

On December 15, 2008, the Board of Directors of the Company approved certain changes to the Company’s Standard Non-Qualified Stock Option Agreement issuable under the 2004 Incentive Plan (as amended and restated, the “Option Agreement”) to comply with the requirements of Section 409A. Other than as necessary to comply with Section 409A, the terms of the Option Agreement are substantially similar in all material respects to the terms of the Option Agreement currently in effect.

The foregoing descriptions of the Employment Agreement, the 2004 Plan, the 1997 Plan and the Option Agreement do not purport to be complete and are qualified in their entirety by reference to the respective plan or agreement, which are attached hereto as exhibits and are incorporated by reference herein.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

- 10.1 Form of Employment Agreement between the Company and each of Messrs. Reimert, Smith and Walker (As Amended and Restated Effective as of December 31, 2008).
- 10.2 2004 Incentive Plan of Dril-Quip, Inc. (As Amended and Restated Effective as of December 31, 2008).
- 10.3 1997 Incentive Plan of Dril-Quip, Inc. (As Amended and Restated Effective as of December 31, 2008).
- 10.4 Form of Standard Non-Qualified Stock Option Agreement.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**DRIL-QUIP, INC.**

Date: December 19, 2008

By: /s/ Gary D. Smith  
Gary D. Smith  
Co-Chairman and Co-Chief Executive Officer

## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.1	Form of Employment Agreement between the Company and each of Messrs. Reimert, Smith and Walker (As Amended and Restated Effective as of December 31, 2008).
10.2	2004 Incentive Plan of Dril-Quip, Inc. (As Amended and Restated Effective as of December 31, 2008).
10.3	1997 Incentive Plan of Dril-Quip, Inc. (As Amended and Restated Effective as of December 31, 2008).
10.4	Form of Standard Non-Qualified Stock Option Agreement.

## EMPLOYMENT AGREEMENT

(As Amended and Restated Effective as of December 31, 2008)

This AGREEMENT (the "Agreement") by and between Dril-Quip, Inc., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Executive"), is made this \_\_ day of \_\_\_\_\_, 2008 and shall become effective as of December 31, 2008 (the "Effective Date"). This Agreement amends, restates and supersedes that certain Employment Agreement between the Company and the Executive dated \_\_\_\_\_ (the "Prior Agreement"), which became effective as of the date on which the Company first received payment for shares of Common Stock that it sold pursuant to a Registration Statement on Form S-1 filed under the Securities Act of 1933 ("Initial Effective Date").

In entering into this Agreement, the Board of Directors of the Company (the "Board") desires to provide the Executive with substantial incentives to serve the Company as one of its senior executives performing at the highest level of leadership and stewardship, without distraction or concern over minimum compensation, benefits or tenure, manage the Company's future growth and development, and maximize the returns to the Company's stockholders. The Executive shares these objectives and desires to continue his employment with the Company on the terms set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual provisions contained herein and for other good and valuable consideration, the parties hereto agree with each other as follows:

## 1. DEFINITIONS

A. Certain Definitions. As used herein, the following terms have the meanings assigned to them below:

"Account" shall have the meaning set forth in Section 3(G)(ii)(a).

"Account Year" shall have the meaning set forth in Section 3(G)(ii)(a).

"Accrued Obligations" shall have the meaning set forth in Section 5(A).

"Affiliate" has the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the Effective Date.

"Agreement" shall have the meaning set forth in the Preamble.

"Annual Base Salary" shall have the meaning set forth in Section 3(A).

"Annual Bonus" shall have the meaning set forth in Section 3(B).

"Board" shall have the meaning set forth in the Preamble.

“Business Day” shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

“Cause” means for the Company’s termination of the Executive’s employment:

(i) the Executive’s final conviction of a felony crime that enriched the Executive at the expense of the Company; provided, however, that after indictment, the Company may suspend the Executive from the rendition of services, but without limiting or modifying in any other way the Company’s obligations under this Agreement; or

(ii) the Executive’s continuing failure to substantially perform his duties and responsibilities hereunder (except by reason of the Executive’s incapacity due to physical or mental illness or injury) for a period of 45 days after the Required Board Majority has delivered to the Executive a written demand for substantial performance hereunder which specifically identifies the bases for the Required Board Majority’s determination that the Executive has not substantially performed his duties and responsibilities hereunder (that period being the “Grace Period”); provided, that for purposes of this clause (ii), the Company shall not have Cause to terminate the Executive’s employment unless

(a) at a meeting of the Board called and held following the Grace Period in the city in which the Company’s principal executive offices are located, of which the Executive was given not less than 10 days’ prior written notice and at which the Executive was afforded the opportunity to be represented by counsel, appear and be heard, the Required Board Majority shall adopt a written resolution which (1) sets forth the Required Board Majority’s determination that the failure of the Executive to substantially perform his duties and responsibilities hereunder has (except by reason of his incapacity due to physical or mental illness or injury) continued past the Grace Period and (2) specifically identifies the bases for that determination, and

(b) the Company, at the written direction of the Required Board Majority, shall deliver to the Executive a Notice of Termination for Cause to which a copy of that resolution, certified as being true and correct by the secretary or any assistant secretary of the Company, is attached.

“Change of Control” shall mean a change in control of the Corporation after the Effective Date, which shall be deemed to have occurred in any one of the following circumstances occurring after such date:

(i) there shall have occurred an event required to be reported with respect to the Corporation in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item or any similar schedule or form) promulgated under the Exchange Act, whether or not the Corporation is then subject to such reporting requirement;

(ii) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than the Stockholder Group shall have become the “beneficial

owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 30% or more of the combined voting power of the Corporation’s then outstanding voting securities;

(iii) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or

(iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (including, for this purpose, any new director whose election or nomination for election by the Corporation’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

“Code” means the Internal Revenue Code of 1986, as amended.

“Common Stock” means the Common Stock, par value \$0.01 per share, of the Company.

“Company” shall have the meaning set forth in the Preamble.

“Compensation Committee” means the committee of the Board to which the Board has delegated duties respecting the compensation of executive officers and the administration of incentive plans, if any, intended to qualify for the Exchange Act Rule 16b-3 exemption.

“Compensatory Award” shall have the meaning set forth in Section 5(A)(iv).

“Confidential Information” shall have the meaning set forth in Section 9(A).

“Date of Termination” shall have the meaning set forth in Section 4(C).

“Disability” means the absence of the Executive from the Executive’s duties with the Company on a full-time basis for either

- (i) 180 consecutive Business Days or
- (ii) in any two-year period, 270 nonconsecutive Business Days,

as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive’s legal representative (such agreement as to acceptability not to be withheld unreasonably).

“Disability Effective Date” shall have the meaning set forth in Section 4(A)(i).

“Effective Date” shall have the meaning set forth in the Preamble.

“Employment Period” means the period commencing on the Initial Effective Date and ending on the fifth anniversary of the Initial Effective Date; provided, that on the second anniversary of the Initial Effective Date and each anniversary of the Initial Effective Date thereafter, the Employment Period shall automatically renew for an additional one year without any further action by either the Company or the Executive, it being the intention of the parties that there shall be continuously a remaining term of not less than three years’ duration of the Employment Period until an event has occurred as described in, or one of the parties shall have made an appropriate election pursuant to, the provisions of Section 4.

“Exchange Act” means the Securities Exchange Act of 1934.

“Executive” shall have the meaning set forth in the Preamble.

“Fair Market Value” shall have the meaning set forth in 2004 Plan.

“Final Expiration Date” shall have the meaning set forth in Section 5(A)(ii).

“Good Reason” means:

(i) the assignment to the Executive of any duties materially inconsistent in any respect with the Executive’s position (including offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2 or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any material failure by the Company to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company’s requiring the Executive to be based at any office located more than 50 miles from 13550 Hempstead Highway, Houston, Texas 77040;

(iv) any failure by the Company to comply with and satisfy the requirements of Section 11(C), provided that (a) the successor described in Section 11(C) has received, at least 10 days prior to the Date of Termination, written notice from the Company or the Executive of the requirements of such provision and (b) such failure to be in compliance and satisfy the requirements of Section 11 shall continue as of the Date of Termination; or

(v) any failure to reelect Executive as a member of the Board, Co-Chairman of the Board and Co-Chief Executive Officer or the removal of the Executive from any of such positions.

“Highest Price Per Share” shall mean the highest price per share that can be determined to have been paid or agreed to be paid for any share of Common Stock at any time during the



six-month period immediately preceding the applicable date of determination. In determining the Highest Price Per Share, the price paid or agreed to be paid will be appropriately adjusted to take into account (i) distributions paid or payable in stock, (ii) subdivisions of outstanding stock, (iii) combinations of shares of stock into a smaller number of shares and (iv) similar events.

“Initial Effective Date” shall have the meaning set forth in the Preamble.

“Option Grant Date” shall have the meaning set forth in Section 3(C).

“Performance Period” shall have the meaning set forth in Section 3(B).

“Person” means any individual, firm, corporation, partnership, limited liability company, association, trust, unincorporated organization or other entity.

“Prior Agreement” shall have the meaning set forth in the Preamble.

“Prohibited Activity” shall have the meaning set forth in Section 10(A).

“Relevant Geographic Area” shall have the meaning set forth in Section 10(A).

“Remaining Employment Period” shall have the meaning set forth in Section 5(A)(ii).

“Required Board Majority” means a majority of the members of the Board at that time, which majority shall include at least a majority of members who have not been employees of the Company or any of its Affiliates.

“Stockholder Group” shall mean, to the extent such group is deemed to be a “person” under Section 13(d) of the Exchange Act, collectively, but not individually, J. Mike Walker, Larry E. Reimert, Reimert Family Partners, Ltd., Gary D. Smith and Four Smith’s Company, Ltd.

“2004 Plan” means the 2004 Incentive Plan of Dril-Quip, Inc., as amended and restated effective as of December 31, 2008.

“Window Period” shall mean the 365-day period immediately following any Change of Control.

#### B. Other Definitional Provisions.

(i) Except as otherwise specified herein, all references herein to any statute defined or referred to herein, including the Code and the Exchange Act, shall be deemed references to that statute or any successor statute, as the same may have been or may be amended or supplemented from time to time, and any rules or regulations promulgated thereunder.

(ii) When used in this Agreement, the words “herein,” “hereof” and “hereunder” and words of similar import shall refer to this Agreement as a whole and not to any provision of this Agreement, and the word “Section” refers to a Section of this Agreement unless otherwise specified.

(iii) Whenever the context so requires, the singular number includes the plural and vice versa, and a reference to one gender includes each other gender and the neuter.

(iv) The word “including” (and, with correlative meaning, the word “include”) means including, without limiting the generality of any description preceding such word, and the words “shall” and “will” are used interchangeably and have the same meaning.

## 2. EMPLOYMENT

A. As of the Effective Date, the Company hereby agrees to continue to employ the Executive and the Executive hereby agrees to continue to serve as an employee of the Company, in accordance with, and subject to, the terms and provisions of this Agreement, during the Employment Period.

B. During the Employment Period, (i) the Executive’s position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned on the Effective Date, which shall in any event include status as Co-Chairman of the Board and Co-Chief Executive Officer of the Company, and (ii) the Executive’s services shall be performed within the Houston, Texas metropolitan area.

C. During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote full attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive’s reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (i) serve on corporate, civic or charitable boards or committees, (ii) deliver lectures, fulfill speaking engagements or teach at educational institutions, and (iii) manage personal investments, so long as such activities do not interfere with the performance of the Executive’s responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive’s responsibilities to the Company.

## 3. COMPENSATION

A. Annual Base Salary. An Annual Base Salary (the “Annual Base Salary”) shall be payable to the Executive by the Company as a guaranteed minimum annual amount hereunder for each 12-month period during the period from the Initial Effective Date to the Date of Termination. The Annual Base Salary shall be payable in the intervals consistent with the Company’s normal payroll schedules (but in no event less frequently than semi-monthly), and, subject to Section 3(D), shall be payable at the annual rate of \$\_\_\_\_\_.

