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

FORM 10-K/A

(Amendment No. 2)

(MARK ONE)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2023

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number 001-13439

DRIL-QUIP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**74-2162088**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
2050 West Sam Houston Parkway S., Suite 1100 Houston, Texas	**77042**
(Address of principal executive offices)	**(Zip code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $.01 par value per share	**DRQ**	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-Accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐ ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☒

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At June 30, 2023, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately $777,800,000 based on the closing price of such stock on such date of $23.27.

At February 22, 2024, the number of shares outstanding of registrant's Common Stock was 34,413,906.

EXPLANATORY NOTE

Dril-Quip, Inc. (the "Company" or "Dril-Quip") is filing this Amendment No. 2 on Form 10-K/A (this "Amendment" or "Form 10-K/A No. 2") to amend certain items in its Annual Report on Form 10-K for the fiscal year ended December 31, 2023, originally filed with the Securities and Exchange Commission (the "SEC") on February 27, 2024 (the "Original Form 10-K") as amended by Amendment No. 1 on Form 10-K/A filed on July 8, 2024 ("Form 10-K/A No. 1"). The purpose of this Amendment is solely to amend Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations), to include the discussion of the year ended December 31, 2022 compared to the year ended December 31, 2021 which has been updated to reflect the previously disclosed reclassification of 2021 inventory write-downs from "Restructuring and other charges" to "Cost of sales" contained in our restated consolidated financial statements for the fiscal year December 31, 2021 included in the Form 10-K/A No. 1.

This Amendment continues to describe the conditions as of the date of the Original Form 10-K and, except as set forth herein, we have not updated or modified the disclosures contained in the Original Form 10-K to reflect any events that have occurred after the Original Form 10-K. Accordingly, forward-looking statements included in this Amendment may represent management's views as of the Original Form 10-K and should not be assumed to be accurate as of any date thereafter.

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

The following is management's discussion and analysis of certain significant factors that have affected aspects of the Company's financial position, results of operations, comprehensive income (loss) and cash flows during the periods included in the accompanying consolidated financial statements. This discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto presented elsewhere in this report.

Overview

The Company designs, manufactures, sells and services highly engineered drilling and production equipment for both offshore and onshore applications. The Company's principal products consist of subsea and surface wellheads, specialty connectors and associated pipes, subsea production systems, mudline hanger systems, production riser systems, dry tree systems, subsea manifolds, line hangers and expandable liner systems, multi-frac well connections, conventional wellhead, thermal wellhead, completion packers and safety and kelly valves. Dril-Quip's products are used by major integrated, large independent and foreign national oil and gas companies and drilling contractors throughout the world. Dril-Quip also provides technical advisory assistance on an as-requested basis during installation of its products, as well as rework and reconditioning services for customer-owned Dril-Quip products. In addition, Dril-Quip's customers may rent or purchase running tools from the Company for use in the installation and retrieval of the Company's products.

The Company's organizational structure is based on product and service lines. The Company operates in three business segments— Subsea Products, Subsea Services, and Well Construction. Our Subsea Products business manufactures highly engineered, field-proven products with a wide array of deepwater drilling equipment and technology that meets the requirements for harsh subsea environments. Our Subsea Services business provides high-level aftermarket support and technical services with field technicians that support the full installation and lifecycle management of regulatory and industry standards, as well as offering industry training programs. Our Well Construction business provides products and services utilized in the construction of the wellbore such as completions, casing hardware and liner hanger systems. These products and services are used on both land and offshore markets.

Recent Developments

On July 31, 2023, TIW Canada ULC ("Purchaser"), an unlimited liability company governed by the Laws of Alberta and wholly-owned subsidiary of Dril-Quip, acquired all of the issued and outstanding shares in the capital of 1185641 B.C. Ltd. (d/b/a Great North Wellhead and Frac), a corporation governed by the laws of the province of British Columbia ("Great North Wellhead"), pursuant to a definitive agreement (the "Share Purchase Agreement"), dated as of July 31, 2023, among each of the shareholders of Great North Wellhead (collectively, "Sellers"), Industrial Growth Partners V AIV L.P., in its capacity as agent to Sellers thereunder, Purchaser and, solely in its capacity as guarantor for the obligations of Purchaser thereunder, Dril-Quip for a cash purchase price of $105 million CAD, approximately $79.8 million. The purchase price is subject to customary purchase price adjustments and includes potential earnout payments of up to $30 million CAD, approximately $22.8 million, to be paid over the course of 2024 and 2025 if Great North Wellhead and its subsidiaries meet specific revenue growth targets.

The parties have made customary representations and warranties to each other. The Share Purchase Agreement also contains customary covenants.

For information with respect to this item, see "Business Acquisitions," Note 3 of Notes to the Consolidated Financial Statements in Item 8 of Part II, which is incorporated herein by reference.

Business Environment

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (the "Inflation Reduction Act"). The Inflation Reduction Act contains a number of revisions to the Internal Revenue Code, including a 15% book-income corporate alternative minimum tax on any corporation that, along with the other members of its controlled group, if any, has average adjusted financial statement income over $1.0 billion for any 3-tax-year period ending with January 1, 2022 or later and a 1% excise tax on the fair market value of stock that is repurchased by publicly traded U.S. corporations or their specified affiliates. The alternative minimum tax and the excise tax are effective in taxable years beginning after December 31, 2022. Currently, we are not subject to the corporate alternative minimum tax. The Company will evaluate any impact related to the excise tax on stock repurchases by the Company in future periods.

During the first quarter of 2022, Dril-Quip entered into a collaboration agreement with Aker Solutions ASA (Aker Solutions) to offer subsea injection systems for carbon capture, utilization and storage (CCUS) projects. Under the agreement, Dril-Quip will provide Aker Solutions with CO2 injection Xmas trees and wellheads that will be fully integrated into a larger subsea injection system to provide customers with market-leading technology purposely designed for the injection and storage of CO2. The arrangement will leverage on Aker Solution's position as an integrated supplier of CCUS systems along with its control systems and electrification components. We believe this collaboration agreement focuses on the strengths of both organizations, will deliver an optimum solution for carbon capture and storage, and is in line with each party's strategic goals of collaboration and partnerships to unlock value for customers.

In February 2022, Russia invaded Ukraine, resulting in wide-ranging sanctions imposed on Russia by certain members of the European Union, the United Kingdom and the United States, among others, higher oil prices and increased uncertainty in global markets. As Russia's invasion of Ukraine continues, there can be no certainty regarding whether such governments or other governments will impose additional sanctions, export-controls or other economic or military measures against Russia. Although we have minimal operational exposure in Russia and we do not intend to commit further capital towards projects in Russia, the full impact of the invasion of Ukraine, including economic sanctions and export controls or additional war or military conflict, as well as potential responses to them by Russia, is currently unknown and could adversely affect oil and gas companies, many of which are our customers, as well as the global supply chain. For more information on the risks associated with the invasion of Ukraine, see "Item 1A. Risk Factors" in this report.

