

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2024

or

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

Commission file number 001-13439

**DRIL-QUIP, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**74-2162088**

(I.R.S. Employer  
Identification No.)

**2050 West Sam Houston Parkway S., Suite 1100  
Houston, Texas  
77042**

(Address of principal executive offices) (Zip Code)

**(713) 939-7711**

(Registrant's telephone number, including area code)

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, \$0.01 par value per share	DRQ	New York Stock Exchange

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 the 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 30, 2024, the number of shares outstanding of the registrant's common stock, par value \$0.01 per share, was 34,452,230.

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**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**DRIL-QUIP, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
(In thousands, except per share data)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 185,629	\$ 187,323
Restricted cash	3,590	4,077
Short-term investments	-	25,908
Trade receivables, net	154,183	135,569
Unbilled receivables	132,979	148,429
Inventories	204,733	194,593
Prepaid expenses	16,917	14,119
Other current assets	8,006	9,699
Assets held for sale	1,513	-
Total current assets	707,550	719,717
Operating lease right of use assets	16,779	16,343
Property, plant and equipment, net	211,117	217,631
Deferred income taxes	10,242	8,989
Goodwill	16,122	16,654
Intangible assets	38,850	41,941
Other assets	7,497	6,906
Total assets	\$ 1,008,157	\$ 1,028,181
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 60,833	\$ 60,160
Accrued income taxes	3,291	5,942
Contract liabilities	7,960	7,583
Accrued compensation	14,564	14,035
Operating lease liabilities	2,454	2,118
Other accrued liabilities	37,327	27,865
Total current liabilities	126,429	117,703
Deferred income taxes	9,189	10,564
Income tax payable	472	346
Operating lease liabilities, long-term	14,944	14,554
Other long-term liabilities	4,599	3,754
Total liabilities	155,633	146,921
Contingencies (Note 14)		
Stockholders' equity:		
Preferred stock: 10,000,000 shares authorized at \$0.01 par value (none issued)	-	-
Common stock:		
100,000,000 shares authorized at \$0.01 par value, 34,452,230 and 34,386,577 shares issued and outstanding at June 30, 2024 and December 31, 2023	343	343
Additional paid-in capital	106,403	100,289
Retained earnings	928,977	950,719
Accumulated other comprehensive losses	(183,199)	(170,091)
Total stockholders' equity	852,524	881,260
Total liabilities and stockholders' equity	\$ 1,008,157	\$ 1,028,181

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DRIL-QUIP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
**(UNAUDITED)**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
	(In thousands, except per share data)			
<b>Revenues:</b>				
Products	\$ 74,330	\$ 55,828	\$ 138,892	\$ 115,074
Services	32,714	23,733	62,901	45,014
Leasing	13,298	10,046	28,847	20,384
Total revenues	<u>120,342</u>	<u>89,607</u>	<u>230,640</u>	<u>180,472</u>
<b>Cost and expenses:</b>				
<b>Cost of sales:</b>				
Products	52,944	45,165	101,161	92,209
Services	24,063	15,113	47,420	27,116
Leasing	6,222	5,433	13,068	11,888
Total cost of sales	<u>83,229</u>	<u>65,711</u>	<u>161,649</u>	<u>131,213</u>
Selling, general and administrative	29,771	22,114	59,762	44,699
Engineering and product development	3,588	3,202	7,326	6,601
Restructuring and other charges	-	(610)	-	1,108
Gain on sale of property, plant and equipment	54	(738)	(146)	(7,385)
Acquisition costs	1,695	1,134	20,742	1,134
Foreign currency transaction loss (gain)	6,671	(4,812)	4,775	(3,692)
Total costs and expenses	<u>125,008</u>	<u>86,001</u>	<u>254,108</u>	<u>173,678</u>
Operating income (loss)	<u>(4,666)</u>	<u>3,606</u>	<u>(23,468)</u>	<u>6,794</u>
Interest income, net	(2,053)	(1,979)	(4,249)	(4,726)
Income (loss) before income taxes	<u>(2,613)</u>	<u>5,585</u>	<u>(19,219)</u>	<u>11,520</u>
Income tax provision (benefit)	(801)	2,102	2,577	5,726
Net income (loss)	<u>\$ (1,812)</u>	<u>\$ 3,483</u>	<u>\$ (21,796)</u>	<u>\$ 5,794</u>
<b>Net income (loss) per common share:</b>				
Basic	<u>\$ (0.05)</u>	<u>\$ 0.10</u>	<u>\$ (0.63)</u>	<u>\$ 0.17</u>
Diluted	<u>\$ (0.05)</u>	<u>\$ 0.10</u>	<u>\$ (0.63)</u>	<u>\$ 0.17</u>
<b>Weighted average common shares outstanding:</b>				
Basic	<u>34,437</u>	<u>34,130</u>	<u>34,427</u>	<u>34,129</u>
Diluted	<u>34,437</u>	<u>34,490</u>	<u>34,427</u>	<u>34,488</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DRIL-QUIP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
	(In thousands)			
Net income (loss)	\$ (1,812)	\$ 3,483	\$ (21,796)	\$ 5,794
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(6,405)	(4,454)	(13,054)	(3,880)
Total comprehensive income (loss)	<u>\$ (8,217)</u>	<u>\$ (971)</u>	<u>\$ (34,850)</u>	<u>\$ 1,914</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DRIL-QUIP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Six months ended June 30,	
	2024	2023
	(In thousands)	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (21,796)	\$ 5,794
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	16,439	13,938
Stock-based compensation expense	6,166	5,143
Restructuring and other charges	-	(841)
Gain on sale of property, plant and equipment	(146)	(7,385)
Acquisition costs	16,166	-
Deferred income taxes	(4,097)	734
Changes in operating assets and liabilities:		
Trade receivables, net	(19,754)	(42,446)
Unbilled receivables	5,200	6,356
Inventories	(12,214)	(15,331)
Prepays and other assets	(7,322)	1,652
Accounts payable and accrued expenses	8,001	(9,252)
Other, net	(51)	-
Net cash used in operating activities	(13,408)	(41,638)
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(10,913)	(15,611)
Proceeds from sale of property, plant and equipment	507	16,240
Purchase of short-term investments	-	(20,462)
Maturities of short-term investments	25,908	33,899
Net cash provided by investing activities	15,502	14,066
<b>Cash flows from financing activities:</b>		
Other	(475)	(22)
Net cash used in financing activities	(475)	(22)
Effect of exchange rate changes on cash activities	(3,800)	(720)
Increase (decrease) in cash and cash equivalents	(2,181)	(28,314)
Cash and cash equivalents at beginning of period	191,400	264,804
Cash and cash equivalents at end of period	\$ 189,219	\$ 236,490