B. Annual Bonus. For each 12-month period ending December 31 (the "Performance Period"), the Executive shall be awarded an Annual Bonus (the "Annual Bonus") calculated in accordance with Exhibit 1. Any such Annual Bonus shall be paid in a single lump-sum payment on the March 7 next following the close of such Performance Period; provided, however, that if March 7 is not a Business Day, such payment shall be made on the next succeeding Business Day.

C. Stock Options. As a long-term incentive, the Executive shall be granted options to acquire such number shares of Common Stock on the first and each subsequent anniversary of the Initial Effective Date (each, an "Option Grant Date") as shall equal (i) 300% of the Executive's then-applicable Annual Base Salary divided by (ii) the Fair Market Value per share of Common Stock on the Option Grant Date. Such options shall be granted as a long-term incentive pursuant to the 2004 Plan or any successor or supplemental plan thereto, shall have a term of 10 years from the Option Grant Date and shall vest at the rate of 25% per year on each anniversary of the Option Grant Date.

D. Compensation Committee. The amount of the Annual Base Salary, the formulae used to determine the Annual Cash Bonus pursuant to Section 3(B) and the number of shares subject to options granted pursuant to Section 3(C) shall be reviewed at least annually by the Compensation Committee and shall be subject to increase (but not decrease) at any time and from time to time on a basis determined by the Compensation Committee, in the exercise of its sole discretion. Any such action taken by the Compensation Committee shall be evidenced by the written minutes or records of the Compensation Committee.

E. Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans that are tax-qualified under Section 401(a) of the Code, and all plans that are supplemental to any such tax-qualified plans, in each case to the extent that such plans are applicable generally to other executives of the Company and its Affiliates, but in no event shall such plans provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities that are, in each case, less favorable to the Executive, in the aggregate, than the most favorable plans of the Company and its Affiliates. As used in this Agreement, the term "most favorable" shall, when used with reference to any plans, practices, policies or programs of the Company and its Affiliates, be deemed to refer to the plans, practices, policies or programs of the Company and its Affiliates, as in effect at any time during the Employment Period and provided generally to other executives of the Company or its Affiliates, which are most favorable to the Executive.

F. Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company or its Affiliates (including medical, prescription, dental, vision, disability, salary continuance, group life and supplemental group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other executives of the Company or its Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable such plans, practices, policies and programs of the Company and its Affiliates.

**G. Reimbursement of Business and Other Expenses; Perquisites.**

(i) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable plans, practices, policies and programs of the Company and its Affiliates and the provisions of Section 3(G)(v).

(ii) Fringe Benefits and Perquisites. During the Employment Period, the Executive shall be entitled to fringe benefits and perquisites in accordance with the most favorable plans, practices, policies and programs of the Company and its Affiliates applicable to similarly situated executives, subject to the following:

(a) The Company shall maintain a flexible perquisites spending account (the "Account"), which shall be credited with an amount of \$25,000 on each January 1 during the Employment Period. During the calendar year commencing on such January 1 (the "Account Year"), the Executive may use the funds held in the Account to pay for the actual costs of (1) annual country club, luncheon and health club membership dues, (2) the portion of the costs of an automobile purchased or leased by the Company for the Executive's use (including costs of insurance, repair and maintenance) that is allocated to the Executive as a result of his personal use of such automobile, (3) personal financial (including tax) counseling and return preparation by a firm chosen by the Executive, and (4) a mobile phone or phones. On the February 28 next following the close of such Account Year, the Company shall pay to the Executive a single lump-sum cash payment in an amount equal to the remaining balance, if any, of such Account after the satisfaction of all allowable costs or expenditures incurred during such Account Year.

(b) The Company shall pay for the initiation membership fee (including any bond requirements) for one country, luncheon or health club on behalf of the Executive.

(iii) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance to the extent needed to fulfill his corporate responsibilities, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its Affiliates at any time during the Employment Period.

(iv) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, practices, policies and programs of the Company and its Affiliates. In addition, the Company acknowledges that the Executive may have substantial vacation time accrued during periods prior to the Effective Date. The Company agrees that the Executive shall be entitled to take any and all of such accrued vacation at any time notwithstanding any other provision of this Agreement.

(v) General Requirements Regarding Reimbursements. Any reimbursement to which the Executive may become entitled under this Section 3(G) and which is subject to Section 409A during one calendar year shall not affect the amount or availability of reimbursements in another calendar year. Any reimbursement of an eligible expense shall be paid no later than the earlier of (1) the date prescribed under the Company's applicable policies and procedures or (2) the last day of Executive's taxable year next following the taxable year in which the Executive incurred the reimbursable expense.

H. Personal Income Taxes. If the Executive relocates from a state without a personal income tax at the time of his relocation to a state having a personal income tax, or if the Executive resides in a state without a personal income tax on the Effective Date which subsequently adopts a personal income tax, then, in either case, the Company shall pay to the Executive such additional compensation as is necessary (after taking into account all federal, state and local taxes payable by the Executive as a result of the receipt of such additional compensation) to place the Executive in the same after-tax position (including federal, state and local taxes) he would have been in had no such excise or similar purpose tax (or interest or penalties thereon) been paid or incurred. Any compensation to which the Executive may become entitled under this Section 3(H) shall be paid no later than the earlier of (i) the date prescribed by the Company's applicable policies and procedures or (ii) the last day of Executive's taxable year next following the taxable year in which the Executive remits such taxes.

#### 4. TERMINATION OF EMPLOYMENT

A. Termination. This Agreement may be terminated at any time during the Employment Period provided that the amounts and obligations set forth in Section 5 are paid and performed by the Company and only in the following events:

(i) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. Notwithstanding the foregoing, if the Company determines that there is no reasonable expectation of the Executive's recovery and return to active employment, then, as of the date of such determination, (a) the Executive shall be deemed to have terminated his employment with the Company for purposes of determining when he shall receive the amounts to which he is entitled under Paragraph 5(A), and (b) the Company shall provide the Executive with continued compensation under this Section as a disability benefit equal to the compensation and benefits which he would otherwise have received had he continued in active service with the Company until such time as the Company could have terminated Executive under this section.

(ii) Good Reason; During a Window Period. The Executive may terminate his employment during the Employment Period (a) at any time for Good Reason or (b) for any reason during a Window Period. The Company may terminate the Executive's employment (x) for any reason, including for Cause, during a Window Period or (y) for any reason other than for Cause at any time.

(iii) Cause or Voluntary Resignation (other than during a Window Period). The Company may terminate the Executive's employment during the Employment Period for Cause and the Executive may terminate his employment during the Employment Period for any reason. Any termination of this Agreement that purportedly is pursuant to this Section 4(A)(iii) but which meets the more specific requirements of a termination pursuant to Section 4(A)(ii) shall be deemed for all purposes of this Agreement to be a termination pursuant to Section 4(A)(ii).

B. Notice of Termination. Any termination by the Company or the Executive pursuant to Section 4(A)(ii) or 4(A)(iii) shall be communicated by a "Notice of Termination" to the other party hereto. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

C. Date of Termination. For purposes of this Agreement, the term "Date of Termination" means (i) if the Executive's employment is terminated pursuant to Section 4(A)(ii) or 4(A)(iii), the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, and (ii) if the Executive's employment is terminated by reason of the events set forth in Section 4(A)(i), the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

## 5. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

A. If, during the Employment Period, the Executive's employment is terminated in accordance with Section 4(A)(i) or 4(A)(ii), the Company shall pay or provide to or in respect of the Executive, on the tenth Business Day next following the Date of Termination, all of the following amounts and benefits set forth in this Section 5(A):

(i) Executive shall receive a lump sum cash payment in an amount equal to the sum of (a) the Executive's Annual Base Salary through the Date of Termination and (b) compensation for all of the Executive's accrued vacation time based upon the Executive's current Annual Base Salary (notwithstanding any limitation on payment for accrued vacation then set forth in the Company's policies or practices), in each case to the extent not theretofore paid (the sum of the amounts described in clauses (a) and (b) shall be hereinafter referred to as the "Accrued Obligation").

(ii) Executive shall receive a lump sum cash payment equal to the amount he would have received if (1) his employment had not been terminated and (2) his Annual Base Salary as of the Date of Termination had remained in effect and been paid to the

Executive pursuant to this Agreement for the period (the "Remaining Employment Period") beginning on the Date of Termination and ending on the latest possible date of termination of the Employment Period in accordance with the definition of Employment Period (the "Final Expiration Date").

(iii) Executive shall receive a lump sum cash payment in an amount equal to the Annual Bonus that would have been paid to the Executive pursuant to this Agreement for the Remaining Employment Period, assuming for such purpose that the Annual Bonus payable for each applicable period during the Remaining Employment Term would equal the highest amount paid pursuant to Section 3(B) in respect of the most recent three applicable 12-month periods (ending on September 30 and December 31, as the case may be) prior to the Date of Termination.

(iv) Effective as of the Date of Termination, the Company shall provide for (a) the immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every stock option, restricted stock award, restricted stock unit award and other equity-based award and performance award (each, a "Compensatory Award") that is outstanding as of a time immediately prior to the Date of Termination, (b) the extension of the term during which each and every Compensatory Award may be exercised by the Executive until the earlier of (x) the first anniversary of the Date of Termination or (y) the date upon which the right to exercise any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the Final Expiration Date, and (c) at the sole election of the Executive, in exchange for any or all Compensatory Awards that were vested as of December 31, 2004, and are either denominated in or payable in Common Stock, an amount in cash equal to the excess of (x) the Highest Price Per Share over (y) the exercise or purchase price, if any, of such Compensatory Awards.

(v) The Executive shall continue to receive medical, dental and life insurance coverage until he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage or benefit-by-benefit basis) or the later of (1) the death of the Executive, (2) the death of the Executive's spouse and (3) the youngest child of the Executive reaching age 21; provided that (x) if the Executive is precluded from continuing his participation in any benefit plan or program as provided in clause (v), he shall be provided with the after-tax economic equivalent of the benefits provided under the plan or program in which he is unable to participate for the period specified in clause (v) and (y) the economic equivalent of any benefit foregone shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis. Notwithstanding the foregoing, to the extent that any compensation or benefits payable under this Section 5(A)(5) are not attributable to the continuation of group health insurance pursuant to the requirements of Section 4980B of the Code or Part VI of Title I of the Employee Retirement Income Security Act of 1974, as amended, then any such payments shall be made no later than the close of the Executive's taxable year next following the taxable year in which the related expenses are incurred.

B. If, during the Employment Period, the Executive's employment is terminated in accordance with Section 4(A)(iii), the Company shall have no further obligations under this Section 5, other than for (i) the payment of Accrued Obligations and (ii) unless the termination in accordance with Section 4(A)(iii) is for Cause, receipt of the benefits and payments specified in Section 5(A)(v). In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash on the tenth Business Day next following the Date of Termination and the benefits and payments specified in Section 5(A)(v) shall be provided as set forth in such Section.

6. NON-EXCLUSIVITY OF RIGHTS.

Except as provided in Section 5, nothing in this Agreement (including any termination pursuant to Section 4(A)(iii)) shall prevent or limit the Executive's continuing or future participation in any plan, practice, policy or program provided by the Company or any of its Affiliates and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its Affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, practice, policy or program of, or any contract or agreement with, the Company or any of its Affiliates at or subsequent to the Date of Termination shall be payable in accordance with such plan, practice, policy or program or contract or agreement.

7. FULL SETTLEMENT; RESOLUTION OF DISPUTES.

A. The Company's obligation to make payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any setoff, counterclaim, recoupment, defense, mitigation or other claim, right or action which the Company may have against the Executive or others. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any such payment pursuant to this Agreement), plus in each case interest on any delayed payment at the annual percentage rate which is three percentage points above the interest rate shown as the Prime Rate in the Money Rates column in the then most recently published edition of The Wall Street Journal (Southwest Edition), or, if such rate is not then so published on at least a weekly basis, the interest rate announced by Chase Manhattan Bank (or its successor), from time to time, as its Base Rate (or prime lending rate), from the date those amounts were required to have been paid or reimbursed to the Executive until those amounts are finally and fully paid or reimbursed; provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder exceed the maximum non-usurious amount of interest allowed by applicable law. Any reimbursement pursuant to this Section 7 shall be made no later than the last day of the Executive's taxable year next following the year in which such expense was incurred.