We continue to monitor the current global economic environment, specifically including inflationary pressures and the macroeconomic impact of the conflicts in Ukraine and Israel, and any resulting impacts on our financial position and results of operations. See our "Item 1A. Risk Factors" in this report.

Oil and gas prices and the level of drilling and production activity have been characterized by significant volatility in recent years. Worldwide military, political, economic and other events have contributed to oil and natural gas price volatility and are likely to continue to do so in the future. The Company expects continued pressure in both crude oil and natural gas prices, as well as in the level of drilling and production related activities. Even during periods of high prices for oil and natural gas, companies exploring for oil and gas may cancel or curtail programs, seek to renegotiate contract terms, including the price of products and services, or reduce their levels of capital expenditures for exploration and production for a variety of reasons. Any future deterioration of commodity prices could lead to material impairment charges to tangible or intangible assets or otherwise result in a material adverse effect on the Company's results of operations.

The Company operates its business and markets its products and services in most of the significant oil and gas producing areas in the world and is, therefore, subject to the risks customarily attendant to international operations and investments in foreign countries. These risks include nationalization, expropriation, war, acts of terrorism and civil disturbance, restrictive action by local governments, limitation on repatriation of earnings, change in foreign tax laws and change in currency exchange rates, any of which could have an adverse effect on either the Company's ability to manufacture its products in its facilities abroad or the demand in certain regions for the Company's products or both. To date, the Company has not experienced any significant problems in foreign countries arising from local government actions or political instability, but there is no assurance that such problems will not arise in the future. Interruption of the Company's international operations could have a material adverse effect on its overall operations.

During 2020, the Company took advantage of the Payroll Tax Deferral provided by the Coronavirus, Aid, Relief and Economic Security Act ("CARES Act"). The Payroll Tax Deferral allows the Company to defer the payment of the Company's share of FICA taxes of 6.2%. As such, the Company was able to defer its share of FICA taxes for the period beginning March 27, 2020 and ending December 31, 2020. This resulted in approximately $2.9 million in FICA cash tax payments being deferred to 2021 and 2022. The Company must still deposit its share of the Medicare hospital insurance tax of 1.45% as well as all of the employee's share of the payroll taxes withheld.

Oil and Gas Prices

The market for drilling and production equipment and services and the Company's business are substantially dependent on the condition of the oil and gas industry and, in particular, the willingness of oil and gas companies to make capital expenditures on exploration, drilling and production operations. The level of capital expenditures has generally been dependent upon the prevailing view of future oil and gas prices, which are influenced by numerous factors affecting the supply and demand for oil and gas, including worldwide economic activity, interest rates and the cost of capital, environmental regulation, tax policies and the ability and/or desire of OPEC+ and other producing nations to set and maintain production levels and prices.

The volatility in Brent crude oil prices over the past four years continues to have an effect on major integrated, large independent and foreign national oil and gas companies' capital expenditure budgets. Capital expenditures are also dependent on the cost of exploring for and producing oil and gas, the availability, expiration date and price of leases and rigs, the discovery rate of new oil and gas reserves, and technological advances. Oil and gas prices and the level of drilling and production activity have historically been characterized by significant volatility. Future declines in oil and gas prices may further adversely affect the willingness of some oil and gas companies to make capital expenditures on exploration, drilling and production operations, which could have an adverse impact on the Company's results of operations, financial position and cash flows. See "Item 1A. Risk Factors—A material or extended decline in expenditures by the oil and gas industry could significantly reduce our revenue and income."

During 2023, Brent crude oil prices fluctuated, with a high of $97.10 per barrel, a low of $71.03 per barrel, and an average of $82.49 per barrel compared to an average of $100.94 and $70.86 per barrel in 2022 and 2021, respectively. According to the January 2024 release of the Short-Term Energy Outlook published by the EIA, Brent crude oil prices are projected to average $82.49 per barrel in 2024 and $79.48 per barrel in 2025. The International Energy Agency projected the global oil demand to grow by approximately 1.2 million barrels per day to a total of 104.2 million barrels per day in 2024 based on its January 2024 Oil Market Report.

Rig Count

Detailed below is the average contracted offshore rig count (rigs currently drilling as well as rigs committed, but not yet drilling) for the years ended December 31, 2023, 2022, and 2021. The rig count data includes floating rigs (semi-submersibles and drillships) and jack-up rigs. The Company has included only these types of rigs as they are the primary assets used to deploy the Company's products.

	2023		2022		2021	
	Floating Rigs	**Jack-up Rigs**	**Floating Rigs**	**Jack-up Rigs**	**Floating Rigs**	**Jack-up Rigs**
Mobile Offshore Drilling Units	146	403	137	376	131	351

Source: IHS—Petrodata RigBase— December 31, 2023, 2022, and 2021

According to IHS-Petrodata RigBase, as of December 31, 2023, there were 556 rigs contracted for the Company (146 floating rigs and 410 jack-up rigs), which represents a 7.1% increase from the rig count of 519 rigs (139 floating rigs and 380 jack-up rigs) as of December 31, 2022. The 2022 rig count represents an increase of 6.8% from the rig count of 486 (137 floating rigs and 349 jack-up rigs) as of December 31, 2021.

Revenues. Dril-Quip's revenues are generated from three sources: products, services and leasing. Product revenues are derived from the sale of drilling and production equipment. Service revenues are earned when the Company provides technical advisory assistance and rework and reconditioning services. Leasing revenues are derived from rental tools used during installation and retrieval of the Company's products and from leasing our forging facility. In 2023, the Company derived 63.9% of its revenues from the sale of its products, 24.9% of its revenues from services and 11.2% from leasing revenues, compared to 66.5%, 21.9% and 11.6% for products, services and leasing in 2022 and 66.1%, 23.0%, and 10.9% for products, services and leasing in 2021. Service and leasing revenues generally correlate to revenues from product sales because increased product sales typically generate increased demand for technical advisory assistance services during installation and rental of running tools. The Company has substantial international operations, with approximately 74.9% of its revenues derived from foreign sales in 2023 and 66.2% and 63.8% in 2022 and 2021, respectively. Substantially all of the Company's domestic revenue relates to operations in the U.S. Gulf of Mexico. Domestic revenue approximated 25.1% of the Company's total revenues in 2023 and 33.8% and 36.2% in 2022 and 2021, respectively. Revenue is based on the location where services are provided and products are sold.