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DRIL-QUIP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Losses</u>	<u>Total</u>
	(In thousands, except shares)				
<b>Balance at April 1, 2024</b>	\$ 343	\$ 103,025	\$ 930,789	\$ (176,794)	\$ 857,363
Foreign currency translation adjustment	-	-	-	(6,405)	(6,405)
Net loss	-	-	(1,812)	-	(1,812)
Comprehensive loss					(8,217)
Stock-based compensation expense	-	3,378	-	-	3,378
<b>Balance at June 30, 2024</b>	<u>\$ 343</u>	<u>\$ 106,403</u>	<u>\$ 928,977</u>	<u>\$ (183,199)</u>	<u>\$ 852,524</u>
<b>Balance at January 1, 2024</b>	\$ 343	\$ 100,289	\$ 950,719	\$ (170,091)	\$ 881,260
Foreign currency translation adjustment	-	-	54	(13,108)	(13,054)
Net loss	-	-	(21,796)	-	(21,796)
Comprehensive loss					(34,850)
Payroll taxes for shares withheld	-	(52)	-	-	(52)
Stock-based compensation expense	-	6,166	-	-	6,166
<b>Balance at June 30, 2024</b>	<u>\$ 343</u>	<u>\$ 106,403</u>	<u>\$ 928,977</u>	<u>\$ (183,199)</u>	<u>\$ 852,524</u>
	(In thousands, except shares)				
<b>Balance at April 1, 2023</b>	\$ 343	\$ 93,027	\$ 952,479	\$ (168,035)	\$ 877,814
Foreign currency translation adjustment	-	-	-	(4,454)	(4,454)
Net income	-	-	3,483	-	3,483
Comprehensive loss	-	-	-	-	(971)
Stock-based compensation expense	-	2,566	-	-	2,566
<b>Balance at June 30, 2023</b>	<u>\$ 343</u>	<u>\$ 95,593</u>	<u>\$ 955,962</u>	<u>\$ (172,489)</u>	<u>\$ 879,409</u>
<b>Balance at January 1, 2023</b>	343	90,450	950,168	(168,609)	\$ 872,352
Foreign currency translation adjustment	-	-	-	(3,880)	(3,880)
Net income	-	-	5,794	-	5,794
Comprehensive income	-	-	-	-	1,914
Stock-based compensation expense	-	5,143	-	-	5,143
<b>Balance at June 30, 2023</b>	<u>\$ 343</u>	<u>\$ 95,593</u>	<u>\$ 955,962</u>	<u>\$ (172,489)</u>	<u>\$ 879,409</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DRIL-QUIP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Organization and Basis of Presentation**

Dril-Quip, Inc., a Delaware corporation (the “Company” or “Dril-Quip”), is a leading developer of innovative technologies for the energy industry, designing and manufacturing best-in-class products for traditional oil and gas, and certain energy transition applications. 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 operations are organized into three reportable business segments: Subsea Products, Subsea Services, and Well Construction. The Company’s 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. The Company’s 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. The Company’s Well Construction business provides products and services utilized in the construction of the wellbore such as completions, casing hardware and liner hanger systems. In 2023, the Company acquired Great North and includes its product, service and leasing solutions within the Well Construction segment. Great North offers pressure control and completion solutions, including customized and highly engineered wellhead products for use in heavy oil and thermal production locations, proprietary completion solutions such as the Multi-Well Frac Connector™, as well as related installation and maintenance services. The Company’s products and services are used on both land and offshore markets. For information with respect to our segments, see “Business Segments,” Note 11 of Notes to the Consolidated Financial Statements.

The condensed consolidated financial statements included herein are unaudited. The balance sheet at December 31, 2023 has been derived from the audited consolidated financial statements as of that date. In the opinion of management, the unaudited condensed consolidated interim financial statements include all normal recurring adjustments necessary for a fair statement of the financial position as of June 30, 2024 and the results of operations and comprehensive income (loss) for the three and six months ended June 30, 2024 and 2023 and cash flows for the six months ended June 30, 2024 and 2023. Certain information and footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations and comprehensive income (loss) for the three and six months ended June 30, 2024 and cash flows for the six months ended June 30, 2024 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, as amended by the Company’s Form 10-K/A filed with the SEC on July 8, 2024 and the Company’s Form 10-K/A (Amendment No. 2) filed with the SEC on August 1, 2024,

**2. Significant Accounting Policies**

*Principles of Consolidation*

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

*Reclassifications*

We reclassified approximately \$5.5 million of accrued professional fees for the year ended December 31, 2023, from accounts payable to other accrued liabilities to conform to our current year presentation. These reclassifications to the prior period were made to conform to the current period presentation and 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.



### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Some of the Company's more significant estimates are those affected by critical accounting policies for revenue recognition and asset recoverability tests and inventories.

### *Revenue Recognition*

The Company generates revenues through the sale of products, the sale of services and the leasing of running tools. The Company normally negotiates contracts for products, including those accounted for under the over-time method, rental tools and services separately. Modifications to the scope and price of sales contracts may occur in the form of variations and change orders. 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 instead choose to use a third party or its own personnel.

### *Leasing Revenues*

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

### *Cash and Cash Equivalents*

Short-term investments that have a maturity of three months or less from the date of purchase are classified as cash equivalents. The Company invests excess cash in interest bearing accounts, money market mutual funds and funds which invest in U.S. Treasury obligations and repurchase agreements backed by U.S. Treasury obligations. The Company's investment objectives continue to be the preservation of capital and the maintenance of liquidity.

The Company's ABL Credit Facility, dated February 23, 2018, as amended, was terminated effective February 22, 2022. 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 June 30, 2024, the cash balance in that account was approximately \$3.6 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 "Cash and cash equivalents" in our condensed consolidated balance sheets as at June 30, 2024 and December 31, 2023. Withdrawals from this cash collateral account are only allowed at such point a given letter of credit has expired or has been cancelled.

### *Short-term Investments*

Short-term investments that have a maturity greater than three months and less than a year from the balance sheet date are comprised primarily of time deposits, certificates of deposit, commercial paper, bonds and notes, substantially all of which are denominated in U.S. dollars and are stated at cost plus accrued interest, which approximates fair value. The Company expects to hold all of its Short-term investments to maturity.

For purposes of the condensed consolidated financial statements, the Company does not consider Short-term investments to be cash equivalents.