B. If there shall be any dispute between the Company and the Executive concerning (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause or Disability or occurred during a Window Period, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed or whether



such termination occurred during a Window Period, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or Disability or that the determination by the Executive of the existence of Good Reason was not made in good faith or that the termination did not occur during a Window Period, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 5(A) as though such termination were by the Company without Cause or by the Executive with Good Reason or during a Window Period; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this Section 7(B) except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled. Notwithstanding the foregoing, if the Executive is a "specified employee" and incurs a "separation from service" (within the meaning such terms as defined in Section 409A), then any payments that would otherwise be payable under this Section 7(B) shall not be payable until the expiration of six months from the date of such separation from service. Operation of this Section 7(B) shall not result in the delay of any other payment to which the Executive is otherwise entitled upon his separation from service.

#### 8. CERTAIN TAX MATTERS.

If the Company, its affiliates, any person acquiring ownership or effective control of the Company or ownership of a substantial portion of the Company's assets or any other person to whom stock ownership is attributed pursuant to Section 318(a) of the Code makes any payment or distribution in the nature of compensation to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, and whether paid or payable or distributed or distributable in cash, stock or any other form) and such payment or distribution constitutes a "parachute payment" as defined in Section 280G of the Code (or any successor provision thereto) which would be subject to the excise tax imposed by Section 4999 of the Code, the Company shall pay to the Executive such additional compensation as is necessary (after taking into account all federal, state and local taxes payable by the Executive as a result of the receipt of such additional compensation) to place the Executive in the same after-tax position (including federal, state and local taxes) he would have been in had no such excise or similar purpose tax (or interest or penalties thereon) been paid or incurred. The Company hereby agrees to pay such additional compensation within the earlier to occur of (i) the fifth Business Day next following the date on which the Executive notifies the Company that the Executive intends to file a tax return taking the position that such excise or similar purpose tax is due and payable in reliance on a written opinion of the Executive's tax counsel (such tax counsel to be chosen solely by the Executive) that it is more likely than not that such excise tax is due and payable or (ii) the first Business Day following notice of or action by the Company that it intends to take the position that such excise tax is due and payable. The costs of obtaining the tax counsel opinion referred to in clause (i) of the preceding sentence shall be borne by the Company, and as long as such tax counsel was chosen by the Executive in good faith, the conclusions reached in such opinion shall not be challenged or disputed by the Company. If the Executive intends to make any payment with respect to any such excise or similar purpose tax as a result of an adjustment to the Executive's tax liability by any federal, state or local tax authority, the Company will pay such additional compensation by delivering its cashier's check payable in such amount to the Executive on the fifth Business Day next

following the date on which the Executive notifies the Company of his intention to make such payment. Without limiting the obligation of the Company hereunder, the Executive agrees, in the event the Executive makes any payment pursuant to the preceding sentence, to negotiate with the Company in good faith with respect to procedures reasonably requested by the Company which would afford the Company the ability to contest the imposition of such excise or similar purpose tax; provided, however, that the Executive will not be required to afford the Company any right to contest the applicability of any such excise or similar purpose tax to the extent that the Executive reasonably determines (based upon the opinion of his tax counsel) that such contest is inconsistent with the overall tax interests of the Executive. Any reimbursement that is payable pursuant to the terms of this Section 8 shall be made no later than the close of the Executive's taxable year next following the taxable year in which the expense was remitted.

9. CONFIDENTIAL INFORMATION.

A. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliates, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its Affiliates and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement) (referred to herein as "Confidential Information"). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 9 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement. Within 30 days of the termination of Executive's employment for any reason, Executive shall return to Company all documents and other tangible items of or containing Company information which are in Executive's possession, custody or control.

B. The Executive shall disclose promptly to the Company any and all conceptions and ideas for inventions, improvements and valuable discoveries, whether patentable or not, which are conceived or made by the Executive solely or jointly with any other Person or Persons during the Employment Period and which pertain primarily to the material business activities of the Company, and the Executive hereby assigns and agrees to assign all his interests therein to the Company or to its nominee; whenever requested to do so by the Company, the Executive shall execute any and all applications, assignments or other instruments which the Company shall deem necessary to apply for and obtain Letters of Patent of the United States or any foreign country or to otherwise protect the Company's interest therein. These obligations shall (i) continue beyond the Date of Termination with respect to inventions, improvements and valuable discoveries, whether patentable or not, conceived, made or acquired by the Executive during the Employment Period and (ii) be binding upon the Executive's assigns, executors, administrators and other legal representatives.

## 10. COVENANT NOT TO COMPETE

A. Executive recognizes that in each of the highly competitive businesses in which the Company is engaged, personal contact is of primary importance in securing new customers and in retaining the accounts and goodwill of present customers and protecting the business of the Company. The Executive, therefore, agrees that during the Employment Period and, if the Date of Termination occurs by reason of the termination of Executive's employment in accordance with Section 4(A)(iii), for a period of one year after the Date of Termination, he will not, within any country with respect to which he has devoted substantial attention to the material business interests of the Company or any of its Affiliates as of the Date of Termination without regard, in either case, to whether the Executive has worked at such location (the "Relevant Geographic Area"), with respect to only the Relevant Geographic Area, (i) accept employment or render service to any person that is engaged in a business directly competitive with the business then engaged in by the Company or any of its Affiliates or (ii) enter into or take part in or lend his name, counsel or assistance to any business, either as proprietor, principal, investor, partner, director, officer, executive, consultant, advisor, agent, independent contractor, or in any other capacity whatsoever, for any purpose that would be competitive with the business of the Company or any of its Affiliates (all of the foregoing activities are collectively referred to as the "Prohibited Activity").

B. In addition to all other remedies at law or in equity which the Company may have for breach of a provision of this Section 10 by the Executive, it is agreed that in the event of any breach or attempted or threatened breach of any such provision, the Company shall be entitled, upon application to any court of proper jurisdiction, to a temporary restraining order or preliminary injunction (without the necessity of (i) proving irreparable harm, (ii) establishing that monetary damages are inadequate or (iii) posting any bond with respect thereto) against the Executive prohibiting such breach or attempted or threatened breach by proving only the existence of such breach or attempted or threatened breach. If the provisions of this Section 10 should ever be deemed to exceed the time, geographic or occupational limitations permitted by the applicable law, the Executive and the Company agree that such provisions shall be and are hereby reformed to the maximum time, geographic or occupational limitations permitted by the applicable law.

C. The covenants of the Executive set forth in this Section 10 are independent of and severable from every other provision of this Agreement; and the breach of any other provision of this Agreement by the Company or the breach by the Company of any other agreement between the Company and the Executive shall not affect the validity of the provisions of this Section 10 or constitute a defense of the Executive in any suit or action brought by the Company to enforce any of the provisions of this Section 10 or seek any relief for the breach thereof by Executive.

D. The Executive acknowledges, agrees and stipulates that: (i) the terms and provisions of this Agreement are reasonable and constitute an otherwise enforceable agreement to which the terms and provisions of this Section 10 are ancillary or a part of as contemplated by Tex. Bus. & Com. Code Ann. §§ 15.50-15.52; (ii) the consideration provided by the Company under this Agreement is not illusory; and (iii) the consideration given by the Company under this Agreement, including the provision by the Company of Confidential Information to the Executive as contemplated by Section 9, gives rise to the Company's interest in restraining and

prohibiting the Executive from engaging in the Prohibited Activity within the Relevant Geographic Area as provided under this Section 10, and the Executive's covenant not to engage in the Prohibited Activity within the Relevant Geographic Area pursuant to this Section 10 is designed to enforce the Executive's consideration (or return promises), including the Executive's promise to not disclose Confidential Information under this Agreement.

11. GENERAL PROVISIONS.

A. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws that would require the application of the laws of any other state or jurisdiction.

B. Section 409A. The following provisions shall apply to this Agreement, notwithstanding any provision to the contrary:

(i) This Agreement is intended to comply with Section 409A of the Code and ambiguous provisions, if any, shall be construed in a manner that is compliant with or exempt from the application of Section 409A. If a provision of the Agreement would result in the imposition of applicable taxes and interest under Section 409A, such provision may be reformed to avoid imposition of such taxes and interest and no action taken to comply with Code Section 409A shall be deemed to adversely affect any rights or benefits of the Executive hereunder.

(ii) This Agreement shall not be amended in a manner that would cause the Agreement or any amounts payable under the Agreement to fail to comply with the requirements of Section 409A, to the extent applicable, and, further, the provisions of any purported amendment that may reasonably be expected to result in such non-compliance shall be of no force or effect with respect to the Agreement.

(iii) The Company shall neither cause nor permit any payment, benefit or consideration to be substituted for a benefit that is payable under this Agreement if such action would result in the failure of any amount that is subject to Section 409A to comply with the applicable requirements of Section 409A.

(iv) The Company shall neither cause nor permit any adjustments to any equity interest to be made in a manner that would result in the equity interest's becoming subject to Section 409A unless, after such adjustment, the equity interest is in compliance with the requirements of Section 409A to the extent applicable.

(v) Notwithstanding any provision of this Agreement to the contrary, if the Executive is a "specified employee" within the meaning of Section 409A as of the Executive's Date of Termination, then any amounts or benefits which are payable under this Agreement upon the Executive's "separation from service" within the meaning of Section 409A which are subject to the provisions of Section 409A and are not otherwise excluded under Section 409A and would otherwise be payable during the first six-month period following such separation from service shall be paid on the first Business Day next following the earlier of (a) the date that is six months and one day following the Date of Termination or (b) the date of Executive's death.

(vi) For purposes of Section 409A, each payment under this Agreement shall be deemed to be a separate payment.

C. Successors.

(i) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, executors and other legal representatives.

(ii) This Agreement shall inure to the benefit of and be binding upon the Company and may only be assigned to a successor described in Section 11(C)(iii).

(iii) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

D. Headings. The headings of Sections and subsections hereof are included for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

E. Amendments; Waivers. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and heirs, executors and other legal representatives.

F. Notices. Any notice, demand, request, consent, approval, declaration, delivery or other communication hereunder to be made pursuant to the provisions of this Agreement shall be sufficiently given or made if in writing and (i) delivered in person with receipt acknowledged, (ii) sent by registered or certified mail, return receipt requested, postage prepaid, (iii) sent by overnight courier with guaranteed next day delivery or (iv) sent by telex or telecopier to the party to whom directed at the following address: 13550 Hempstead Highway, Houston, Texas 77040, or at such other address as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Any notice or other communication hereunder shall be effective when actually received by the addressee.

G. Severability. If any one or more of the provisions of this Agreement shall, for any reason, be held or found by final judgment of a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, (i) such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, (ii) this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein (except that this clause (ii) shall not prohibit any modification allowed under Section 10) and (iii) if the effect of a holding or finding that any such provision is invalid, illegal or unenforceable is to modify to the

Executive's detriment, reduce or eliminate any compensation, reimbursement, payment, allowance or other benefit to the Executive intended by the Company and the Executive in entering into this Agreement, the Company shall, within 30 days after the date of such finding or holding, negotiate and expeditiously enter into an agreement with the Executive which contains alternative provisions (reasonably acceptable to the Executive) that will restore to the Executive (to the extent lawfully permissible) substantially the same economic, substantive and income tax benefits and legal rights the Executive would have enjoyed had such provision been upheld as legal, valid and enforceable.

H. Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

I. No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including the right of the Executive to terminate employment for Good Reason or during a Window Period pursuant to Section 4 of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

J. Entire Agreement. This agreement contains the complete and total understanding of the parties concerning the subject matter hereof and expressly supersedes any previous agreement between the parties relating to the subject matter hereof as well as any agreement between Executive and Dril-Quip, Inc., a Texas corporation.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the Effective Date.