Product contracts are negotiated and sold separately from service contracts. In addition, service contracts are not included in the product contracts or related sales orders and are not offered to the customer as a condition of the sale of the Company's products. The demand for products and services is generally based on worldwide economic conditions in the oil and gas industry and is not based on a specific relationship between the two types of contracts. Substantially all of the Company's sales are made on a purchase order basis. Purchase orders are subject to change and/or termination at the option of the customer. In case of a change or termination of over time contracts, the customer is required to pay the Company for work performed and other costs necessarily incurred due to the change or termination.

Generally, the Company attempts to raise its prices as its costs increase. However, the actual pricing of the Company's products and services is impacted by a number of factors, including global oil prices, competitive pricing pressure, the level of utilized capacity in the oil service sector, maintenance of market share, the introduction of new products and general market conditions.

The Company accounts for larger and more complex projects that have relatively longer manufacturing time frames on an over time basis. During 2023, there were 75 projects that were accounted for using the over time method, which represented approximately 25.5% of the Company's total revenues and 40.0% of the Company's product revenues. During 2022, there were 79 projects that were accounted for using the over time method, which represented approximately 34.7% of the Company's total revenues and 52.1% of the Company's product revenues. During 2021, there were 54 projects that were accounted for using the over time method, which represented approximately 21.7% of the Company's total revenues and 32.7% of the Company's product revenues. These percentages may fluctuate in the future. Revenues accounted for in this manner are generally recognized based upon a calculation of the percentage complete, which is used to determine the revenue earned and the appropriate portion of total estimated cost of sales. Accordingly, price and cost estimates are reviewed periodically as the work progresses, and adjustments proportionate to the percentage complete are reflected in the period when such estimates are revised. Losses, if any, are recorded in full in the period they become known. Amounts received from customers in excess of revenues recognized are classified as a current liability. See "Item 1A. Risk Factors—We may be required to recognize a charge against current earnings because of over time method of accounting."

Cost of Sales. The principal elements of cost of sales are labor, raw materials and manufacturing overhead. Cost of sales as a percentage of revenues is influenced by the product mix sold in any particular period, costs from projects accounted for under the over time method, over/under manufacturing overhead absorption and market conditions. The Company's costs related to its foreign operations do not significantly differ from its domestic costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include the costs associated with sales and marketing, general corporate overhead, business development expenses, compensation expense, stock-based compensation expense, legal expenses and other related administrative functions.

Engineering and Product Development Expenses. Engineering and product development expenses consist of new product development and testing, as well as application engineering related to customized products.

Restructuring and Other Charges. Restructuring and Other Charges consist of costs under the 2021 global strategic plan. The restructuring charges incurred during the current year primarily consist of office moves, site cleanup, preparation costs, severance, consulting and legal fees. During the second quarter of 2023, the Company reassessed the reasonability of a restructuring liability related to its Well Construction business. During our assessment certain market exit costs became known and the liability was adjusted accordingly, resulting in a release of approximately $2.3 million, which partially offsets the current year restructuring costs. These charges are reflected as "Restructuring and other charges" in our consolidated statements of income (loss).

Acquisition Costs. Acquisition costs consist of expenses related to the acquisition and integration of a business acquired.

Change in Fair Value of Earn-Out Liability. The fair value of contingent consideration liabilities is remeasured at each reporting period at the estimated fair value based on the inputs on the date of remeasurement.

Gain on Sale of Property, Plant and Equipment. Gain or loss on sale of property, plant and equipment consists of sales of assets within this category of fixed assets.

Foreign Currency Transaction (Gain) Loss. Foreign currency transaction (gains) and losses result from a change in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated.

Income Tax Provision. The Company's effective income tax rate fluctuates from the U.S. statutory tax rate based on, among other factors, changes in earnings mix by geography and tax jurisdiction, impact of valuation allowances, changes in tax legislation, and other permanent differences related to the recognition of income and expense between U.S. GAAP and applicable tax rules.

Reclassifications. We reclassified approximately $5.5 million of accrued bonus related to our short-term incentive plan for the year ended December 31, 2022, from other accrued liabilities to accrued compensation to conform to our current year presentation. These reclassifications did not have an impact on our consolidated statements of income (loss), consolidated balance sheets, consolidated statements of comprehensive income (loss), consolidated statements of stockholders' equity and consolidated statements of cash flows.

Results of Operations

The following table sets forth, for the periods indicated, a breakdown of our products and service revenues:

	Year Ended December 31,		
	2023	**2022**	**2021**
		(In millions)	
Revenues:			
Products:			
Subsea products	$ 198.3	$ 194.3	$ 168.4
Well Construction	72.7	46.5	44.9
Total products	271.0	240.8	213.3
Services:			
Subsea services	72.3	60.9	58.1
Well construction services	33.4	18.2	16.0
Total services	105.7	79.1	74.1
Leasing:			
Subsea leasing	29.1	33.6	28.0
Well Construction leasing	18.3	8.4	7.1
Total leasing	47.4	42.0	35.1
Total revenues	$ 424.1	$ 361.9	$ 322.5

The following table sets forth, for the periods indicated, our revenues and operating income (loss) by business segments:

	Year Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
		(In millions)	
Revenue			
Subsea products	$ 198.3	$ 194.3	$ 168.4
Subsea services	101.4	94.5	86.1
Well construction	124.4	73.1	68.0
Total revenue	$ 424.1	$ 361.9	$ 322.5
Operating income (loss)			
Subsea products	$ 8.5	$ 8.9	$ (21.8)
Subsea services	18.4	8.4	(22.4)
Well construction	10.9	14.3	(14.6)
Corporate	(32.5)	(31.1)	(66.5)
Total operating income (loss)	$ 5.3	$ 0.5	$ (125.3)

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Revenues. Revenues increased by $62.2 million, or approximately 17.2%, to $424.1 million in 2023 from $361.9 million in 2022.

Subsea Products revenue increased by approximately $4.0 million, which was primarily driven by Subsea Wellhead and Connector orders in 2023 in the growing international offshore markets, partially offset by lower Subsea Tree demand in the current year.

Subsea Service revenue increased by approximately $6.9 million, which was primarily driven by customer specific increases primarily in the US and Brazil.

Well Construction revenue increased by approximately $51.3 million, which was primarily driven by the acquisition of Great North in the third quarter which contributed $35.2 million in revenue for the year, as well as large bore liner hanger growth in offshore Brazil, Mexico, and West Africa.

Cost of Sales. Cost of sales increased by $42.6 million, or 16.0%, to $308.5 million in 2023 from $265.9 million in 2022. This increase was primarily due to the acquisition of Great North in the third quarter which contributed $20.3 million in cost of sales for the year, as well as large bore liner hanger growth, and higher revenue for subsea services and rework. Cost of sales as a percentage of revenue decreased to 72.7% in 2023 as compared to 73.5% in 2022.