### *Fair Value of Financial Instruments*

The Company's financial instruments consist primarily of cash and cash equivalents, receivables and payables. The carrying values of these financial instruments approximate their respective fair values as they are short-term in nature.

### *Fair Value Measurements*

The Company applies the applicable accounting guidance for fair value measurements. This guidance provides the definition of fair value, describes the method used to appropriately measure fair value in accordance with generally accepted accounting principles, and outlines fair value disclosure requirements.

The fair value hierarchy established under this guidance prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted prices, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.
- Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value from the perspective of a market participant.

#### *Impairment of Long-Lived Assets*

Long-lived assets, including property, plant and equipment and definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We evaluate our property and equipment and definite-lived intangible assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Should the review indicate that the carrying value is not fully recoverable, the amount of the impairment loss is determined by comparing the carrying value to the estimated fair value. We assess recoverability based on undiscounted future net cash flows. Estimating future net cash flows requires us to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are uncertain in that they require assumptions about our revenue growth, operating margins, capital expenditures, future market conditions and technological developments. If changes in these assumptions occur, our expectations regarding future net cash flows may change such that a material impairment could result.

#### *Goodwill and Intangible Assets*

For goodwill and indefinite-lived intangible assets, an assessment for impairment is performed annually or when there is an indication an impairment may have occurred. Goodwill is not amortized but rather tested for impairment annually on October 1 or when events occur or circumstances change that would trigger such a review. The impairment test entails an assessment of qualitative factors to determine whether it is more likely than not that an impairment exists. If it is more likely than not that an impairment exists, then a quantitative impairment test is performed. Impairment exists when the carrying amount of a reporting unit exceeds its fair value.

#### *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. The 2021 global strategic plan concluded in the third quarter of 2023. As a result, the Company incurred no additional restructuring charges during the six months ended June 30, 2024. During the six months ended June 30, 2023, the Company incurred \$1.1 million of additional costs under the 2021 global strategic plan. These charges were primarily related to consulting and legal fees, office moves and site cleanup, and preparation costs. These charges are reflected as “Restructuring and other charges” in our condensed consolidated statements of income (loss).

#### *Repurchase of Equity Securities*

On February 22, 2022, the Board of Directors of the Company (the “Board”) authorized an incremental \$100.0 million share repurchase plan. The repurchase plan has no set expiration date and any repurchased shares are expected to be cancelled. 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 amount of common stock and may be modified or superseded at any time at the Company’s discretion.

For the three and six months ended June 30, 2024 and 2023, the Company did not purchase any shares under the share repurchase plan.

*Earnings Per Share*

Basic earnings per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed considering the dilutive effect of stock awards using the treasury stock method.

In each relevant period, the net income (loss) used in the basic and dilutive earnings per share calculations is the same. The following table reconciles the weighted average basic number of common shares outstanding and the weighted average diluted number of common shares outstanding for the purpose of calculating basic and diluted earnings per share:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
	(In thousands)			
Weighted average common shares outstanding – basic	34,437	34,130	34,427	34,129
Dilutive effect of common stock awards	-	360	-	359
Weighted average common shares outstanding – diluted	<u>34,437</u>	<u>34,490</u>	<u>34,427</u>	<u>34,488</u>

For the three and six months ended June 30, 2024 and 2023, the Company has excluded the following common stock awards because their impact on the income (loss) per share is anti-dilutive (in thousands on a weighted average basis):

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
	(In thousands)			
Director stock awards	84	-	75	-
Performance share units	389	-	393	-
Restricted stock awards	566	-	572	-

**3. Business Acquisitions**

On July 31, 2023, the Company acquired 100% of the issued and outstanding shares of 1185641 B.C. LTD (d/b/a Great North Wellhead and Frac, “Great North”) for a purchase price of \$105 million CAD, approximately \$79.8 million, which is subject to customary adjustments for cash and working capital. The acquisition of Great North allows Dril-Quip to service its clients with Great North’s products.

The following table summarizes the consideration transferred to acquire Great North:

Fair value of consideration transferred:	<b>(In thousands)</b>	
Cash	\$	84,097
Contingent consideration		<u>3,571</u>
Total	\$	<u><u>87,668</u></u>

The acquisition of Great North includes a contingent consideration arrangement that requires additional consideration to be paid by Dril-Quip to the sellers of Great North based on the future revenues of Great North for the fiscal years 2024 and 2025. The range of the undiscounted amounts Dril-Quip could pay under the contingent consideration agreement is between zero and \$30 million CAD, approximately \$22.8 million. The fair value of the contingent consideration recognized on the acquisition date was \$3.6 million. The Company is required to remeasure this liability to fair value quarterly with any changes in the fair value recorded in income until the final payment is made. As of June 30, 2024 the fair value of the contingent consideration was \$1.2 million. For information with respect to our fair value measurements, see “Fair Value Measurements,” Note 4 of Notes to the Consolidated Financial Statements. The contingent consideration is included in other long-term liabilities as of June 30, 2024.

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The following table sets forth the preliminary purchase price allocation, which was based on fair value of assets acquired and liabilities assumed at the acquisition date, July 31, 2023:

Preliminary amounts of identified assets acquired and liabilities assumed:

	<b>(In thousands)</b>	
Cash	\$	1,810
Accounts receivable		16,499
Prepaid expenses and other current assets		609
Inventory		16,068
Property, plant and equipment		29,338
Right of use assets		11,115
Intangible assets <sup>(1)</sup>		22,263
Total assets acquired	\$	97,702
Accounts payable		7,034
Accrued expenses		3,522
Deferred revenue		47
Lease liability, long-term		11,115
Deferred taxes		5,075
Total liabilities assumed	\$	26,793
Net identifiable assets acquired	\$	70,909
Goodwill		16,759
Net assets acquired	\$	87,668

<sup>(1)</sup> Includes \$4.0 million of trademarks with a weighted average useful life of 10 years, \$3.6 million of patents with a weighted average useful life of 15 years, and \$14.7 million of customer relationships with a weighted average useful life of 10 years. See "Goodwill and Intangible Assets," Note 10 of Notes to the Condensed Consolidated Financial Statements for further information regarding intangible assets.

#### 4. Fair Value Measurements

As of June 30, 2024, the Company's Level 3 instruments consist of contingent purchase consideration liabilities related to the acquisition of Great North (Note 3). The fair value of such earn-out liabilities is generally determined using a Monte Carlo Simulation that includes significant inputs that are not observable. Significant inputs include management's estimate of revenue and other market inputs, including expected revenue volatility (6.7%) and a revenue discount rate (8.4%). The fair value of certain earn-out liabilities is derived using the estimated probability of success of achieving the earn-out periods discounted to present value. 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, with the change in fair value recognized in "Change in fair value of earn-out liability" of the condensed consolidated statements of income.