**DRIL-QUIP, INC.**

By: \_\_\_\_\_  
[Name]  
[Title]

\_\_\_\_\_  
[Executive]

EXHIBIT 1

DRIL-QUIP ANNUAL INCENTIVE PLAN

PERFORMANCE MEASURES AND AWARDS MATRIX

The Executive shall be entitled to an annual cash bonus equal to up to 120% of his then applicable Annual Base Salary, with (i) a bonus equal to up to 60% of the Annual Base Salary based on the Company's actual earnings before interest and taxes ("EBIT") measured relative to the Company's budget or plan for each 12-month period ended December 31 and (ii) a bonus equal to up to 60% of the Annual Base Salary based on the Company's return on capital (defined as (a) EBIT divided by (b) total assets less current liabilities) assessed relative to the Company's industry peers during each 12-month period ended September 30. The Company's budget or plan for each 12-month period utilized for purposes of clause (i) above, and the companies comprising the Company's industry peers utilized for purposes of clause (ii) above, shall be as proposed by the Executive and approved by the Compensation Committee in the exercise of its reasonable discretion. The calculation of EBIT and return on capital for each applicable 12-month period shall be as determined by the Company's independent public accountants and contained in a written report delivered to the Executive and the Compensation Committee. The determination of the return on capital for the industry peers, and the applicable performance percentages for purposes of the Incentive Awards Matrix set forth below, shall be made by the Compensation Committee in the exercise of its reasonable discretion. Amounts owing in respect of clause (i) and clause (ii) above shall be paid no later than 90 days following the end of each applicable 12-month period.

**ANNUAL INCENTIVE AWARDS MATRIX**

EBIT Element	ROCE Element				
	EBIT Performance as % of Budget	EBIT Incentive Pay as % of Base Salary	ROCE Performance (Relative to Industry Peers)	ROCE Incentive as % of Base Salary	Total Award Opportunity (% of Base Salary)
Maximum	130%	60.0	75th%ile	60.0	120%
	127	57.0	72	57.0	114
	124	54.0	69	54.0	108
	121	51.0	66	51.0	102
	118	48.0	63	48.0	96
	115	45.0	60	45.0	90
	112	42.0	58	42.0	84
	109	39.0	56	39.0	78
	106	36.0	54	36.0	72
	103	33.0	52	33.0	66
Target	100%	30.0	50%ile	30.0	60
	97	28.0	48	28.0	56
	94	26.0	46	26.0	52
	91	24.0	44	24.0	48
	88	22.0	42	22.0	44
	85	20.0	40	20.0	40
	82	18.0	38	18.0	36
	79	16.0	36	16.0	32
	76	14.0	34	14.0	28
	73	12.0	32	12.0	24
Threshold	70%	10.0	30th%ile	10.0	20
	<70%	0.0	0.0	0.0	0



**2004 INCENTIVE PLAN  
OF  
DRIL-QUIP, INC.**

**(As Amended and Restated Effective as of December 31, 2008)**

1. Establishment of This Plan. Dril-Quip, Inc., a Delaware corporation (the "Company"), established the 2004 Incentive Plan of Dril-Quip, Inc. (the "Prior Plan") on March 18, 2004. By this instrument, the Company now amends and restates the Prior Plan as set forth herein (the "Plan"), effective as of December 31, 2008, in order to provide for certain changes rendered necessary or desirable by the enactment of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and, the promulgation of final regulations thereunder (collectively, "Section 409A"). References in this Plan to "Paragraphs" are to Paragraphs of this Plan.

2. Definitions. As used in this Plan, the following terms have the following respective meanings:

"Annual Meeting" means the annual meeting of the stockholders of the Company, which is held pursuant to Section 211(b) of the Delaware General Corporation Law.

"Authorized Officer" means any Chairman of the Board (or any other senior officer of the Company to whom any Chairman of the Board delegates, by written notice to the Committee of that delegation, authority to execute any Award Agreement).

"Award" means an Employee Award.

"Award Agreement" means any Employee Award Agreement.

"Board" means the Board of Directors of the Company.

"Cash Award" means an award denominated in cash.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Committee" means the Committee of the Board designated by the Board, which shall initially be the Compensation Committee of the Board, consisting of at least two nonemployee members of the Board.

"Common Stock" means the Common Stock, par value \$0.01 per share, of the Company. "Company" means Dril-Quip, Inc., a Delaware corporation.

"Director" means an individual serving as a member of the Board.

"Dividend Equivalents" means, with respect to shares of Restricted Stock, an amount equal to all dividends and other distributions (or the economic equivalent thereof) that are payable to stockholders of record during the Restriction Period applicable to those shares on a like number of shares of Common Stock.

“Employee” means any salaried employee of the Company or any of its Subsidiaries.

“Employee Award” means the grant under this Plan of any Option, SAR, Stock Award, Cash Award or Performance Award, whether granted singly or in combination or tandem with any other Award, to a Participant who is an Employee on such terms and subject to such conditions and limitations as the Committee may establish consistent with the terms of this Plan.

“Employee Award Agreement” means a written agreement between the Company and a Participant who is an Employee that sets forth the terms, conditions and limitations applicable to an Employee Award granted to that Employee.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.

“Fair Market Value” of a share of Common Stock means, as of a particular date, (i) if shares of Common Stock are listed on a national securities exchange, the closing price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (ii) if shares of Common Stock are not so listed, but are quoted on the consolidated transaction reporting system for The Nasdaq Stock Market, Inc., the closing price per share of Common Stock reported by the consolidated transaction reporting system for The Nasdaq National Market on that date or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (iii) if the Common Stock is not so listed or quoted, the closing bid price on that date or, if there are no quotations available for that date, on the last preceding date for which those quotations are available, as reported by The Nasdaq Stock Market, Inc. or, if not reported by The Nasdaq Stock Market, Inc., by the National Quotation Bureau Incorporated or (iv) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for that purpose.

“Incentive Option” means an Option that is intended to comply with the requirements set forth in Section 422 of the Code. “Nonqualified Stock Option” means an Option that is not an Incentive Option.

“1997 Plan” means the 1997 Incentive Plan of Dril-Quip, Inc., as amended and restated effective as of December 31, 2008.

“Option” means a right to purchase a specified number of shares of Common Stock at a specified price. “Participant” means an Employee to whom an Award has been made under this Plan.

“Performance Award” means an award made pursuant to this Plan to a Participant who is an Employee, the earning of which is subject to the attainment of one or more Performance Goals.

“Performance Goal” means a standard established by the Committee to determine in whole or in part whether a Performance Award will be earned.

“Restricted Stock” means any Common Stock that has its transfer restricted or that is subject to forfeiture provisions as provided in the Award Agreement relating thereto.

“Restriction Period” means a period of time beginning as of the effective date as of which an Award of Restricted Stock is made pursuant to this Plan and ending as of the date on which the Common Stock subject to that Award is no longer restricted as to its transfer or subject to forfeiture provisions.

“SAR” means a right to receive a payment, in cash or Common Stock, equal to the excess of the Fair Market Value or other specified valuation of a specified number of shares of Common Stock on the date the right is exercised over a specified strike price, in each case, as determined by the Committee.

“Stock Award” means an award in the form of shares of Common Stock or units denominated in shares of Common Stock.

“Subsidiary” means (i) in the case of a corporation, any corporation of which the Company directly or indirectly owns shares representing more than 50% of the combined voting power of the shares of all classes or series of capital stock of that corporation that have the right to vote generally on matters submitted to a vote of the stockholders of that corporation and (ii) in the case of a partnership or other business entity not organized as a corporation, any such business entity of which the Company directly or indirectly owns more than 50% of the voting, capital or profits interests (whether in the form of partnership interests, membership interests or otherwise).

3. Objectives. The Company has designed this Plan (i) to attract and retain key Employees, (ii) to encourage the sense of proprietorship of these persons in the Company and (iii) to stimulate the active interest of these persons in the development and financial success of the Company and its Subsidiaries by making Awards under this Plan.

4. Eligibility. Key Employees eligible for Employee Awards are those assigned or to be assigned positions of responsibility and whose performance, in the judgment of the Committee, can have a significant effect on the success of the Company and its Subsidiaries.

5. Common Stock Available for Awards. Subject to the provisions of paragraph 15 hereof, there shall be available for Awards under this Plan granted wholly or partly in Common Stock (including rights or options that may be exercised for or settled in Common Stock) an aggregate of 1,348,147 shares of Common Stock. No more than 1,348,147 shares of Common Stock will be used for Awards of Incentive Options. The number of shares of Common Stock that are the subject of Awards under this Plan or the 1997 Plan which are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or

some of the shares covered thereby are not issued to a Participant or are exchanged for a consideration that does not involve Common Stock will again immediately become available for Awards hereunder. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate. The Board and the appropriate officers of the Company will from time to time take whatever actions are necessary to file any required documents with governmental authorities, stock exchanges and transaction reporting systems to ensure that shares of Common Stock are available for issuance pursuant to Awards.

6. Administration.

(a) The Committee will administer this Plan.

(b) Subject to the provisions hereof, the Committee will have full and exclusive power and authority to administer this Plan and to take all actions that are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Committee also will have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers will be exercised in the best interests of the Company and in keeping with the objectives of this Plan. The Committee may, in its discretion, provide for the extension of the exercisability of any Employee Award, accelerate the vesting or exercisability of any Employee Award, eliminate or make less restrictive any restrictions contained in any Employee Award, waive any restriction or other provision of this Plan or any Employee Award or otherwise amend or modify any Employee Award in any manner that is either (i) not adverse to the Participant to whom that Employee Award was granted or (ii) consented to in writing by that Participant; provided that the exercise price of an outstanding Option will not be reduced without approval of the stockholders of the Company. The Committee may grant an Employee Award to any individual who has agreed in writing to become an Employee within six months after the date of that agreement, provided that the effectiveness of that Award will be subject to the condition that the individual actually becomes an Employee within that time period. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Employee Award in the manner and to the extent the Committee deems necessary or desirable to further the purposes of this Plan. Any decision of the Committee in the interpretation and administration of this Plan will lie within its sole and absolute discretion and will be final, conclusive and binding on all parties concerned.

(c) No member of the Committee or officer of the Company to whom the Committee has delegated authority in accordance with the provisions of paragraph 7 of this Plan will be liable for anything done or omitted to be done by him or her, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute.

7. Delegation of Authority. The Committee may delegate to any Chairman of the Board and to other senior officers of the Company its duties under this Plan on such terms and subject to such conditions or limitations as the Committee may establish, except that the Committee may not delegate to any person the authority to grant Awards to, or take other action with respect to, Employee Participants who are subject to Section 16 of the Exchange Act.

## 8. Employee Awards.

(a) The Committee will determine the type or types of Employee Awards to be made and will designate from time to time the Employees who are to receive Employee Awards. Each Employee Award will be evidenced by an Employee Award Agreement containing such terms, conditions and limitations as the Committee determines in its sole discretion and signed by the Participant to whom the Employee Award is made and by an Authorized Officer for and on behalf of the Company. Employee Awards may consist of those listed in this paragraph 8(a) hereof and may be granted singly or in combination or tandem with other Employee Awards. Employee Awards also may be made in combination or tandem with, in replacement of or as alternatives to grants or rights under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. No option may be granted in exchange or in replacement of an option having a higher exercise price. An Employee Award may provide for the grant or issuance of additional, replacement or alternative Employee Awards upon the occurrence of specified events, including the exercise of the original Employee Award granted to a Participant. All or part of an Employee Award may be subject to conditions established by the Committee, which may include, but are not limited to, continuous service with the Company and its Subsidiaries, achievement of specific business objectives, increases in specified indices, attainment of specified growth rates and other comparable measurements of performance. If a Participant holding an Employee Award ceases to be an Employee, any unexercised, deferred, unexercisable, unvested or unpaid portion of that Employee Award will be treated as set forth in the applicable Employee Award Agreement.

(i) Stock Option. An Employee Award may be in the form of an Option. An Option awarded pursuant to this Plan may consist of an Incentive Option or a Nonqualified Option. The price at which any share of Common Stock may be purchased on the exercise of any Option will not be less than the Fair Market Value of a share of the Common Stock on the date of grant of that Option, and the Committee will determine the other terms, conditions and limitations applicable to each Option, including its term and the date or dates on which it becomes exercisable.

(ii) Stock Appreciation Right. An Employee Award may be in the form of a SAR. The Committee will determine the terms, conditions and limitations applicable to each SAR awarded pursuant to this Plan, including its term and the date or dates on which it becomes exercisable.