Selling, General and Administrative Expenses. For 2023, selling, general and administrative expenses increased by approximately $7.3 million, or 7.8%, to $101.5 million from $94.2 million in 2022. This increase was primarily due to the addition of Great North SG&A expenses of $5.0 million and an increase in costs associated with the acquisition and integration of Great North.

Engineering and Product Development Expenses. For 2023, engineering and product development expenses increased by approximately $0.9 million, or 7.7%, to $12.6 million from $11.7 million in 2022. Engineering and product development expenses as a percentage of revenue decreased to 3.0% in 2023 from 3.2% in 2022. The marginal increase in expense was primarily due to increased testing and qualification activities related to specific international customer requirements.

Restructuring and Other Charges. For 2023, the Company incurred costs of approximately $3.2 million under the 2021 global strategic plan. The restructuring charges incurred during the current year primarily consist of office moves, site cleanup, preparation costs, severance, consulting and legal fees. During the second quarter of 2023, the Company reassessed the reasonability of a restructuring liability related to its Well Construction business. During our assessment certain market exit costs became known and the liability was adjusted accordingly, resulting in a release of approximately $2.3 million, which partially offsets the current year restructuring costs. During 2022, the Company incurred $13.4 million under the 2021 global strategic plan. These charges were primarily related to write-downs of long-lived assets, severance and other charges. Long-lived asset write-downs consisted of $3.2 million for the Houston corporate administrative building and $2.5 million for obsolete machinery and equipment. Other charges totaled $6.8 million and consisted of consulting and legal fees, office moves, site cleanup and preparation costs. Severance charges totaled approximately $0.9 million for the year.

Gain on Sale of Property, Plant and Equipment. For 2023, gain on sale of property, plant and equipment was approximately $8.8 million, primarily related to the sale of our Houston aftermarket facility, forge facility, corporate administrative building, and certain obsolete machinery and equipment and scrap parts. For 2022, gain on sale of property, plant and equipment was approximately $20.0 million, primarily related to the sale of our Houston forge facility building and obsolete machinery and equipment.

Acquisition Costs. For 2023, acquisition costs were approximately $6.5 million, which related to the acquisition and integration of Great North in the third quarter of 2023.

Change in Fair Value of Earn-Out Liability. For 2023, contingent purchase consideration liabilities related to the acquisition of Great North. The Company remeasured the fair value of the contingent consideration as of December 31, 2023, resulting in a reduction of $2.3 million.

Foreign Currency Transaction (Gain) Loss. Foreign exchange gain for 2023 was $2.6 million as compared to a gain of $3.8 million for the same period in 2022.

Operating Income. Operating income increased by $4.8 million, or approximately 1060%, to $5.3 million in 2023 from $0.5 million in 2022.

Subsea Products operating income decreased marginally by approximately $0.4 million, which was primarily driven by a gain on the sale of our Houston forge facility in 2022, which was mostly offset by a favorable product mix, shifting in some regions from an in-house manufacturing model to a vendor outsourced model resulting in improved profitability, and manufacturing efficiencies achieved due to newer machinery.

Subsea Service operating income increased by approximately $10 million, which was primarily driven by a gain on sale of the Houston aftermarket facility recognized in the first quarter of 2023.

Well Construction operating income decreased by approximately $3.4 million, which was primarily driven by inventory count adjustments in Houston and Mexico, settlement expenses to clear aged accounts receivable, and higher agent fees, offset by additional operating income related to the acquisition of Great North.

Corporate operating loss increased by $1.4 million primarily due to costs associated with the acquisition of Great North.

Income Tax Provision. Income tax expense for 2023 was $12.9 million on an income before taxes of $13.5 million, resulting in an effective income tax rate of 95.5%. Income tax expense was different than the U.S. federal statutory income tax rate of 21% primarily due to changes in valuation allowances, nondeductible expenses, foreign income inclusions, foreign tax withholdings and credits, and other general business credits and incentives. Income tax expense in 2022 was $6.3 million on a income before taxes of $4.7 million, resulting in an effective tax rate of approximately 134.5%. The change in the effective income tax rate from 2022 to 2023 was primarily driven by the favorable outcomes of previously unrecognized tax benefit, change in valuation allowance against the net U.S. deferred tax assets as well as those in various foreign countries, the mix of foreign income taxed at different statutory rates, an increase in non-taxable income, nondeductible expenses, foreign income inclusions and foreign tax credits.

Net Income (Loss). Net income was approximately $0.6 million in 2023, compared to a net loss of $1.6 million in 2022, for the reasons set forth above.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenues. Revenues increased by $39.4 million, or approximately 12.2%, to $361.9 million in 2022 from $322.5 million in 2021.

Subsea Products revenue increased by approximately $25.9 million, which was primarily driven by an improved crude oil market driving organic business growth coupled with a favorable product mix.

Subsea Service revenue increased by approximately $8.4 million, which was primarily driven by customer specific increases in technical advisory services and maintenance requests following an increase in product revenues.

Well Construction revenue increased by approximately $5.1 million, which was primarily driven by customer specific increases in technical advisory and maintenance services for well construction products.

Cost of Sales. Cost of sales decreased by $43.4 million, or 14%, to $265.9 million in 2022 from $309.3 million in 2021. The decrease in cost of sales was primarily related to inventory write-downs of approximately $19.3 million and $47.7 million in 2021, related to the 2018 global strategic plan and 2021 global strategic plan respectively. This is partially offset by an increase in cost of sales in 2022 in line with the increase in revenue. Cost of sales as a percentage of revenue decreased to 73.5% as compared to 95.9%. We were able to achieve these margins despite inflationary pressures for materials largely due to the 2021 inventory write-offs coupled with a favorable product mix and productivity initiatives for the year ended December 31, 2022 as compared to the same period in 2021.

Selling, General and Administrative Expenses. For 2022, selling, general and administrative expenses decreased by approximately $20.8 million, or 18.1%, to $94.2 million from $115.0 million in 2021. This decrease was attributable mainly to lower legal expenses in 2022 related to costs incurred in connection with the FMC Technologies, Inc. lawsuit in 2021, an importation tax settlement under a Brazilian tax amnesty program introduced in the first quarter of 2021, severance payout to our former Chief

Executive Officer, pursuant to a separation agreement entered into with him during the fourth quarter of 2021 and lower consulting fees incurred during the current year.

Engineering and Product Development Expenses. For 2022, engineering and product development expenses decreased by approximately $3.4 million, or 22.3%, to $11.7 million from $15.1 million in 2021. Engineering and product development expenses as a percentage of revenues decreased to 3.2% in 2022 from 4.7% in 2021. This decrease was attributable mainly to lower spend on research and development activities as we completed certain strategic projects.