The Company's contingent consideration measured at fair value for the periods presented are as follows (*in thousands*):

	June 30, 2024				December 31, 2023			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liability:								
Contingent consideration <sup>(1)</sup>	\$ 1,170	-	-	\$ 1,170	\$ 1,208	-	-	\$ 1,208
Total liabilities	<u>\$ 1,170</u>	<u>-</u>	<u>-</u>	<u>\$ 1,170</u>	<u>\$ 1,208</u>	<u>-</u>	<u>-</u>	<u>\$ 1,208</u>

<sup>(1)</sup> As of June 30, 2024 and December 31, 2023, contingent consideration includes certain amounts in other long-term liabilities on the Company's condensed consolidated balance sheets.

The following table provides a reconciliation of changes in the fair value of the Company's earn-out liabilities associated with the Company's acquisition measured at fair value for the three and six months ended June 30, 2024 and 2023 (*in thousands*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Beginning period balance	\$ 1,182	-	\$ 1,208	-
Additions to contingent consideration	-	-	-	-
Payments of contingent consideration	-	-	-	-
Fair value adjustment of earn-out liabilities	-	-	-	-
Currency translation adjustment	(12)	-	(38)	-
Ending period balance	<u>\$ 1,170</u>	<u>\$ -</u>	<u>\$ 1,170</u>	<u>\$ -</u>

## 5. Revenue Recognition

Revenues from contracts with customers consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
	(In thousands)			
Revenues:				
Products:				
Subsea products	\$ 42,681	\$ 44,579	\$ 78,013	\$ 90,696
Well construction	31,649	11,249	60,879	24,378
Total products	<u>\$ 74,330</u>	<u>\$ 55,828</u>	<u>\$ 138,892</u>	<u>\$ 115,074</u>
Services:				
Subsea services	\$ 19,292	\$ 16,333	\$ 36,016	\$ 32,818
Well construction services	13,422	7,400	26,885	12,196
Total services	<u>\$ 32,714</u>	<u>\$ 23,733</u>	<u>\$ 62,901</u>	<u>\$ 45,014</u>
Total	<u>\$ 107,044</u>	<u>\$ 79,561</u>	<u>\$ 201,793</u>	<u>\$ 160,088</u>

### Contract Balances

Balances related to contracts with customers consisted of the following:

*Contract Assets (amounts shown in thousands)*

Contract assets at December 31, 2023	\$ 144,191
Additions	198,055
Transfers to Trade receivables, net	(213,176)
Contract assets at June 30, 2024	<u>\$ 129,070</u>

*Contract Liabilities (amounts shown in thousands)*

Contract liabilities at December 31, 2023	\$ 7,583
Additions	4,114
Revenue recognized	(3,737)
Contract liabilities at June 30, 2024	<u>\$ 7,960</u>

Contract assets include unbilled accounts receivable associated with contracts accounted for under the over-time accounting method which were approximately \$79.2 million and \$90.2 million at June 30, 2024 and December 31, 2023, respectively. Unbilled contract assets are transferred to trade receivables, net, when the right to bill becomes unconditional. Contract liabilities primarily relate to advance payments from customers.

Obligations for returns and refunds were considered immaterial as of June 30, 2024.

#### *Remaining Performance Obligations*

The aggregate amount of the transaction price allocated to remaining performance obligations from our over-time product lines was \$40.2 million as of June 30, 2024. The Company expects to recognize revenue on approximately 97.7% of the remaining performance obligations over the next 12 months and the remaining 2.3% thereafter.

The Company applies the practical expedient available under the revenue standard and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

#### **6. Stock-Based Compensation and Stock Awards**

During the three and six months ended June 30, 2024, the Company recognized approximately \$3.4 million and \$6.2 million of stock-based compensation expense. Stock-based compensation is included in "Selling, general and administrative" in our accompanying condensed consolidated statements of income (loss) and "Additional paid-in capital" in our accompanying condensed consolidated balance sheets. During the three and six months ended June 30, 2023, the Company recognized approximately \$2.6 million and \$5.1 million of stock-based compensation expense.

#### **7. Inventories**

Inventories consist of the following:

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
	(In thousands)	
Raw materials and supplies	\$ 35,465	\$ 34,950
Work in progress	31,226	33,911
Finished goods	138,042	125,732
Total inventory	<u>\$ 204,733</u>	<u>\$ 194,593</u>

As of June 30, 2024, the inventory values of raw materials, work in progress and finished goods have been reduced by a reserve for slow moving, excess and obsolete inventories of \$6.2 million, \$3.3 million and \$58.6 million, respectively. As of December 31, 2023 the inventory values of raw materials, work in progress and finished goods have been reduced by a reserve for slow moving, excess and obsolete inventories of \$8.3 million, \$2.7 million and \$55.2 million, respectively.

#### **8. Assets Held for Sale**

In accordance with the applicable accounting guidance, FASB ASC 360-10-45-9, the Company identified \$1.0 million of buildings and \$0.5 million of land as held for sale in the first quarter of 2024. The assets' net carrying amount were reclassified from Property, plant and equipment, net, to Assets held for sale on the condensed consolidated balance sheets at June 30, 2024. No long-lived asset write downs were recorded in the three and six months ended June 30, 2024.



December 31, 2023

	Estimated Useful Lives	Gross Book Value	Accumulated Amortization	Foreign Currency Translation	Net Book Value
(In thousands)					
Trademarks	10 – 15 years	\$ 12,091	\$ (2,811)	\$ 4	\$ 9,284
Patents	15 – 30 years	9,686	(4,200)	(22)	5,464
Customer relationships	5 – 15 years	40,291	(13,095)	(3)	27,193
Organizational costs	3 years	163	(163)	-	-
		\$ 62,231	\$ (20,269)	\$ (21)	\$ 41,941

## 11. Business Segments

Operating segments are defined in FASB ASC Topic 280, *Segment Reporting*, as components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company's operations are organized into three reportable business segments: Subsea Products, Subsea Services, and Well Construction. The Company evaluates segment performance based on operating income. The accounting policies of the segments are the same as described in the summary of significant accounting policies.

**Subsea Products.** The Company's Subsea Products segment designs, manufactures and sells a variety of products including subsea wellheads, connectors and surface equipment, and subsea production systems.