(iii) Stock Award. An Employee Award may be in the form of a Stock Award. The Committee will determine the terms, conditions and limitations applicable to each Stock Award granted pursuant to this Plan.

(iv) Cash Award. An Employee Award may be in the form of a Cash Award. The Committee will determine the terms, conditions and limitations applicable to each Cash Award granted pursuant to this Plan.

(v) Performance Award. Without limiting the type or number of Employee Awards that may be made under the other provisions of this Plan, an Employee Award may be in the form of a Performance Award. A Performance Award

will be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective Performance Goals established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of the period of service to which the Performance Goal relates or (y) the lapse of 25% of the period of service (as scheduled in good faith at the time the goal is established) and, in any event, while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. A Performance Goal may be based on one or more business criteria, including, but not limited to, those that apply to the individual, one or more lines or classes of products or services of the Company, one or more business divisions, groups or units of the Company or the Company as a whole and may include one or more of the following: increased revenue, net income, stock price, market share, earnings per share, return on equity, return on assets or decrease in costs. Unless otherwise stated, a Performance Goal need not be based on an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). In interpreting Plan provisions applicable to Performance Goals and Performance Awards, it is the intent of this Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulation § 1.162-27(e)(2)(i) or any successor law or regulation, and the Committee in establishing such goals and interpreting the Plan will be guided by those provisions. Prior to the payment of any compensation based on the achievement of Performance Goals, the Committee must certify in writing that the applicable Performance Goals were, in fact, satisfied. Subject to the foregoing provisions, the Committee will determine the terms, conditions and limitations applicable to Performance Awards.

(b) Notwithstanding anything to the contrary contained in this Plan, the following limitations will apply to each Employee Award:

(i) no Participant may be granted, during any one-year period, Employee Awards consisting of Options or SARs that are exercisable for more than 300,000 shares of Common Stock;

(ii) no Participant may be granted, during any one-year period, Stock Awards covering or relating to more than 10,000 shares of Common Stock (the limitation set forth in this clause (ii), together with the limitation set forth in clause (i) above, being hereinafter collectively referred to as the "Stock-based Awards Limitations"); and

(iii) no Participant may be granted Employee Awards consisting of cash or in any other form permitted under this Plan (other than Employee Awards consisting of Options or SARs or otherwise consisting of shares of Common Stock or units denominated in such shares) in respect of any one-year period having a value determined on the date of grant in excess of \$1,000,000.

#### 9. Payment of Awards.

(a) General. Payment of Employee Awards may be made in the form of cash or Common Stock, or a combination thereof, and may include such restrictions as the Committee

may determine, including, in the case of Common Stock, restrictions on transfer and forfeiture provisions. If payment of an Employee Award is made in the form of shares of Restricted Stock, the applicable Award Agreement relating to those shares will specify whether they are to be issued at the beginning or end of their Restriction Period. If shares of Restricted Stock are to be issued at the beginning of their Restriction Period, the certificates evidencing those shares (to the extent that those shares are so evidenced) will contain appropriate legends and restrictions that describe the terms and conditions of the restrictions applicable thereto. If shares of Restricted Stock are to be issued at the end of their Restriction Period, the right to receive those shares will be evidenced by book entry registration or in such other manner as the Committee may determine.

(b) Deferral. The Committee, in its sole discretion, may permit selected Participants to elect to defer payments of some or all types of Employee Awards, subject to the terms and conditions established by the Committee and the requirements of Section 409A. Any deferred payment of an Employee Award, whether elected by the Participant or specified by the applicable Award Agreement or by the Committee, may be forfeited if and to the extent that the applicable Award Agreement so provides.

(c) Dividends and Interest. Rights to dividends or Dividend Equivalents may be extended to and made part of any Employee Award consisting of shares of Common Stock or units denominated in shares of Common Stock, subject to such terms, conditions and restrictions as the Committee may establish. The Committee also may establish rules and procedures for the crediting of interest on deferred cash payments and Dividend Equivalents for Employee Awards consisting of shares of Common Stock or units denominated in shares of Common Stock.

(d) Substitution of Awards. At the discretion of the Committee, a Participant who is an Employee may be offered an election to substitute any Employee Award for another Employee Award or Awards of the same or a different type.

10. Stock Option Exercise. The price at which shares of Common Stock may be purchased under an Option will be paid in full at the time of exercise in cash or, if elected by the optionee, the optionee may purchase those shares by means of tendering Common Stock or surrendering another Award, including shares of Restricted Stock, valued at their Fair Market Value per share on the date of exercise or any combination thereof. The Committee will determine acceptable methods for Participants who are Employees to tender Common Stock or other Employee Awards; provided, that any Common Stock that is or was the subject of an Employee Award may be so tendered only if it has been held by the Participant for six months. The Committee may provide for procedures to permit the exercise or purchase of Employee Awards by use of the proceeds to be received from the sale of Common Stock issuable pursuant to an Employee Award. Unless otherwise provided in the applicable Award Agreement, if shares of Restricted Stock are tendered as consideration for the exercise of an Option, the number of the shares issued on the exercise of the Option that equals the number of shares of Restricted Stock used as consideration therefor will be subject to the same restrictions as the Restricted Stock so submitted as well as to any additional restrictions the Committee may impose.

11. Taxes. The Company will have the right to deduct applicable taxes from any Employee Award payment and withhold, at the time of delivery or vesting of cash or shares of

Common Stock under this Plan or at the time otherwise required by applicable law, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of those taxes. The Committee may permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the Employee Award with respect to which withholding is required. If shares of Common Stock are used to satisfy tax withholding, those shares will be valued at their Fair Market Value per share when the tax withholding is required to be made. The Committee may provide for loans, on either a short-term or demand basis, from the Company to a Participant who is an Employee to permit the payment of taxes required by law.

12. Amendment, Modification, Suspension or Termination. The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law, except that (i) no amendment or alteration that would adversely affect the rights of any Participant under any Award previously granted to that Participant will be made without the consent of that Participant and (ii) no amendment or alteration shall be effective prior to its approval by the stockholders of the Company to the extent such approval is required by applicable legal requirements or the applicable requirements of the securities exchange on which the Common Stock is listed.

13. Section 409A. The following provisions shall apply to this Plan, notwithstanding any provision to the contrary:

(a) This Plan is intended to comply with Section 409A of the Code and ambiguous provisions, if any, shall be construed in a manner that is compliant with or exempt from the application of Section 409A. If a provision of the Plan would result in the imposition of applicable taxes and interest under Section 409A, such provision may be reformed to avoid imposition of such taxes and interest and no action taken to comply with Section 409A shall be deemed to adversely affect any rights or benefits of the Participant hereunder.

(b) This Plan shall not be amended in a manner that would cause the Agreement or any amounts payable under the Plan to fail to comply with the requirements of Section 409A, to the extent applicable, and, further, the provisions of any purported amendment that may reasonably be expected to result in such non-compliance shall be of no force or effect with respect to the Agreement.

(c) The Plan shall neither cause nor permit any payment, benefit or consideration to be substituted for a benefit that is payable under this Plan if such action would result in the failure of any amount that is subject to Section 409A to comply with the applicable requirements of Section 409A.

(d) Notwithstanding any provision of this Plan to the contrary, if the Participant is a "specified employee" within the meaning of Section 409A as of the Participant's Date of Termination, then any amounts or benefits which are payable under this Plan upon the Participant's "separation from service" within the meaning of Section 409A which are subject to the provisions of Section 409A and are not otherwise excluded under Section 409A and would otherwise be payable during the first six-month period following such separation from service shall be paid on the first business day next following the earlier of (a) the date that is six months and one day following the Date of Termination or (b) the date of Participant's death.



(e) For purposes of Section 409A, each payment under this Plan shall be deemed to be a separate payment.

14. Assignability. Unless otherwise determined by the Committee and provided in the applicable Award Agreement, no Award or any other benefit under this Plan will be assignable or otherwise transferable except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. The Committee may prescribe and include in any Award Agreement other restrictions on transfer. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Paragraph 13 will be null and void.

15. Adjustments.

(a) Notwithstanding any other provision of this Paragraph 15 to the contrary, the Company shall neither cause nor permit any adjustments to any equity interest to be made in a manner that would result in the equity interest's becoming subject to Section 409A unless, after such adjustment, the equity interest is in compliance with the requirements of Section 409A to the extent applicable.

(b) The existence of outstanding Awards will not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stock (whether or not that issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(c) If any subdivision, split or combination of outstanding shares of Common Stock or any declaration of a dividend payable in shares of Common Stock occurs, then, except with respect to the Awards outstanding immediately prior to the Closing Date and consisting of Options, (i) the number of shares of Common Stock reserved under this Plan, (ii) the number of shares of Common Stock covered by outstanding Awards in the form of Common Stock or units denominated in Common Stock, (iii) the exercise or other price in respect of such Awards, (iv) the appropriate Fair Market Value and other price determinations for such Awards and (v) the Stock-based Awards Limitations each will be proportionately adjusted by the Board to reflect the consequences of that occurrence. If any recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, any adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends) occurs, the Board will make appropriate adjustments to the amounts or other items referred to in clauses (ii), (iii), (iv) and (v) of the preceding sentence to give effect to that transaction; provided, that such adjustments will be only those as are necessary to maintain the

proportionate interest of the holders of the Awards and preserve, without exceeding, the value of those Awards. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Committee will be authorized to issue or assume Awards by means of substitution of new Awards, as appropriate, for previously issued Awards or to assume previously issued Awards as part of such adjustment.

16. Restrictions. No Common Stock or other form of payment will be issued with respect to any Award unless the Company is satisfied, on the basis of advice of its counsel, that the issuance will comply with applicable federal and state securities laws. Certificates evidencing shares of Common Stock delivered under this Plan (to the extent that the shares are so evidenced) may be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system on which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Committee may cause a legend or legends to be placed upon those certificates (if any) to make appropriate reference to those restrictions.

17. Unfunded Plan. Insofar as it provides for Awards of cash, Common Stock or rights thereto, this Plan will be unfunded. Although bookkeeping accounts may be established with respect to Participants who are entitled to cash, Common Stock or rights thereto under this Plan, any such accounts will be used merely as a bookkeeping convenience. The Company will not be required to segregate any assets that may at any time be represented by cash, Common Stock or rights thereto, nor will this Plan be construed as providing for that segregation, nor shall the Company, the Board or the Committee be deemed to be a trustee of any cash, Common Stock or rights thereto to be granted under this Plan. Any liability or obligation of the Company to any Participant with respect to an Award of cash, Common Stock or rights thereto under this Plan shall be based solely on any contractual obligations that may be created by this Plan and any Award Agreement, and no such liability or obligation of the Company will be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Board nor the Committee will be required to give any security or bond for the performance of any obligation that may be created by this Plan.

18. Governing Law. This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Code or the securities laws of the United States, will be governed by and construed in accordance with the laws of the State of Delaware.

19. Effective Date. The Plan shall be effective as of December 31, 2008.

**1997 INCENTIVE PLAN  
OF  
DRIL-QUIP, INC.**

**(As Amended and Restated Effective as of December 31, 2008)**

1. Establishment of This Plan. Dril-Quip, Inc., a Delaware corporation (the “Company”), established the 1997 Incentive Plan of Dril-Quip, Inc. (the “Superseded Plan”), effective as of September 19, 1997. The Company subsequently amended and restated the Superseded Plan in the form of the 1997 Incentive Plan of Dril-Quip, Inc. as amended March 16, 2001 (the “Prior Plan”). By this instrument, the Company now amends and restates the Prior Plan as set forth herein (the “Plan”), effective as of December 31, 2008, in order to provide for certain changes rendered necessary or desirable by the enactment of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and the promulgation of final regulations thereunder (collectively, “Section 409A”). References in this Plan to “Paragraphs” are to Paragraphs of this Plan.

2. Definitions. As used in this Plan, the following terms have the following respective meanings:

“Annual Meeting” means the annual meeting of the stockholders of the Company which is held pursuant to Section 211(b) of the Delaware General Corporation Law.

“Authorized Officer” means any Chairman of the Board (or any other senior officer of the Company to whom any Chairman of the Board delegates, by written notice to the Committee of that delegation, authority to execute any Award Agreement).