Restructuring and Other Charges. Restructuring and other charges consist of costs associated with our 2021 global strategic plan initiated in the fourth quarter of 2021, in an effort to realign our subsea product business with the market conditions. Prior to the 2021 global strategic plan, restructuring and other charges were incurred as part of the 2018 global strategic plan, initiated to realign our manufacturing facilities globally and which concluded as of the third quarter of 2021. During 2022, the Company incurred $13.4 million of additional costs under the 2021 global strategic plan. These charges were primarily related to write-downs of long-lived assets, severance and other charges. Long-lived asset write-downs consisted of $3.2 million for the Houston corporate administrative building and $2.5 million for obsolete machinery and equipment. Other charges totaled $6.8 million and consisted of consulting and legal fees, office moves, site cleanup and preparation costs. Severance charges totaled approximately $0.9 million for the year. During 2021, we incurred restructuring charges under the 2018 global strategic plan as we exited from certain underperforming countries and markets and shifted from manufacturing in-house to a vendor outsourcing model which resulted in severance charges of $2.7 million and other charges of $4.0 million, consisting of facilities-related market exit costs and consulting fees. Additionally, as part of the 2021 global strategic plan we discontinued certain product categories which resulted in long-lived asset write-downs and severance charges of approximately $4.2 million and $1.1 million, respectively, during the fourth quarter of 2021.

Gain on Sale of Property, Plant and Equipment. During 2022, gain on sale of property, plant and equipment was approximately $20.0 million, primarily related to the sale of our Houston forge facility building and obsolete machinery and equipment. For the year ended December 31, 2021, gain on sale of property, plant and equipment was approximately $4.5 million, primarily related to the sale of two of our buildings in Singapore.

Foreign Currency Transaction (Gain) Loss. Foreign exchange gain for 2022 was $3.8 million as compared to a loss of $0.8 million for the same period in 2021.

Operating Income. Operating income increased by $125.8 million, or approximately 100%, to $0.5 million in 2022 from a $125.3 million loss in 2021.

Subsea Products operating income increased by approximately $30.7 million, which was primarily driven by a gain of $17.2 million on the sale of our Houston forge facility in 2022 and inventory write-downs and other restructuring charges related to our global strategic plans in 2021.

Subsea Service operating income increased by approximately $30.8 million, which was primarily driven by inventory write-downs and other restructuring charges related to our global strategic plans in 2021.

Well Construction operating income increased by approximately $28.9 million, which was primarily driven by inventory write-downs and other restructuring charges related to our global strategic plans in 2021.

Corporate operating loss decreased by $35.4 million primarily driven by lower restructuring charges, legal and consulting fees, and severance in 2022, as compared to 2021.

Income Tax Provision. Income tax expense for 2022 was $6.3 million on an income before taxes of $4.7 million, resulting in an effective income tax rate of 134.5%. Income tax expense was different than the U.S. federal statutory income tax rate of 21% primarily due to changes in valuation allowances, nondeductible expenses, foreign income inclusions, foreign tax withholdings and credits, and other general business credits and incentives. Income tax expense in 2021 was $2.9 million on a loss before taxes of $125.5 million, resulting in an effective tax rate of approximately (2.4%). The change in the effective income tax rate from 2021 to 2022 was primarily driven by the favorable outcomes of previously unrecognized tax benefit, change in valuation allowance against the net U.S. deferred tax assets as well as those in various foreign countries, the mix of foreign income taxed at different statutory rates, an increase in non-taxable income, nondeductible expenses, foreign income inclusions and foreign tax credits.

Net Income (Loss). Net loss was approximately $1.6 million in 2022, compared to a net loss of $128.5 million in 2021, for the reasons set forth above.

Non-GAAP Financial Measures

We have performed a detailed analysis of the non-GAAP measures that are relevant to our business and its operations and determined that the appropriate unit of measure to analyze our performance is Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, as well as other significant non-cash items and other adjustments for certain charges and credits). The Company believes that the exclusion of these charges and credits from these financial measures enables it to evaluate more effectively the Company's operations period over period and to identify operating trends that could otherwise be masked by excluded items. It is our determination that Adjusted EBITDA is a more relevant measure of how the Company reviews its ability to meet commitments and pursue capital projects.

Adjusted EBITDA

We calculate Adjusted EBITDA as one of the indicators to evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating structure and certain other items, including those that affect the comparability of operating results. This measurement is used in concert with operating income, its most directly comparable financial measure, and net cash from operating activities, which measures actual cash generated in the period. In addition, we believe that Adjusted EBITDA is a supplemental measurement tool used by analysts and investors to help evaluate overall operating performance, ability to pursue and service possible debt opportunities and analyze possible future capital expenditures. Adjusted EBITDA does not represent funds available for our discretionary use and is not intended to represent or to be used as a substitute for net income, as measured under U.S. generally accepted accounting principles. The items excluded from Adjusted EBITDA, but included in the calculation of reported net income, are significant components of the consolidated statements of income (loss) and must be considered in performing a comprehensive assessment of overall financial performance. Our calculation of Adjusted EBITDA may not be consistent with calculations of Adjusted EBITDA used by other companies.

The following table reconciles our reported net income to Adjusted EBITDA for each of the respective periods:

	Year Ended December 31,		
	2023	2022	2021
		(In thousands)	
Net income (loss)	$ 604	$ (1,624)	$ (128,493)
Add:			
Interest income, net	(8,188)	(4,249)	212
Income tax provision	12,864	6,327	2,946
Depreciation and amortization expense	30,324	29,421	30,381
Restructuring and other charges	3,245	13,364	29,740 [2]
Acquisition costs	6,451	-	-
Change in fair value of earn-out liability	(2,282)	-	-
Gain on sale of property, plant and equipment	(8,754)	(20,019)	(4,482)
Foreign currency transaction gain	(2,549)	(3,756)	836
Stock compensation expense	10,892	10,363	14,895
Brazilian amnesty settlement	-	-	1,787
Other	3,935	-	-
Adjusted EBITDA [1]	$ 46,542	$ 29,827	$ (52,178)

[1] Adjusted EBITDA does not measure financial performance under GAAP and, accordingly, should not be considered as an alternative to net income as an indicator of operating performance.

[2] Restructuring and other charges include legal expenses related to the FMC lawsuit, severance charges related to our former Chief Executive Officer and a one-time provision for settlement of certain receivables for the year ended December 31, 2021. Restructuring and other charges has been revised in this Amendment to exclude a $67 million inventory write-down that was reclassified from "Restructuring and other charges" to "Cost of sales" in our restated consolidated financial statements for the fiscal year ended December 31, 2021 included in Form 10-K/A No. 1.