**Subsea Services.** The Company's Subsea Services segment delivers a variety of technical services including subsea rental services, subsea rework services and subsea services shared support.

**Well Construction.** The Company's Well Construction business provides products and services utilized in the construction of the wellbore such as completions, casing hardware and liner hanger systems. In 2023, the Company acquired Great North and includes its product, service and leasing solutions within the Well Construction segment. Great North offers pressure control and completion solutions, including customized and highly engineered wellhead products for use in heavy oil and thermal production locations, proprietary completion solutions such as the Multi-Well Frac Connector <sup>TM</sup>, as well as related installation and maintenance services.

During the three and six months ended June 30, 2024, the Company did not incur any costs under the 2021 global strategic plan. During the three months ended June 30, 2023, the Company incurred (\$0.6) million of additional costs under the 2021 global strategic plan out of which approximately (\$1.9) million in Well Construction, \$1.2 million is in Corporate and \$0.1 million in Subsea Services. During the six months ended June 30, 2023, the Company incurred \$1.1 million of additional restructuring and other charges under the 2021 global strategic plan out of which approximately \$2.8 million is in Corporate, (\$1.9) million in Well Construction and \$0.2 million in Subsea Services.



The following tables presents selected financial data by business segment:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
	(In thousands)			
<b>Revenue</b>				
Subsea products	\$ 42,681	\$ 44,579	\$ 78,013	\$ 90,696
Subsea services	26,664	23,586	51,244	47,482
Well construction	50,997	21,442	101,383	42,294
Total revenue	<u>\$ 120,342</u>	<u>\$ 89,607</u>	<u>\$ 230,640</u>	<u>\$ 180,472</u>
<b>Depreciation and amortization</b>				
Subsea products	\$ 1,507	\$ 1,745	\$ 3,076	\$ 3,344
Subsea services	1,878	2,773	4,125	5,527
Well construction	3,879	1,816	7,746	3,559
Corporate <sup>(1)</sup>	743	715	1,492	1,508
Total depreciation and amortization	<u>\$ 8,007</u>	<u>\$ 7,049</u>	<u>\$ 16,439</u>	<u>\$ 13,938</u>
<b>Operating income (loss)</b>				
Subsea products	\$ 2,561	\$ (1,894)	\$ 3,200	\$ (399)
Subsea services	4,287	1,230	6,120	10,613
Well construction	2,557	6,491	8,189	7,054
Corporate <sup>(1)</sup>	(14,071)	(2,221)	(40,977)	(10,474)
Total operating income (loss)	<u>\$ (4,666)</u>	<u>\$ 3,606</u>	<u>\$ (23,468)</u>	<u>\$ 6,794</u>

(1) Corporate includes the expenses and assets of the Company's corporate office functions, legal and other administrative expenses that are managed at a consolidated level.

The Company does not allocate assets to its reportable segments as they are not included in the review performed by the Chief Operating Decision Maker (CODM) for purposes of assessing segment performance and allocating resources. The balance sheet is reviewed on a consolidated basis and is not used in the context of segment reporting.

## 12. Income Tax

The effective tax rate for the three and six months ended June 30, 2024 was 30.7% and (13.4%) compared to 37.6% and 49.7% for the same periods in 2023. The change in the effective tax rate between the periods resulted primarily due to the change in earnings mix by geography and tax jurisdiction as compared to the prior period, changes in valuation allowances in the United States, foreign withholding tax, and changes in nondeductible expenses. In the United States, significant transaction costs in connection with the proposed merger with Innovex Downhole Solutions Inc. were incurred which were partially deductible. As such, these costs had a larger impact to the earnings mix as compared to previous periods.

The Company had no outstanding NOL carryback claims as of December 31, 2023 including the estimated carryback claim relating to the 2020 tax year, which was reflected in "Other current assets" on the condensed consolidated balance sheets. During the three and six months ended June 30, 2024, the Company received no refunds.

Except with respect to our operations in Canada, the Company no longer asserts the indefinite reinvestment assertion. We maintain a deferred foreign tax liability, which had a balance of \$1.3 million as of June 30, 2024. It is primarily related to estimated foreign withholding tax associated with repatriating non-U.S. earnings back to the United States. The indefinite reinvestment assertion with respect to Canada pertains to earnings of \$4.1 million as of June 30, 2024.

The Company operates in multiple jurisdictions with complex tax and regulatory environments and our tax returns are periodically audited or subjected to review by tax authorities. We monitor tax law changes and the potential impact to our results of operations.

## 13. Merger of Dril-Quip and Innovex

On March 18, 2024, the Company, Ironman Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company ("Merger Sub Inc."), and DQ Merger Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company ("Merger Sub LLC"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Innovex Downhole Solutions Inc. ("Innovex"), pursuant to which, upon the terms and subject to the conditions set forth therein, (i) Merger Sub Inc. will merge with and into Innovex, with Innovex continuing as the surviving entity (the "Surviving Corporation") (the "First Merger") and (ii) immediately following the First Merger, the Surviving Corporation will merge with and into Merger Sub LLC (the "Second Merger")

and, together with the First Merger, the “Mergers”), with Merger Sub LLC continuing as the surviving entity. Upon consummation of the transactions contemplated by the Merger Agreement (the “Transactions”), the Company expects that its current stockholders will own approximately 52% of the Combined Company (as defined below) and current stockholders of Innovex will own approximately 48% of the Combined Company. Following the Transactions, the name of the Company will be changed to Innovex International, Inc. (the “Combined Company”), and its common stock will remain listed on the New York Stock Exchange.

The Mergers are currently expected to close in the third quarter of 2024; however, no assurance can be given as to when, or if, the Mergers will occur. The Merger Agreement contains termination rights, subject to certain conditions, for each of the Company and Innovex, including, among others: (i) if the consummation of the First Merger does not occur on or before December 18, 2024 (the “End Date”) or the extended End Date (March 18, 2025) and (ii) if the Company wishes to terminate the Merger Agreement to enter into a definitive agreement with respect to a superior proposal. Upon termination of the Merger Agreement under certain specified circumstances, including, among others, by Innovex for a material breach by the Company of its non-solicitation obligations or by the Company in order to enter into a definitive agreement with respect to a superior proposal, the Company would be required to pay Innovex a termination fee of \$31.9 million. The above description of the Merger Agreement and the Transactions, including certain referenced terms, is a summary of certain principal terms and conditions contained in the Merger Agreement.