“Award” means an Employee Award.

“Award Agreement” means any Employee Award Agreement. “Board” means the Board of Directors of the Company. “Cash Award” means an award denominated in cash.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Committee” means the Committee of the Board designated by the Board, which shall initially be the Compensation Committee of the Board, consisting of at least two nonemployee members of the Board.

“Common Stock” means the Common Stock, par value \$0.01 per share, of the Company.

“Company” means Dril-Quip, Inc., a Delaware corporation. “Director” means an individual serving as a member of the Board.

“Dividend Equivalents” means, with respect to shares of Restricted Stock, an amount equal to all dividends and other distributions (or the economic equivalent thereof) that are payable to stockholders of record during the Restriction Period applicable to those shares on a like number of shares of Common Stock.

“Employee” means any salaried employee of the Company or any of its Subsidiaries.

“Employee Award” means the grant under this Plan of any Option, SAR, Stock Award, Cash Award or Performance Award, whether granted singly or in combination or tandem with any other Award, to a Participant who is an Employee on such terms and subject to such conditions and limitations as the Committee may establish consistent with the terms of this Plan.

“Employee Award Agreement” means a written agreement between the Company and a Participant who is an Employee that sets forth the terms, conditions and limitations applicable to an Employee Award granted to that Employee.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.

“Fair Market Value” of a share of Common Stock means, as of a particular date, (i) if shares of Common Stock are listed on a national securities exchange, the closing price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (ii) if shares of Common Stock are not so listed, but are quoted on the Nasdaq National Market, the closing price per share of Common Stock reported by the Nasdaq National Market on that date or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (iii) if the Common Stock is not so listed or quoted, the closing bid price on that date or, if there are no quotations available for that date, on the last preceding date for which those quotations are available, as reported by the Nasdaq Stock Market or, if not reported by the Nasdaq Stock Market, by the National Quotation Bureau Incorporated or (iv) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for that purpose.

“Incentive Option” means an Option that is intended to comply with the requirements set forth in Section 422 of the Code.

“Nonqualified Stock Option” means an Option that is not an Incentive Option.

“Option” means a right to purchase a specified number of shares of Common Stock at a specified price.

“Participant” means an Employee to whom an Award has been made under this Plan.

“Performance Award” means an award made pursuant to this Plan to a Participant who is an Employee the earning of which is subject to the attainment of one or more Performance Goals.

“Performance Goal” means a standard established by the Committee to determine in whole or in part whether a Performance Award will be earned.

“Restricted Stock” means any Common Stock that has its transfer restricted or that is subject to forfeiture provisions as provided in the Award Agreement relating thereto.

“Restriction Period” means a period of time beginning as of the effective date as of which an Award of Restricted Stock is made pursuant to this Plan and ending as of the date on which the Common Stock subject to that Award is no longer restricted as to its transfer or subject to forfeiture provisions.

“SAR” means a right to receive a payment, in cash or Common Stock, equal to the excess of the Fair Market Value or other specified valuation of a specified number of shares of Common Stock on the date the right is exercised over a specified strike price, in each case, as determined by the Committee.

“Stock Award” means an award in the form of shares of Common Stock or units denominated in shares of Common Stock.

“Subsidiary” means (i) in the case of a corporation, any corporation of which the Company directly or indirectly owns shares representing more than 50 % of the combined voting power of the shares of all classes or series of capital stock of that corporation that have the right to vote generally on matters submitted to a vote of the stockholders of that corporation and (ii) in the case of a partnership or other business entity not organized as a corporation, any such business entity of which the Company directly or indirectly owns more than 50% of the voting, capital or profits interests (whether in the form of partnership interests, membership interests or otherwise).

3. Objectives. The Company has designed this Plan (i) to attract and retain key Employees, (ii) to encourage the sense of proprietorship of these persons in the Company and (iii) to stimulate the active interest of these persons in the development and financial success of the Company and its Subsidiaries by making Awards under this Plan.

4. Eligibility. Key Employees eligible for Employee Awards are those assigned or to be assigned positions of responsibility and whose performance, in the judgment of the Committee, can have a significant effect on the success of the Company and its Subsidiaries.

5. Common Stock Available for Awards. Subject to the provisions of paragraph 15 hereof, there shall be available for Awards under this Plan granted wholly or partly in Common Stock (including rights or options that may be exercised for or settled in Common Stock) an aggregate of 2,400,000 shares of Common Stock. No more than 2,400,000 shares of Common Stock will be used for Awards of Incentive Options. The number of shares of Common Stock that are the subject of Awards which are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or some of the shares covered thereby are not issued to a Participant or are exchanged for a consideration that does not involve Common Stock will again immediately become available for Awards hereunder. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate. The Board and the appropriate officers of the Company will from time to time take whatever actions are necessary to file any required documents with governmental authorities, stock exchanges and transaction reporting systems to ensure that shares of Common Stock are available for issuance pursuant to Awards.

6. Administration.

(a) The Committee will administer this Plan.

(b) Subject to the provisions hereof, the Committee will have full and exclusive power and authority to administer this Plan and to take all actions that are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Committee also will have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers will be exercised in the best interests of the Company and in keeping with the objectives of this Plan. The Committee may, in its discretion, provide for the extension of the exercisability of any Employee Award, accelerate the vesting or exercisability of any Employee Award, eliminate or make less restrictive any restrictions contained in any Employee Award, waive any restriction or other provision of this Plan or any Employee Award or otherwise amend or modify any Employee Award in any manner that is either (i) not adverse to the Participant to whom that Employee Award was granted or (ii) consented to in writing by that Participant. The Committee may grant an Employee Award to any individual who has agreed in writing to become an Employee within six months after the date of that agreement, provided that the effectiveness of that Award will be subject to the condition that the individual actually becomes an Employee within that time period. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Employee Award in the manner and to the extent the Committee deems necessary or desirable to further the purposes of this Plan. Any decision of the Committee in the interpretation and administration of this Plan will lie within its sole and absolute discretion and will be final, conclusive and binding on all parties concerned.

(c) No member of the Committee or officer of the Company to whom the Committee has delegated authority in accordance with the provisions of paragraph 7 of this Plan will be liable for anything done or omitted to be done by him or her, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute.

7. Delegation of Authority. The Committee may delegate to any Chairman of the Board and to other senior officers of the Company its duties under this Plan on such terms and subject to such conditions or limitations as the Committee may establish, except that the Committee may not delegate to any person the authority to grant Awards to, or take other action with respect to, Employee Participants who are subject to Section 16 of the Exchange Act.

8. Employee Awards.

(a) The Committee will determine the type or types of Employee Awards to be made and will designate from time to time the Employees who are to receive Employee Awards. Each Employee Award will be evidenced by an Employee Award Agreement containing such terms, conditions and limitations as the Committee determines in its sole

discretion and signed by the Participant to whom the Employee Award is made and by an Authorized Officer for and on behalf of the Company. Employee Awards may consist of those listed in this paragraph 8(a) hereof and may be granted singly or in combination or tandem with other Employee Awards. Employee Awards also may be made in combination or tandem with, in replacement of or as alternatives to grants or rights under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. No option may be granted in exchange or in replacement of an option having a higher exercise price. An Employee Award may provide for the grant or issuance of additional, replacement or alternative Employee Awards upon the occurrence of specified events, including the exercise of the original Employee Award granted to a Participant. All or part of an Employee Award may be subject to conditions established by the Committee, which may include, but are not limited to, continuous service with the Company and its Subsidiaries, achievement of specific business objectives, increases in specified indices, attainment of specified growth rates and other comparable measurements of performance. If a Participant holding an Employee Award ceases to be an Employee, any unexercised, deferred, unexercisable, unvested or unpaid portion of that Employee Award will be treated as set forth in the applicable Employee Award Agreement.

(i) Stock Option. An Employee Award may be in the form of an Option. An Option awarded pursuant to this Plan may consist of an Incentive Option or a Nonqualified Option. The price at which any share of Common Stock may be purchased on the exercise of any Option will not be less than the Fair Market Value of a share of the Common Stock on the date of grant of that Option, and the Committee will determine the other terms, conditions and limitations applicable to each Option, including its term and the date or dates on which it becomes exercisable.

(ii) Stock Appreciation Right. An Employee Award may be in the form of an SAR. The Committee will determine the terms, conditions and limitations applicable to each SAR awarded pursuant to this Plan, including its term and the date or dates on which it becomes exercisable.

(iii) Stock Award. An Employee Award may be in the form of a Stock Award. The Committee will determine the terms, conditions and limitations applicable to each Stock Award granted pursuant to this Plan.

(iv) Cash Award. An Employee Award may be in the form of a Cash Award. The Committee will determine the terms, conditions and limitations applicable to each Cash Award granted pursuant to this Plan.

(v) Performance Award. Without limiting the type or number of Employee Awards that may be made under the other provisions of this Plan, an Employee Award may be in the form of a Performance Award. A Performance Award will be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective Performance Goals established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of the period of service to which the Performance Goal relates or (y) the lapse of 25 % of the period of service (as scheduled in good faith at the time the goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party

having knowledge of the relevant facts could determine whether the goal is met. A Performance Goal may be based on one or more business criteria, including, but not limited to, those that apply to the individual, one or more lines or classes of products or services of the Company, one or more business divisions, groups or units of the Company, or the Company as a whole, and may include one or more of the following: increased revenue, net income, stock price, market share, earnings per share, return on equity, return on assets or decrease in costs. Unless otherwise stated, a Performance Goal need not be based on an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). In interpreting Plan provisions applicable to Performance Goals and Performance Awards, it is the intent of this Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulation §1.162-27(e)(2)(i) or any successor law or regulation, and the Committee in establishing such goals and interpreting the Plan will be guided by those provisions. Prior to the payment of any compensation based on the achievement of Performance Goals, the Committee must certify in writing that the applicable Performance Goals were, in fact, satisfied. Subject to the foregoing provisions, the Committee will determine the terms, conditions and limitations applicable to Performance Awards.

(b) Notwithstanding anything to the contrary contained in this Plan, the following limitations will apply to each Employee Award:

(i) no Participant may be granted, during any one-year period, Employee Awards consisting of Options or SARs that are exercisable for more than 300,000 shares of Common Stock;

(ii) no Participant may be granted, during any one-year period, Stock Awards covering or relating to more than 10,000 shares of Common Stock (the limitation set forth in this clause (ii), together with the limitation set forth in clause (i) above, being hereinafter collectively referred to as the "Stock-based Awards Limitations"); and

(iii) no Participant may be granted Employee Awards consisting of cash or in any other form permitted under this Plan (other than Employee Awards consisting of Options or SARs or otherwise consisting of shares of Common Stock or units denominated in such shares) in respect of any one-year period having a value determined on the date of grant in excess of \$1,000,000.

#### 9. Payment of Awards.

(a) General. Payment of Employee Awards may be made in the form of cash or Common Stock, or a combination thereof, and may include such restrictions as the Committee may determine, including, in the case of Common Stock, restrictions on transfer and forfeiture provisions. If payment of an Employee Award is made in the form of shares of Restricted Stock, the applicable Award Agreement relating to those shares will specify whether they are to be issued at the beginning or end of their Restriction Period. If shares of Restricted Stock are to be issued at the beginning of their Restriction Period, the certificates evidencing those shares (to the extent that those shares are so evidenced) will contain appropriate legends and restrictions that



describe the terms and conditions of the restrictions applicable thereto. If shares of Restricted Stock are to be issued at the end of their Restricted Period, the right to receive those shares will be evidenced by book entry registration or in such other manner as the Committee may determine.

(b) Deferral. The Committee, in its sole discretion, may permit selected Participants to elect to defer payments of some or all types of Employee Awards, subject to the terms and conditions established by the Committee and the requirements of Section 409A. Any deferred payment of an Employee Award, whether elected by the Participant or specified by the applicable Award Agreement or by the Committee, may be forfeited if and to the extent that the applicable Award Agreement so provides.

(c) Dividends and Interest. Rights to dividends or Dividend Equivalents may be extended to and made part of any Employee Award consisting of shares of Common Stock or units denominated in shares of Common Stock, subject to such terms, conditions and restrictions as the Committee may establish. The Committee also may establish rules and procedures for the crediting of interest on deferred cash payments and Dividend Equivalents for Employee Awards consisting of shares of Common Stock or units denominated in shares of Common Stock.