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Liquidity and Capital Resources

Cash Flows

Cash flows provided by (used in) type of activity were as follows:

	Year Ended December 31, 2023	2022	2021
		(In thousands)	
Net cash provided by (used in) operating activities	$ 7,727	$ (36,771)	$ 38,428
Net cash used in investing activities	(79,813)	(30,105)	(3,207)
Net cash used in financing activities	(124)	(20,890)	(24,300)
	(72,210)	(87,766)	10,921
Effect of exchange rate changes on cash activities	(1,194)	(2,881)	(1,425)
Decrease in cash and cash equivalents	$ (73,404)	$ (90,647)	$ 9,496

Statements of cash flows for entities with international operations that are local currency functional exclude the effects of the changes in foreign currency exchange rates that occur during any given year, as these are non-cash changes. As a result, changes reflected in certain line items on the consolidated statements of cash flows may not reflect the changes in corresponding line items on the consolidated balance sheets.

The primary liquidity needs of the Company are (i) to fund capital expenditures to improve and expand facilities and manufacture additional running tools, (ii) to fund working capital and (iii) to fund the repurchase of the Company's shares. The Company's principal source of funds is cash flows from operations. The Company may use its liquidity for, among other things, the support of the Company's research and development efforts, the funding of key projects and spending required by any upturn in the Company's business and the pursuit of possible acquisitions.

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Net cash provided by operating activities in 2023 increased by approximately $44.5 million compared to 2022, primarily due to increases resulting from the change in operating assets and liabilities of $45.3 million.

The change in operating assets and liabilities during 2023 resulted in a $45.3 million increase in cash as compared to the change in operating assets and liabilities during 2022. The $5.4 million net increase in cash due to changes in trade receivables and unbilled receivables was mainly due to a significant increase in billings both for point in time orders and over-time orders as the rights became unconditional on the contract assets and were transferred to trade receivables. Increases in cash due to changes in prepaids and other assets was $43.3 million, primarily due to an income tax refund payment related to prior year tax returns and a decrease in advances to vendors related to projects accounted for on an over-time basis. Increase in cash due to the changes in accounts payable and accrued expenses was $25.0 million primarily due to timing of accounts payable distributions. These increases were partially offset by a $27.5 million decrease in cash due to changes in inventory levels, as we continually reassess our needs based on backlog trends.

Net income increased by $2.2 million to a net income of $0.6 million in 2023 from a net loss of $1.6 million in 2022. The reasons for the increase in net income are set forth in the "Results of Operations" section above.

The change in investing cash flows for 2023 resulted in a $79.8 million decrease in cash primarily due to the acquisition of Great North, net of cash acquired of $82.3 million. Capital expenditures by the Company were $32.6 million and $18.9 million in 2023 and 2022, respectively. Capital expenditures in 2023 included $16.8 million for rental tools to support our developed products, $12.7 million for machinery and equipment related to our global strategic program which includes consolidation of our manufacturing facilities and other expenditures of $3.1 million. Capital expenditures in 2022 were incurred primarily to support our current and recently developed products and to support the strategic shift in our business model. Capital expenditures in 2022 included $10.2 million for rental tools, $6.3 million for machinery and equipment and other expenditures of $2.4 million.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Net cash provided by operating activities in 2022 decreased by approximately $75.2 million compared to 2021, primarily due to decreases resulting from the change in operating assets and liabilities of $195.7 million and a net decrease of $6.4 million in non-cash movements. This was partially offset by a decrease in net loss of $126.9 million.

The change in operating assets and liabilities during 2022 resulted in a $195.7 million decrease in cash as compared to the change in operating assets and liabilities during 2021. The increase in unbilled receivables by $80.8 million was mainly due to a significant increase in projects that are accounted for on an over time basis and the completion timelines of some of our major projects. The decrease in cash due to changes in inventory of $62.5 million was primarily due to $67 million in inventory write-downs related to our global strategic plans, partially offset by a decrease in inventory due to our continued focus on inventory management and consumption during the year. The decrease in cash due to changes in accounts payable and accrued expenses of $23.8 million was mainly related to the payment of our agent fees in the Middle East and the payment of certain property taxes. The $23.2 million decrease in cash due to changes in prepaids and other assets was primarily due an increase in advances to vendors related to projects accounted for on an over time basis in 2022, increases in tax receivables in some foreign jurisdictions in 2022 as compared to the receipt of certain tax receivables and reimbursement of the security amounts deposited with the Brazilian courts related to the tax amnesty program in 2021. The increase in trade receivables by $5.4 million was primarily due to a decrease in billing activity related to our ongoing projects.

Net loss decreased by $126.9 million to a net loss of $1.6 million in 2022 from a net loss of $128.5 million in 2021. The reasons for the decrease in net income or losses are set forth in the "Results of Operations" section above.

Net cash used in investing activities increased by approximately $26.9 million in 2022 as compared to 2021. This increase is primarily due to purchase of short-term investments of $32.2 million and higher capital expenditure spend of $8.9 million, partially offset by an increase in proceeds related to sales of property, plant and equipment by $14.2 million. Capital expenditures by the Company were $18.9 million and $10.0 million in 2022 and 2021, respectively. Capital expenditures in 2022 were incurred primarily to support our current and recently developed products and to support the strategic shift in our business model. Capital expenditures in 2022 included $10.2 million for rental tools, $6.3 million for machinery and equipment and other expenditures of $2.4 million. Capital expenditures in 2021 were primarily to support our current and recently developed products and to support the restructuring of our downhole tools business where we exited certain underperforming markets. Capital expenditures in 2021 included $4.6 million for machinery and equipment, $3.7 million for rental tools and other expenditures of $1.7 million.

Repurchase of Equity Securities

On February 26, 2019, the Board of Directors authorized a share repurchase plan under which the Company can repurchase up to $100 million of its common stock. On February 22, 2022, the Board of Directors authorized an incremental $100 million share repurchase plan. The repurchase plans have no set expiration date and any repurchased shares are expected to be cancelled. Repurchases under the program will be made through open market purchases, privately negotiated transactions or plans, instructions or contracts established under Rule 10b5-1 under the Exchange Act. The manner, timing and amount of any purchase will be determined by management based on an evaluation of market conditions, stock price, liquidity and other factors. The program does not obligate the Company to acquire any particular amount of common stock and may be modified or superseded at any time at the Company's discretion.

For the year ended December 31, 2023, the Company did not purchase any shares under the share repurchase plans. However, the Company withheld 46,172 shares for restricted stock awards vested in 2023 at an average price of approximately $23.70. During the year ended December 31, 2022, the Company purchased 888,197 shares at an average price of $23.41 under the share repurchase plan for approximately $20.8 million. During the year ended December 31, 2021, the Company purchased 1,109,187 shares at an average price of $21.79 under the share repurchase plan for approximately $24.2 million. All repurchased shares were subsequently cancelled. Refer to Item 5. Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities for further discussion.