## 14. Contingencies

### *Steamfitters Complaint*

On March 21, 2024, a purported Company stockholder filed a putative class action complaint captioned *Steamfitters Local 449 Pension Fund v. Dril-Quip, Inc., et al.*, C.A. No. 2024-0284-LWW (Del. Ch.) (the “Steamfitters Complaint”). The Steamfitters Complaint alleges that members of the Board breached their fiduciary duties by agreeing, in connection with the proposed merger with Innovex, to enter into a stockholders agreement with Amberjack Capital Partners (“Amberjack”) requiring Amberjack to vote in favor of the Board of Director’s nominees at the Company’s 2025 annual meeting of stockholders and prohibiting certain transfers from Amberjack directly to activist stockholders not through public market sales. The Steamfitters Complaint further alleges that Innovex and Amberjack aided and abetted the directors’ alleged breaches of fiduciary duties. The complaint seeks an order certifying a class of the Company’s stockholders, finding that the directors breached their fiduciary duties and that Innovex and Amberjack aided and abetted the directors’ breaches of fiduciary duties, enjoining enforcement of the challenged provisions of the stockholders agreement, and awarding the plaintiff its reasonable attorneys’ and experts’ witness fees and other costs.

Although the Company and the Board believe that the stockholders agreement complies fully with all applicable law and deny the allegations in the Steamfitters Complaint, in order to moot the plaintiff’s claims, and avoid nuisance and possible expense, the Company and Amberjack amended the stockholders agreement to eliminate the requirement for Amberjack and certain of its affiliates to vote in favor of the combined company’s board nominees at the combined company’s 2025 annual meeting of stockholders, the prohibition against certain transfers from Amberjack and certain of its affiliates directly to activist stockholders not through public market sales and a provision entitling Amberjack to designate four director designees for election at the combined company’s 2025 annual meeting of stockholders irrespective of Amberjack’s and certain of its affiliates’ beneficial ownership of combined company common stock at that time. On May 21, 2024, the court dismissed the Steamfitters Complaint as moot.

The Company has also received letters from additional purported stockholders who contend that the registration statement on Form S-4 fails to disclose certain allegedly material information and demands that the Company make supplemental disclosures. While the Company believes that the contentions made in each of the letters described above are without merit, each of these matters is at a preliminary stage and defendants have not yet answered or otherwise responded to the letters.

It is possible that additional, similar complaints may be filed, and that additional, similar letters may be received by the Company, regarding the mergers. Absent new or different allegations that are material or constitute a disclosure obligation under the U.S. federal securities laws, the Company will not necessarily disclose such additional complaints or letters. Litigation is inherently uncertain, and there can be no assurance regarding the likelihood that the Company’s defense of these claims (or any lawsuits related to the mergers that may be filed in the future) will be successful, nor can the Company predict the amount of time and expense that will be required to resolve these matters.

### *FMC Technologies Lawsuit*

On October 5, 2020, FMC Technologies, Inc. (“FMC”) sued the Company alleging misappropriation of trade secrets and sought money damages and injunctive relief in the 127th District Court of Harris County in an action styled *FMC Technologies, Inc. v. Richard Murphy and Dril-Quip, Inc.*, Cause No. 2020-63081. FMC alleged that its former employee communicated FMC trade secrets to the Company and the Company used those trade secrets in its VXTe subsea tree systems. On April 29, 2021, the jury returned a verdict in favor of the Company. FMC filed a notice of appeal on August 20, 2021. On August 10, 2023, the First District of Texas Court of Appeals rendered a judgment that affirmed the judgment of the 127th District Court of Harris County in favor of the Company. In an effort to overturn the judgment for the Company and obtain a new trial, FMC filed a petition for review with the Texas Supreme Court.

on November 27, 2023. On June 21, 2024, the Texas Supreme Court denied FMC's petition, declining to review the First District of Texas Court of Appeals judgment, bringing an end to litigation.

*General*

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 is dependent on the condition of the oil and gas industry. Additionally, certain of the Company's products are used in potentially hazardous drilling, completion, and production applications that can cause personal injury, property damage and environmental claims. Although exposure to such risks has not resulted in any significant problems for the Company in the past, ongoing exposure to these risks and future developments could adversely impact the Company in the future.

The Company is also involved in a number of legal actions arising in the ordinary course of business. Although no assurance can be given with respect to the ultimate outcome of such legal action, in the opinion of management, the ultimate liability with respect thereto will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

This Quarterly Report on Form 10-Q includes certain statements that may be deemed to be “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements contained in all parts of this document that are not historical facts are forward-looking statements that involve risks and uncertainties that are beyond the control of Dril-Quip, Inc. (the “Company” or “Dril-Quip”). You can identify the Company’s forward-looking statements by the words “anticipate,” “estimate,” “expect,” “may,” “project,” “believe” and similar expressions, or by the Company’s discussion of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct. These forward-looking statements include the following types of information and statements as they relate to the Company:

- the impact of actions taken by the Organization of Petroleum Exporting Countries and the expanded alliance (OPEC+) with respect to their production levels and the effects thereof;
- risks related to the acquisition of Innovex Downhole Solutions Inc., a Delaware corporation (“Innovex”), including the receipt of approval of Dril-Quip’s stockholders; the time required to complete the mergers; uncertainty as to whether the conditions to closing the mergers will be satisfied or whether the mergers will be completed; the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; the diversion of management time on merger-related issues; the ultimate timing, outcome and results of integrating the operations of the Company and Innovex; the effects of the business combination on Dril-Quip and Innovex, including the combined company’s future financial condition, results of operations, strategy and plans; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the mergers; expected benefits from the mergers and the ability of the Company to realize those benefits; the significant costs required to complete the mergers and integrate operations of the Company and Innovex; whether merger-related litigation will occur and, if so, the results of any litigation, settlements and investigations;
- risks related to the acquisition of Great North, including the risk that the benefits of the transaction may not be fully realized or may take longer to realize than expected;
- the impact of general economic conditions, including inflationary pressures and interest rates, a general economic slowdown or recession or instability in financial institutions, on economic activity and on our operations;
- future operating results and cash flow;
- scheduled, budgeted and other future capital expenditures;
- planned or estimated cost savings;
- working capital requirements;
- the need for and the availability of expected sources of liquidity;
- the introduction into the market of the Company’s future products;
- the Company’s ability to deliver its bookings in a timely fashion;
- the market for the Company’s existing and future products;
- the Company’s ability to develop new applications for its technologies;
- the exploration, development and production activities of the Company’s customers;
- compliance with present and future environmental, social, and governance (ESG) standards and regulations and costs associated with environmentally related penalties, capital expenditures, remedial actions and proceedings;
- effects of pending legal proceedings;
- changes in customers’ future product and service requirements that may not be cost effective or within the Company’s capabilities;
- future operations, financial results, business plans and cash needs; and
- the overall timing and level of transition of the global energy sector from fossil-based systems of energy production and consumption to more renewable energy sources.