(d) Substitution of Awards. At the discretion of the Committee, a Participant who is an Employee may be offered an election to substitute any Employee Award for another Employee Award or Awards of the same or a different type.

10. Stock Option Exercise. The price at which shares of Common Stock may be purchased under an Option will be paid in full at the time of exercise in cash or, if elected by the optionee, the optionee may purchase those shares by means of tendering Common Stock or surrendering another Award, including shares of Restricted Stock, valued at their Fair Market Value per share on the date of exercise, or any combination thereof. The Committee will determine acceptable methods for Participants who are Employees to tender Common Stock or other Employee Awards; provided, that any Common Stock that is or was the subject of an Employee Award may be so tendered only if it has been held by the Participant for six months. The Committee may provide for procedures to permit the exercise or purchase of Employee Awards by use of the proceeds to be received from the sale of Common Stock issuable pursuant to an Employee Award. Unless otherwise provided in the applicable Award Agreement, if shares of Restricted Stock are tendered as consideration for the exercise of an Option, the number of the shares issued on the exercise of the Option that equals the number of shares of Restricted Stock used as consideration therefor will be subject to the same restrictions as the Restricted Stock so submitted as well as to any additional restrictions the Committee may impose.

11. Taxes. The Company will have the right to deduct applicable taxes from any Employee Award payment and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, or at the time otherwise required by applicable law, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of those taxes. The Committee may permit withholding to be satisfied by the transfer to the Company of shares of Common Stock

theretofore owned by the holder of the Employee Award with respect to which withholding is required. If shares of Common Stock are used to satisfy tax withholding, those shares will be valued at their Fair Market Value per share when the tax withholding is required to be made. The Committee may provide for loans, on either a short-term or demand basis, from the Company to a Participant who is an Employee to permit the payment of taxes required by law.

12. Amendment, Modification, Suspension or Termination. The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law, except that no amendment or alteration that would adversely affect the rights of any Participant under any Award previously granted to that Participant will be made without the consent of that Participant.

13. Section 409A. The following provisions shall apply to this Plan, notwithstanding any provision to the contrary:

(a) This Plan is intended to comply with Section 409A of the Code and ambiguous provisions, if any, shall be construed in a manner that is compliant with or exempt from the application of Section 409A. If a provision of the Plan would result in the imposition of applicable taxes and interest under Section 409A, such provision may be reformed to avoid imposition of such taxes and interest and no action taken to comply with Section 409A shall be deemed to adversely affect any rights or benefits of the Participant hereunder.

(b) This Plan shall not be amended in a manner that would cause the Agreement or any amounts payable under the Plan to fail to comply with the requirements of Section 409A, to the extent applicable, and, further, the provisions of any purported amendment that may reasonably be expected to result in such non-compliance shall be of no force or effect with respect to the Agreement.

(c) The Plan shall neither cause nor permit any payment, benefit or consideration to be substituted for a benefit that is payable under this Plan if such action would result in the failure of any amount that is subject to Section 409A to comply with the applicable requirements of Section 409A.

(d) Notwithstanding any provision of this Plan to the contrary, if the Participant is a "specified employee" within the meaning of Section 409A as of the Participant's Date of Termination, then any amounts or benefits which are payable under this Plan upon the Participant's "separation from service" within the meaning of Section 409A which are subject to the provisions of Section 409A and are not otherwise excluded under Section 409A and would otherwise be payable during the first six-month period following such separation from service shall be paid on the first business day next following the earlier of (a) the date that is six months and one day following the Date of Termination or (b) the date of Participant's death.

(e) For purposes of Section 409A, each payment under this Plan shall be deemed to be a separate payment.

14. Assignability. Unless otherwise determined by the Committee and provided in the applicable Award Agreement, no Award or any other benefit under this Plan will be assignable or otherwise transferable except by will or the laws of descent and distribution or

pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. The Committee may prescribe and include in any Award Agreement other restrictions on transfer. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Paragraph 14 will be null and void.

15. Adjustments.

(a) Notwithstanding any other provision of this Paragraph 15 to the contrary, the Company shall neither cause nor permit any adjustments to any equity interest to be made in a manner that would result in the equity interest's becoming subject to Section 409A unless, after such adjustment, the equity interest is in compliance with the requirements of Section 409A to the extent applicable.

(b) The existence of outstanding Awards will not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stock (whether or not that issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(c) If any subdivision, split or combination of outstanding shares of Common Stock, or any declaration of a dividend payable in shares of Common Stock, occurs, then, except with respect to the Awards outstanding immediately prior to the Closing Date and consisting of Options, (i) the number of shares of Common Stock reserved under this Plan, (ii) the number of shares of Common Stock covered by outstanding Awards in the form of Common Stock or units denominated in Common Stock, (iii) the exercise or other price in respect of such Awards, (iv) the appropriate Fair Market Value and other price determinations for such Awards, and (v) the Stock-based Awards Limitations each will be proportionately adjusted by the Board to reflect the consequences of that occurrence. If any recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, any adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends) occurs, the Board will make appropriate adjustments to the amounts or other items referred to in clauses (ii), (iii), (iv) and (v) of the preceding sentence to give effect to that transaction; provided, that such adjustments will be only those as are necessary to maintain the proportionate interest of the holders of the Awards and preserve, without exceeding, the value of those Awards. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Committee will be authorized to issue or assume Awards by means of substitution of new Awards, as appropriate, for previously issued Awards or to assume previously issued Awards as part of such adjustment.

16. Restrictions. No Common Stock or other form of payment will be issued with respect to any Award unless the Company is satisfied, on the basis of advice of its counsel, that the issuance will comply with applicable federal and state securities laws. Certificates

evidencing shares of Common Stock delivered under this Plan (to the extent that the shares are so evidenced) may be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system on which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Committee may cause a legend or legends to be placed upon those certificates (if any) to make appropriate reference to those restrictions.

17. Unfunded Plan. Insofar as it provides for Awards of cash, Common Stock or rights thereto, this Plan will be unfunded. Although bookkeeping accounts may be established with respect to Participants who are entitled to cash, Common Stock or rights thereto under this Plan, any such accounts will be used merely as a bookkeeping convenience. The Company will not be required to segregate any assets that may at any time be represented by cash, Common Stock or rights thereto, nor will this Plan be construed as providing for that segregation, nor shall the Company, the Board or the Committee be deemed to be a trustee of any cash, Common Stock or rights thereto to be granted under this Plan. Any liability or obligation of the Company to any Participant with respect to an Award of cash, Common Stock or rights thereto under this Plan shall be based solely on any contractual obligations that may be created by this Plan and any Award Agreement, and no such liability or obligation of the Company will be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Board nor the Committee will be required to give any security or bond for the performance of any obligation that may be created by this Plan.

18. Governing Law. This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Code or the securities laws of the United States, will be governed by and construed in accordance with the laws of the State of Delaware.

19. Effective Date. The Plan shall be effective as of December 31, 2008.

**2004 INCENTIVE PLAN  
OF  
DRIL-QUIP, INC.  
STANDARD  
NON-QUALIFIED STOCK OPTION AGREEMENT**

THIS AGREEMENT ("Agreement") is made as of the \_\_\_ day of \_\_\_\_\_, 20\_\_ (the "Grant Date"), by and between Dril-Quip, Inc., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Grantee").

The Company has adopted the 2004 Incentive Plan of Dril-Quip, Inc. (the "Plan") for the benefit of eligible employees of the Company and its Subsidiaries. Capitalized terms used and not otherwise defined herein shall have the meaning ascribed thereto in the Plan.

Pursuant to the Plan, the Committee, which has generally been assigned responsibility for administering the Plan, has determined that it would be in the interest of the Company and its stockholders to grant the options provided herein in order to encourage the Grantee to remain in the employ of the Company or its Subsidiaries, to encourage the sense of proprietorship of the Grantee in the Company and to stimulate the active interest of the Grantee in the development and financial success of the Company.

The Company and the Grantee therefore agree as follows:

1. **Grant of Option.** Subject to the terms and conditions herein, the Company grants to the Grantee during the period commencing on \_\_\_\_\_, 20\_\_ and expiring at 5 p.m. Houston, Texas time ("Close of Business") on \_\_\_\_\_, 20\_\_ (the "Option Term"), subject to earlier termination pursuant to paragraph 6 below, an option to purchase from the Company, at the price of \$\_\_\_\_\_ per share (the "Option Price"), \_\_\_\_\_ shares (the "Option Shares") of Company Common Stock ("Common Stock"); provided that the price at which any share of Common Stock may be purchased on the exercise of any Option will not be less than the Fair Market Value of a share of the Common Stock on the date of grant of that Option. The Grantee agrees that the Option Price complies with the provisions of the Grantee's written employment agreement with the Company dated \_\_\_\_\_. The Option Price and Option Shares are subject to adjustment pursuant to paragraph 9 below. This option is a "Nonqualified Stock Option" and is hereinafter referred to as the "Option."

2. **Conditions of Exercise.** The Option is exercisable only in accordance with the conditions stated in this paragraph.

(a) Except as otherwise provided in this paragraph 2, this Option shall become exercisable in four installments, with one-fourth of the Option Shares becoming exercisable on \_\_\_\_\_, 20\_\_ and an additional one-fourth becoming exercisable on \_\_\_\_\_ of each of 20\_\_, 20\_\_ and 20\_\_; provided, however, that subject to paragraph 2(c), the right to purchase Option Shares is cumulative, so that the Grantee may purchase after any such anniversary and during the remainder of the Option Term those quantities of Option Shares which the Grantee was entitled to purchase but did not purchase during any preceding

period or periods. Notwithstanding the foregoing, subject to the provisions of any applicable written employment agreement between the Grantee and the Company or any Subsidiary, no additional Option Shares shall become available for purchase if the Grantee has not remained in continuous Employment through the applicable date. "Employment" for purposes of this Agreement means employment with the Company or any of its Subsidiaries.

(b) Notwithstanding the limitations set forth in paragraph 2(a), the Option shall become fully exercisable, provided that the Grantee has been in continuous Employment since the commencement of the Option Term, upon the occurrence of a Change of Control.

For the purposes of this Agreement, "Change of Control" shall mean a change in control of the Company after the commencement of the Option Term, which shall be deemed to have occurred in any one of the following circumstances occurring after such date: (i) there shall have occurred an event required to be reported with respect to the Company in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item or any similar schedule or form) promulgated under the Exchange Act, whether or not the Company is then subject to such reporting requirement; (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than the Stockholder Group shall have become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 30% or more of the combined voting power of the Corporation's then outstanding voting securities; (iii) the Company is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (including, for this purpose, any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors. For the purposes of this Agreement, "Stockholder Group" shall mean, to the extent such group is deemed to be a "person" under Section 13(d) of the Exchange Act, collectively, but not individually, J. Mike Walker, Larry E. Reimert, Reimert Family Partners, Ltd., Gary D. Smith and Four Smith's Company, Ltd.

(c) To the extent the Option becomes exercisable, such Option may be exercised only in whole or in increments of one-fourth, one-half or three-quarters of the total number of Option Shares (at any time or from time to time, except as otherwise provided herein) until expiration of the Option Term or earlier termination thereof.

**3. Manner of Exercise.** The Option shall be considered exercised (as to the number of Option Shares specified in the notice referred to in subparagraph (a) below) on the latest of (i) the date of exercise designated in the written notice referred to in subparagraph (a) below, (ii) if the date so designated is not a business day, the first business day following such date or (iii) the earliest business day by which the Company has received all of the following:

(a) Written notice, in the form attached hereto as Exhibit A, designating, among other things, the date of exercise and the number of Option Shares to be purchased;

(b) If the Option is to be exercised, payment of the Option Price for each Option Share to be purchased in cash, Common Stock or in such other form (or combination of forms) of payment contemplated by paragraph 10 of the Plan as the Committee may permit; provided, however, that any shares of Common Stock delivered in payment of the Option Price that are or were the subject of an Employee Award must be shares that the Grantee has owned for a period of at least six months prior to the date of exercise; and

(c) Any other documentation that the Committee may reasonably require.