The Company believes that cash generated from operations plus cash on hand will be sufficient to fund operations, working capital needs and anticipated capital expenditure requirements for the next twelve months at current activity levels. However, if work activity increases, we expect further working capital investment will be required.

Credit Facility

The Company's ABL Credit Facility, dated February 23, 2018, as amended, was terminated effective February 22, 2022. In addition, we opened a new cash collateral account with JPMorgan Chase Bank, N.A., in which cash was transferred to facilitate our existing letters of credit. As of December 31, 2023, the cash balance in that account was approximately $4.1 million. The Company is required to maintain a balance equal to the outstanding letters of credit plus 5% at all times, which is considered as restricted cash and is included in "Restricted cash" in our consolidated balance sheets as at December 31, 2023 and December 31, 2022. Withdrawals from this cash collateral account are only allowed at such point that a given letter of credit has expired or has been cancelled.

Contractual Obligations

For information with respect to this item, see "Leases and Lease Commitments," Note 12 of Notes to the Consolidated Financial Statements in Item 8 of Part II, which is incorporated herein by reference.

Backlog

Backlog typically consists of firm customer orders of Dril-Quip products for which a purchase order, signed contract or letter of award has been received, satisfactory credit or financing arrangements exist and delivery is scheduled. The Company's backlog primarily consists of our Subsea products. Historically, the Company's revenues for a specific period have not been directly related to its backlog as stated at a particular point in time.

The Company believes that its backlog should help mitigate the impact of negative market conditions; however, volatility in the commodity prices or an extended downturn in the global economy or future restrictions on, or declines in, oil and gas exploration and production could have a negative impact on the Company and its backlog. The Company's product backlog was approximately $262.8 million at December 31, 2023 compared to $240.9 million and $210.1 million at December 31, 2022 and 2021, respectively. The backlog at the end of 2023 represents an increase of approximately $21.9 million, or 9.1%, from the end of 2022. We experienced an increase in product bookings during 2023 primarily due to improvement in market conditions, the addition of Great North bookings, and a decrease in cancelations compared to 2022. The backlog at the end of 2022 represents an increase of approximately $30.8 million, or 14.6%, from the end of 2021. We experienced an increase in product bookings during 2022 as the global crude oil market improved despite a negative impact of approximately $27.4 million in cancellations. During 2021, the Company's backlog balance was initially negatively impacted due to the COVID-19 pandemic resulting in a depressed global economic environment that led to weakness in oil prices. In the latter half of 2021 as we saw improvements in the global markets and recovery of crude oil prices with vaccinations being deployed resulting in positive market trends, our product bookings increased in the fourth quarter of 2021.

The following table represents the change in backlog.

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Beginning Backlog	$ 240,865	$ 210,119	$ 195,650
Bookings:			
Product [1]	295,419	293,847	240,033
Service	111,180	84,274	74,143
Leasing	47,359	42,033	35,042
Cancellation/Revision adjustments	(9,401)	(27,418)	(11,594)
Translation adjustments	1,418	80	(210)
Total Bookings	445,975	392,816	337,414
Revenues:			
Product	271,021	240,842	213,760
Service	105,680	79,195	74,143
Leasing	47,359	42,033	35,042
Total Revenue	424,060	362,070	322,945
Ending Backlog [1]	$ 262,780	$ 240,865	$ 210,119

[1] The backlog data shown above includes all bookings as of December 31, 2023, including contract awards and signed purchase orders for which the contracts would not be considered enforceable or qualify for the practical expedient under ASC 606. As a result, this table will not agree to the disclosed performance obligations of $43.0 million as of December 31, 2023, within "Revenue Recognition," Note 6 of Notes to Consolidated Financial Statements.

The Company expects to fill approximately 70% to 80% of the December 31, 2023 product backlog by December 31, 2024. The remaining backlog at December 31, 2023 consists of longer-term projects which are being designed and manufactured to customer specifications requiring longer lead times.

See "Item 1A. Risk Factors—Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future revenues and earnings."

Business Segments

The Company's organizational structure is based on product and service lines. The Company operates in three business segments— Subsea Products, Subsea Services, and Well Construction. Our Subsea Products business manufactures highly engineered, field-proven products with a wide array of deepwater drilling equipment and technology that meets the requirements for harsh subsea environments. Our Subsea Services business provides high-level aftermarket support and technical services with field technicians that support the full installation and lifecycle management of regulatory and industry standards, as well as offering industry training programs. Our Well Construction business provides products and services utilized in the construction of the wellbore such as completions, casing hardware and liner hanger systems. The Well Construction business also includes all of Great North's operations as of the acquisition date. These products and services are used on both land and offshore markets. For information on revenues by business segment, see "Business Segments," Note 13 of Notes to Consolidated Financial Statements.

Currency Risk

The Company has operations in various countries around the world and conducts business in a number of different currencies other than the U.S. dollar, principally the British pound sterling, Mexican peso and the Brazilian real. Our significant foreign subsidiaries may also have monetary assets and liabilities not denominated in their functional currency. These monetary assets and liabilities are exposed to changes in currency exchange rates which may result in non-cash gains and losses primarily due to fluctuations between the U.S. dollar and each subsidiary's functional currency.

The Company generally attempts to minimize its currency exchange risk by seeking international contracts payable in local currency in amounts equal to the Company's estimated operating costs payable in local currency and in U.S. dollars for the balance of the contracts. The Company had, net of income taxes, a transaction gain of $2.0 million in 2023 and a transaction loss of $3.0 million in 2022. There is no assurance that the Company will be able to protect itself against such fluctuations in the future. The Company has put in place an active cash management process to convert excess foreign currency and concentrate this cash in certain of our holding company bank accounts to minimize foreign currency risk and increase investment income.

The Company conducts business in certain countries that limit repatriation of earnings. Further, there can be no assurance that the countries in which the Company currently operates will not adopt policies limiting repatriation of earnings in the future. The Company also has significant investments in countries other than the United States, principally its manufacturing operations in Scotland, Singapore, Brazil and, to a lesser extent, Norway. The functional currency of these foreign operations is the local currency except for Singapore, where the U.S. dollar is used. Financial statement assets and liabilities in the functional currency are translated at the end of the period exchange rates. Resulting translation adjustments are reflected as a separate component of stockholders' equity and have no current effect on earnings or cash flow.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. The Company believes the following accounting policies affect its more significant judgments and estimates used in preparation of its consolidated financial statements.

Assets Acquired and Liabilities Assumed in Business Combinations

Policy description

The Company accounts for its business combinations under the provisions of Accounting Standards Codification Topic 805-10, Business Combinations ("ASC 805-10"), which requires that the purchase method of accounting be used for all business combinations. Assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. For transactions that are business combinations, the Company evaluates the existence of goodwill. Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. ASC 805-10 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred.