These statements are based on assumptions and analysis in light of the Company's experience and perception of historical trends, current conditions, expected future developments and other factors the Company believes were appropriate in the circumstances when the statements were made. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed under "Item 1A. Risk Factors" in Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2023, as amended by the Company's Form 10-K/A filed with the SEC on July 8, 2024 and the Company's Form 10-K/A (Amendment No. 2) filed with the SEC on August 1, 2024 (as amended, the "Form 10-K/A") and in "Item 1A. Risk Factors" in Part II of the Company's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2024, filed with the SEC on July 8, 2024.

Investors should note that Dril-Quip announces financial information in SEC filings, press releases and public conference calls. Dril-Quip may use the Investors section of its website ([www.dril-quip.com](http://www.dril-quip.com)) to communicate with investors. It is possible that the financial and other information posted there could be deemed to be material information. The information on Dril-Quip's website is not part of this Form 10-Q.

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 unaudited condensed consolidated financial statements. This discussion should be read in conjunction with the Company's unaudited condensed consolidated financial statements and notes thereto presented elsewhere herein as well as the discussion under "Risk Factors," included herein and "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements included in the Form 10-K/A.

## Overview

Dril-Quip, Inc., a Delaware corporation (the "Company" or "Dril-Quip"), is a leading developer of innovative technologies for the energy industry, designing and manufacturing best-in-class products for traditional oil and gas, and certain energy transition applications. 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 operations are organized into three reportable business segments: Subsea Products, Subsea Services, and Well Construction. The Company's 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. The Company's 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. The Company's Well Construction business provides products and services utilized in the construction of the wellbore such as completions, casing hardware and liner hanger systems. In 2023, the Company acquired Great North and includes its product, service and leasing solutions within the Well Construction segment. Great North offers pressure control and completion solutions, including customized and highly engineered wellhead products for use in heavy oil and thermal production locations, proprietary completion solutions such as the Multi-Well Frac Connector™, as well as related installation and maintenance services. The Company's products and services are used on both land and offshore markets. For information with respect to our segments, see "Business Segments," Note 11 of Notes to the Consolidated Financial Statements.

### *Recent Developments*

On March 18, 2024, the Company, Ironman Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company ("Merger Sub Inc."), and DQ Merger Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company ("Merger Sub LLC"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Innovex, pursuant to which, upon the terms and subject to the conditions set forth therein, (i) Merger Sub Inc. will merge with and into Innovex, with Innovex continuing as the surviving entity (the "Surviving Corporation") (the "First Merger") and (ii) immediately following the First Merger, the Surviving Corporation will merge with and into Merger Sub LLC (the "Second Merger" and, together with the First Merger, the "Mergers"), with Merger Sub LLC continuing as the surviving entity. Upon consummation of the transactions contemplated by the Merger Agreement (the "Transactions"), the Company expects that its current stockholders will own approximately 52% of the Combined Company (as defined below) and current stockholders of Innovex will own approximately 48% of the Combined Company.

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Following the Transactions, the name of the Company will be changed to Innovex International, Inc. (the “Combined Company”), and its common stock will remain listed on the New York Stock Exchange.

The Mergers are currently expected to close in the third quarter of 2024; however, no assurance can be given as to when, or if, the Mergers will occur. The Merger Agreement contains termination rights, subject to certain conditions, for each of the Company and Innovex, including, among others: (i) if the consummation of the First Merger does not occur on or before December 18, 2024 (the “End Date”) or the extended End Date (March 18, 2025) and (ii) if the Company wishes to terminate the Merger Agreement to enter into a definitive agreement with respect to a superior proposal. Upon termination of the Merger Agreement under certain specified circumstances, including, among others, by Innovex for a material breach by the Company of its non-solicitation obligations or by the Company in order to enter into a definitive agreement with respect to a superior proposal, the Company would be required to pay Innovex a termination fee of \$31.9 million. The above description of the Merger Agreement and the transactions contemplated thereby, including certain referenced terms, is a summary of certain principal terms and conditions contained in the Merger Agreement.

### *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 CO<sub>2</sub> 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 CO<sub>2</sub>. 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 “Our business may also be affected by new sanctions and export controls targeting Russia and other responses to Russia’s invasion of Ukraine” discussed in the Form 10-K/A, “Item 1A. Risk Factors”.

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.

*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. Oil and gas prices and the level of drilling and production activity have historically been characterized by significant volatility.

According to the Energy Information Administration (EIA) of the U.S. Department of Energy, Brent Crude oil prices per barrel for the periods covered by this report were:

Brent Crude Oil Price per Barrel	Three months ended		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Low	\$ 75.33	\$ 71.80	\$ 75.33	\$ 71.03
High	\$ 93.12	\$ 88.31	\$ 93.12	\$ 88.31
Average	\$ 84.68	\$ 77.99	\$ 83.79	\$ 79.58
Closing	\$ 87.26	\$ 74.51	\$ 87.26	\$ 74.51

According to the July 2024 release of the Short-Term Energy Outlook published by the EIA, Brent Crude oil prices are expected to average approximately \$89 per barrel for the remainder of 2024 and \$88 per barrel in 2025, compared with an average of \$82 per barrel in 2023. In its July 2024 Oil Market Report, the International Energy Agency projected the global oil demand to grow by approximately 1.0 million barrels per day in both 2024 and 2025.

*Offshore Rig Count*

Detailed below is the average contracted Mobile Offshore Drilling Units. These are rigs currently drilling as well as rigs committed, but not yet drilling, for the six months ended June 30, 2024 and 2023. 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.

	Six months ended June 30,			
	2024		2023	
	Floating Rigs	Jack-up Rigs	Floating Rigs	Jack-up Rigs
Mobile Offshore Drilling Units	149	409	146	395

Source: IHS—Petrodata RigBase – June 30, 2024 and 2023

According to IHS-Petrodata RigBase, as of June 30, 2024, there were 558 contracted rigs (150 floating rigs and 408 jack-up rigs), an increase of 3.1% from the rig count of 541 rigs (144 floating rigs and 397 jack-up rigs) as of June 30, 2023.