**4. Mandatory Withholding for Taxes.** The Grantee acknowledges and agrees that no certificates representing shares of Common Stock purchased hereunder shall be delivered to or in respect of the Grantee unless the amount of all federal, state and other governmental withholding tax requirements imposed upon the Company with respect to the issuance of such shares of Common Stock has been remitted to the Company or unless provisions to pay such withholding requirements have been made to the satisfaction of the Committee pursuant to paragraph 11 of the Plan. The Committee may make such provisions as it may deem appropriate for the withholding of any taxes which it determines is required in connection with this Option. The Grantee may pay all or any portion of the taxes required to be withheld by the Company or paid by the Grantee in connection with the exercise of all or any portion of this Option by delivering cash, or, with the Committee's approval, by electing to have the Company withhold shares of Common Stock, or by delivering previously owned shares of Common Stock, having a Fair Market Value determined in accordance with paragraph 11 of the Plan, equal to the amount required to be withheld or paid.

**5. Delivery by the Company.** As soon as practicable after receipt of all items referred to in paragraph 3, and subject to the withholding referred to in paragraph 4, the Company shall deliver to the Grantee certificates issued in the Grantee's name for the number of Option Shares purchased by exercise of the Option. If delivery is by mail, delivery of shares of Common Stock shall be deemed effected for all purposes when a stock transfer agent of the Company shall have deposited the certificates in the United States mail, addressed to the Grantee.

**6. Termination of Option:** The Option hereby granted shall terminate and be of no force and effect with respect to any shares of Common Stock not previously purchased by the Grantee upon the first to occur of:

(a) the expiration of the Option Term; or

(b) with respect to

(i) the portion of the Option exercisable upon termination, the expiration of (A) 90 days following the Grantee's termination of Employment for reasons other than death or Disability (as defined below), or (B) one year following the Grantee's termination of Employment by reason of death or Disability; and

(ii) the portion of the Option not exercisable upon termination, the date of the Grantee's termination of Employment.

"Disability" for purposes of the Agreement means illness or other incapacity which continues for a period of more than six months.

**7. Nontransferability of Option.** During the Grantee's lifetime, the Option is not transferable (voluntarily or involuntarily) other than pursuant to a qualified domestic relations order and, except as otherwise required pursuant to a qualified domestic relations order, is exercisable only by the Grantee or the Grantee's court-appointed legal representative. The Grantee may designate a beneficiary or beneficiaries to whom the Option shall pass upon the Grantee's death and may change such designation from time to time by filing a written designation of beneficiary or beneficiaries with the Committee on the form annexed hereto as Exhibit B or such other form as may be prescribed by the Committee, provided that no such designation shall be effective unless so filed prior to the death of the Grantee. If no such designation is made or if the designated beneficiary does not survive the Grantee's death, the Option shall pass by will or the laws of descent and distribution. Following the Grantee's death, the Option, to the extent it was exercisable on the date of the Grantee's death, may be exercised in accordance with the terms of this Agreement by the person to whom such Option passes.

**8. No Stockholder Rights.** The Grantee shall not be deemed for any purpose to be, or to have any of the rights of, a stockholder of the Company with respect to any shares of Common Stock as to which this Agreement relates until such shares shall have been issued to the Grantee by the Company. Furthermore, the existence of this Agreement shall not affect in any way the right or power of the Company or its stockholders to accomplish any corporate act, including, without limitation, the acts referred to in paragraph 15 of the Plan.

**9. Adjustments.** As provided in paragraph 15 of the Plan and subject to paragraph 13 of the Plan, certain adjustments may be made to the Option upon the occurrence of events or circumstances described in paragraph 15 of the Plan. The Grantee agrees that, upon a merger or other similar business combination transaction relating to the Company wherein all of the outstanding Common Stock of the Company is exchanged for shares of capital stock of another company (an "Acquiror"), the Board may, in its sole discretion, provide that this Option shall be exchanged for (a) a similar option to purchase shares of capital stock of such Acquiror, the specific terms of which shall be determined by the Committee or (b) cash in an amount equal to the Fair Market Value of the Option Shares on a date determined by the Committee less the aggregate exercise price of the Option Shares.



10. **Restrictions Imposed by Law.** Without limiting the generality of paragraphs 13 or 16 of the Plan, the Grantee agrees that the Grantee will not exercise the Option and that the Company will not be obligated to deliver any shares of Common Stock, if counsel to the Company determines that such exercise or delivery would violate any applicable law or any rule or regulation of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which the Common Stock is listed or quoted. The Company shall in no event be obligated to take any affirmative action in order to cause the exercise of the Option or the resulting delivery of shares of Common Stock to comply with any such law, rule, regulation or agreement.

11. **Notice.** Unless the Company notifies the Grantee in writing of a different procedure, any notice or other communication to the Company with respect to this Agreement shall be in writing and shall be delivered personally or sent by first class mail, postage prepaid to the following address:

Dril-Quip, Inc.  
13550 Hempstead Hwy.  
Houston, Texas 77040  
Attn: Corporate Secretary

Any notice or other communication to the Grantee with respect to this Agreement shall be in writing and shall be delivered personally, or shall be sent by first class mail, postage prepaid, to the Grantee's address as listed in the records of the Company on the Grant Date, unless the Company has received written notification from the Grantee of a change of address.

12. **Amendment.** Notwithstanding any other provisions hereof, this Agreement may be supplemented or amended from time to time as approved by the Committee as contemplated by paragraph 6 of the Plan. Without limiting the generality of the foregoing, without the consent of the Grantee,

(a) subject to paragraph 13 of the Plan, this Agreement may be amended or supplemented to (i) cure any ambiguity or to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or (ii) add to the covenants and agreements of the Company for the benefit of the Grantee or to surrender any right or power reserved to or conferred upon the Company in this Agreement, subject, however, to any required approval of the Company's stockholders and, provided that, in each case, subject to paragraph 9, such changes or corrections shall not adversely affect the rights of the Grantee with respect to the Award evidenced hereby without the Grantee's consent, or (iii) make such other changes as the Company, upon advice of counsel, determines are necessary or advisable because of the adoption or promulgation of, or change in or of the interpretation of, any law or governmental rule or regulation, including any applicable federal or state securities laws; and

(b) subject to paragraphs 6 and 13 of the Plan and any required approval of the Company's stockholders, the Award evidenced by this Agreement may be canceled by the Committee and a new Award made in substitution therefor, provided that, subject to paragraph 9, the Award so substituted shall satisfy all of the requirements of the Plan as of the date such new Award is made and no such action shall adversely affect the Option to the extent then exercisable without the Grantee's consent.

13. **Grantee Employment.** Nothing contained in this Agreement, and no action of the Company or the Committee with respect hereto, shall confer or be construed to confer on the Grantee any right to continue in the employ of the Company or any of its Subsidiaries or interfere in any way with the right of the Company or any employing Subsidiary to terminate the Grantee's employment at any time for any reason.

14. **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware without regard to principles of conflicts of law.

15. **Construction.** References in this Agreement to "this Agreement" and the words "herein," "hereof," "hereunder" and similar terms include all Exhibits appended hereto. This Agreement is entered into, and the Award evidenced hereby is granted, pursuant to the Plan and shall be governed by and construed in accordance with the Plan and the administrative interpretations adopted by the Committee thereunder. All decisions of the Committee upon questions regarding the Plan or this Agreement shall be conclusive. Unless otherwise expressly stated herein, in the event of any inconsistency between the terms of the Plan and this Agreement, the terms of the Plan shall control. The headings of the paragraphs of this Agreement have been included for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

16. **Duplicate Originals.** The Company and the Grantee may sign any number of copies of this Agreement. Each signed copy shall be an original, but all of them together represent the same agreement.

17. **Rules by Committee.** The rights of the Grantee and obligations of the Company hereunder shall be subject to such reasonable rules and regulations as the Committee may adopt from time to time hereafter.

18. **Entire Agreement.** Subject to the provisions of any applicable written employment agreement between the Grantee and the Company or any Subsidiary, the Grantee and the Company hereby declare and represent that no promise or agreement not herein expressed has been made and that this Agreement contains the entire agreement between the parties hereto with respect to the Option and replaces and makes null and void any prior agreements, oral or written, between the Grantee and the Company regarding the Option.

19. **Grantee Acceptance.** The Grantee shall signify acceptance of this Agreement, subject to the terms and conditions of this Agreement and of the Plan and of the administrative interpretations thereof referred to above, by signing in the space provided at the end hereof and returning a signed copy to the Company.

DRIL-QUIP, INC.

By: \_\_\_\_\_  
Gary D. Smith  
Co-Chairman of the Board

DRIL-QUIP, INC.

By: \_\_\_\_\_  
J. Mike Walker  
Co-Chairman of the Board

DRIL-QUIP, INC.

By: \_\_\_\_\_  
Larry E. Reimert  
Co-Chairman of the Board

ACCEPTED:

\_\_\_\_\_  
Grantee

**2004 Incentive Plan of Dril-Quip, Inc.**

**Notice of Option Exercise**

Dril-Quip, Inc.  
13660 Hempstead Hwy.  
Houston, Texas 77040

Attention: Secretary

I refer to the Stock Option Agreement dated as of \_\_\_\_\_, 20\_\_ (the "Option Agreement") between Dril-Quip, Inc. (the "Company") and the undersigned (the "Grantee") in which the Company granted the Grantee a nonqualified stock option (the "Option") to purchase from the Company up to \_\_\_\_\_ shares of the Common Stock, par value \$.01 per share, of the Company (the "Option Shares") at a price per Option Share equal to \$\_\_\_\_\_ (the "Exercise Price"). Words and terms used herein which are defined in the Option Agreement or the 2004 Incentive Plan of Dril-Quip, Inc. (the "Plan") are used herein as defined therein.

1. **Exercise of Option.** The Grantee hereby elects to exercise the Option to purchase the following number of vested Option Shares:

[check one]

- One-fourth of the total number of Option Shares [on or after \_\_\_\_\_, 20\_\_]
- One-half of the total number of Option Shares [on or after \_\_\_\_\_, 20\_\_]
- Three-quarters of the total number of Option Shares [on or after \_\_\_\_\_, 20\_\_]
- All of the Option Shares [on or after \_\_\_\_\_, 20\_\_]

2. **Representations of Grantee.** The Grantee hereby acknowledges, represents and warrants that the Grantee has received, read and understood the Option Agreement and the Plan and will abide by and be bound by their terms and conditions. The Grantee understands that the Grantee may incur tax liability as a result of the Grantee's purchase or disposition of the Option Shares. The Grantee represents that the Grantee has consulted with a tax advisor in connection with the purchase or disposition of the Option Shares and that the Grantee is not relying on the Company for any tax advice.

3. **Delivery of Payment.** The Grantee herewith delivers to the Company the aggregate Exercise Price for the Option Shares that the Grantee has elected to purchase, as follows:

In cash: \$\_\_\_\_\_; and

In shares of Common Stock: \_\_\_\_\_ shares having an aggregate Fair Market Value on the date hereof of \$\_\_\_\_\_.

4. **Withholding.** The Grantee has made provision for the payment of any federal or state withholding taxes required to be paid or withheld by the Company.

SUBMITTED BY:

Grantee: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_

**2004 Incentive Plan of Dril-Quip, Inc.**

**Designation of Beneficiary**

I, \_\_\_\_\_ (the "Grantee"), hereby declare  
that upon my death \_\_\_\_\_ (the "Beneficiary") of

\_\_\_\_\_  
Street Address City State Zip Code

who is my \_\_\_\_\_, shall be entitled to the  
Relationship to Grantee

Option granted the Grantee by the above-referenced agreement (the "Agreement").

It is understood that this Designation of Beneficiary is made pursuant to the Agreement and is subject to the conditions stated herein, including the Beneficiary's survival of the Grantee's death. If any such condition is not satisfied, such rights shall devolve according to the Grantee's will or the laws of descent and distribution.

It is further understood that all prior designations of beneficiary under the Agreement are hereby revoked and that this Designation of Beneficiary may only be revoked in writing, signed by the Grantee, and filed with the Company prior to the Grantee's death.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Grantee