Judgments and assumptions

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable management judgment. The fair value of property, plant and equipment is estimated using either the market approach or cost approach, depending on the availability of market information, The fair value of customer relationships is estimated using a multi-period excess earnings method. Under this method, the value is derived from cash flow projections for the customer relationships acquired, which includes significant judgments and assumptions relating to baseline revenue and revenue growth rates, EBITDA margins, contributory asset charges, customer attrition rate, and discount rate. The fair value of trademarks and developed technologies are estimated using the relief from royalty method. The valuation of an acquired business is based on available information at the acquisition date and assumptions that are believed to be reasonable. However, a change in facts and circumstances as of the acquisition date can result in subsequent adjustments during the measurement period, but no later than one year from the acquisition date.

Revenue Recognition

Product revenues

The Company recognizes product revenues from two methods:

- product revenues are recognized over time as control is transferred to the customer; and
- product revenues from the sale of products that do not qualify for the over time method are recognized as point in time.

Revenues recognized under the over time method

The Company uses the over time method on long-term project contracts that have the following characteristics:

- the contracts call for products which are designed to customer specifications;

- the structural designs are unique and require significant engineering and manufacturing efforts generally requiring more than six months in duration;
- the contracts contain specific terms as to milestones, progress billings and delivery dates;
- product requirements cannot be filled directly from the Company’s standard inventory; and
- the Company has an enforceable right to payment for any work completed to date and the enforceable payment includes a reasonable profit margin.

For each project, the Company prepares a detailed analysis of estimated costs, profit margin, completion date and risk factors which include availability of material, production efficiencies and other factors that may impact the project. On a quarterly basis, management reviews the progress of each project, which may result in revisions of previous estimates, including revenue recognition. The Company calculates the percentage complete and applies the percentage to determine the revenues earned and the appropriate portion of total estimated costs to be recognized. Losses, if any, are recorded in full in the period they become known. Historically, the Company’s estimates of total costs and costs to complete have approximated actual costs incurred to complete the project.

Under the over time method, billings may not correlate directly to the revenue recognized. Based upon the terms of the specific contract, billings may be in excess of the revenue recognized, in which case the amounts are included in customer prepayments as a liability on the consolidated balance sheets. Likewise, revenue recognized may exceed customer billings in which case the amounts are reported in unbilled receivables. Unbilled revenues are expected to be billed and collected within one year.

Revenues recognized under the point in time method

Revenues from the sale of standard inventory products, not accounted for under the over time method, are recorded at the point in time that the customer obtains control of the promised asset and the Company satisfies its performance obligation. This point in time recognition aligns with when the product is available to the customer, which is when the Company typically has a present right to payment, title transfers to the customer, the customer or its carrier has physical possession and the customer has significant risks and rewards of ownership. The Company may provide product storage to some customers. Revenues for these products are recognized at the point in time that control of the product transfers to the customer, the reason for storage is requested by the customer, the product is separately identified, the product is ready for physical transfer to the customer and the Company does not have the ability to use or direct the use of the product. This point in time typically occurs when the products are moved to storage. We receive payment after control of the products has transferred to the customer.

Service revenues

The Company recognizes service revenues from two sources:

- technical advisory assistance; and
- rework and reconditioning of customer-owned Dril-Quip products.

The Company generally does not install products for its customers, but it does provide technical advisory assistance.

The Company normally negotiates contracts for products, including those accounted for under the over time method, and services separately. For all product sales, it is the customer’s decision as to the timing of the product installation as well as whether Dril-Quip running tools will be purchased or rented. Furthermore, the customer is under no obligation to utilize the Company’s technical advisory assistance services. The customer may use a third party or their own personnel. The contracts for these services are typically considered day-to-day.

Rework and reconditioning service revenues are recorded using the over time method based on the remaining steps that need to be completed as the refurbishment process is performed. The measurement of progress considers, among other things, the time necessary for completion of each step in the reconditioning plan, the materials to be purchased, labor and ordering procedures. We receive payment after the services have been performed by billing customers periodically (typically monthly).

Leasing revenues

The Company earns leasing revenues from the rental of running tools. Revenues from rental of running tools are recognized within leasing revenues on a day rate basis over the lease term, which is generally between one to three months.

Inventories

Inventory costs are determined principally by the use of the first-in, first-out (FIFO) costing method and are stated at the lower of cost or net realizable value. Company manufactured inventory is valued principally using standard costs, which are calculated based upon direct costs incurred and overhead allocations and approximate actual costs. Inventory purchased from third-party vendors is principally valued at the weighted average cost.

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Inventory Reserves

Periodically, obsolescence reviews are performed on slow moving and excess inventories and reserves are established based on current assessments about future demands and market conditions. The Company determines the reserve percentages based on an analysis of stocking levels, historical sales levels and future sales forecasts anticipated for inventory items by product type. If market conditions are less favorable than those projected by management, additional inventory reserves may be required.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The financial statements are filed as part of the Form 10-K/A No. 1 under "Item 8. Financial Statements and Supplementary Data."

(a)(2) Financial Statement Schedule

The financial statement schedules are filed as part of the Form 10-K/A No. 1 under "Item 8. Financial Statements and Supplementary Data."

(a)(3) Exhibits

Dril-Quip will furnish any exhibit to a stockholder upon payment by the stockholder of the Company's reasonable expenses to furnish the exhibit.

Exhibit No.		Description
31.1	—	Rule 13a-14(a)/15d-14(a) Certification of Jeffrey J. Bird.
31.2	—	Rule 13a-14(a)/15d-14(a) Certification of Kyle F. McClure.
101.INS	—	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	—	Inline XBRL Taxonomy Extension Schema with Embedded Linkbases Document
104	—	The cover page from the Annual Report on Form 10-K for the year ended December 31, 2023 formatted in Inline XBRL (included as exhibit 101).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 1, 2024.

DRIL-QUIP, INC.

By: /s/ JEFFREY J. BIRD

Jeffrey J. Bird
President and Chief Executive Officer

Exhibit 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Jeffrey J. Bird, certify that:

1. I have reviewed this annual report on Form 10-K of Dril-Quip, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: August 1, 2024

/s/ Jeffrey J. Bird

Jeffrey J. Bird

President, Chief Executive Officer and Director (Principal Executive Officer)

Exhibit 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Kyle F. McClure, certify that:

1. I have reviewed this annual report on Form 10-K of Dril-Quip, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: August 1, 2024

/s/ Kyle F. McClure

Kyle F. McClure

Vice President and Chief Financial Officer (Principal Financial and Accounting Officer and Duly Authorized Signatory)