*Regulation*

The demand for the Company's products and services is also affected by laws and regulations relating to the oil and gas industry in general, including those specifically directed to offshore operations. The adoption of new laws and regulations, or changes to existing laws or regulations that curtail exploration and development drilling for oil and gas for economic or other policy reasons, could adversely affect the Company's operations by limiting demand for its products.

In March 2018, the President of the United States issued a proclamation imposing a 25 percent global ad valorem tariff on imports of certain steel products and a 10 percent ad valorem tariff on certain aluminum products, effective March 23, 2018. The President subsequently proposed an additional 25 percent tariff on approximately \$50 billion worth of imports from China, and the government of China responded with a proposal of an additional 25 percent tariff on U.S. goods with a value of \$50 billion. In the following months, the United States and China placed additional, competing tariffs on imported goods until the two countries entered a phase one trade deal in January 2020, which included an agreement to reduce certain tariffs. Negotiations for a phase two trade deal with China had begun prior to the outbreak of COVID-19 but did not result in a deal. Effective July 10, 2024, President Biden announced new tariffs aimed at combating the circumvention of tariffs on steel and aluminum processed in Mexico and extending the 25% steel tariff on Mexican steel poured outside of Canada, Mexico, or the U.S. and 10% aluminum tariff on Mexican aluminum containing any metal cast or smelted in China, Belarus, Iran, or Russia.

The imposition of the most recent and/or any additional tariffs or initiation of trade restrictions by or against the United States could cause our cost of raw materials to increase or affect the markets for our products. However, given the uncertainty regarding the scope and duration of these trade actions by the United States and other countries, their ultimate impact on our business and operations remains uncertain.

The Company believes that its subsea products bookings should help mitigate the impact of any negative market conditions; however, slow recovery in 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 bookings. The Company's subsea product bookings for the quarter ended June 30, 2024 were approximately \$12.8 million, as compared to approximately \$41.1 million and \$66.6 million for the quarters ended March 31, 2024 and June 30, 2023, respectively.

*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. For the three months ended June 30, 2024 and 2023, the Company derived 61.8% and 62.2%, respectively, of its revenues from the sale of its products, 27.2% and 26.5%, respectively, of its revenue from services, and 11.1% and 11.2% respectively, of its revenues from leasing. For the six months ended June 30, 2024 and 2023, the Company derived 60.2% and 63.8%, respectively, of its revenues from the sale of its products, 27.3% and 24.9%, respectively, of its revenue from services, and 12.5% and 11.3% respectively, of its revenues from leasing. Service and leasing revenues generally correlate to revenues from product sales because increased product sales typically generate increased demand for technical advisory assistance services and rental of running tools during installation. The Company has substantial international operations, with approximately 73.0% and 66.1% of its revenues derived from foreign sales for the six months ended June 30, 2024 and 2023, respectively. The majority of the Company's domestic revenue relates to operations in the U.S. Gulf of Mexico. Domestic revenue approximated 27.0% and 33.9% of the Company's total revenues for the six months ended June 30, 2024 and 2023, respectively.

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 more complex, customer specific projects that have relatively longer manufacturing time frames on an over-time basis. For the three months ended June 30, 2024, there were 48 projects representing approximately 20.5% of the Company's total revenues and approximately 33.1% of its product revenues that were accounted for using over-time accounting, compared to 64 projects for the three months ended June 30, 2023, which represented approximately 30.0% of the Company's total revenues and approximately 47.9% of its product revenues. For the six months ended June 30, 2024, there were 56 projects representing approximately 20.4% of the Company's total revenues and approximately 33.9% of its product revenues that were accounted for using over-time accounting, compared to 66 projects for the six months ended June 30, 2023, which represented approximately 30.3% of the Company's total revenues and approximately 47.4% of its 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 to be recognized. 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.

*Cost of Sales.* The principal elements of cost of sales are labor, raw materials, manufacturing overhead, and application engineering expenses related to customized products. 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, pricing 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 2021 global strategic plan concluded in the third quarter of 2023. As a result, the Company did not incur any costs under the 2021 global strategic plan for the three and six months ended June 30, 2024.



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*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.* Foreign currency transaction gains results 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 professional fees for the year ended December 31, 2023, from accounts payable to other accrued liabilities to conform to our current year presentation. These reclassifications to the prior period were made to conform to the current period presentation and 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, service and leasing revenues:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
	(In millions)			
Revenues:				
Products:				
Subsea products	\$ 42.7	\$ 44.6	\$ 78.0	\$ 90.7
Well construction	31.6	11.2	60.9	24.4
Total products	74.3	55.8	138.9	115.1
Services:				
Subsea services	19.3	16.3	36.0	32.8
Well construction services	13.4	7.4	26.9	12.2
Total services	32.7	23.7	62.9	45.0
Leasing:				
Subsea leasing	7.4	7.3	15.2	14.7
Well construction leasing	5.9	2.8	13.6	5.7
Total leasing	13.3	10.1	28.8	20.4
Total revenues	\$ 120.3	\$ 89.6	\$ 230.6	\$ 180.5

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	(In millions)			
<b>Revenue</b>				
Subsea products	\$ 42.7	\$ 44.6	\$ 78.0	\$ 90.7
Subsea services	26.7	23.6	51.2	47.5
Well construction	50.9	21.4	101.4	42.3
Total revenue	<u>\$ 120.3</u>	<u>\$ 89.6</u>	<u>\$ 230.6</u>	<u>\$ 180.5</u>
<b>Operating income (loss)</b>				
Subsea products	\$ 2.6	\$ (1.9)	\$ 3.2	\$ (0.4)
Subsea services	4.3	1.2	6.1	10.6
Well construction	2.6	6.5	8.2	7.1
Corporate	(14.1)	(2.2)	(41.0)	(10.5)
Total operating income (loss)	<u>\$ (4.6)</u>	<u>\$ 3.6</u>	<u>\$ (23.5)</u>	<u>\$ 6.8</u>

### **Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023**

**Revenues.** Revenues increased by \$30.7 million, or approximately 34.3%, to \$120.3 million for the three months ended June 30, 2024 from \$89.6 million for the three months ended June 30, 2023.

Subsea Products revenue decreased by approximately \$1.9 million primarily driven by lower Connector and Surface Equipment orders in the second quarter of 2024.

Subsea Services revenue increased by approximately \$3.1 million primarily driven by customer specific increases in international markets.

Well Construction revenue increased by approximately \$29.5 million, which was primarily driven by the acquisition of Great North, which contributed \$21.9 million in revenue in the second quarter of 2024, and large bore liner hanger growth in international offshore markets.

**Cost of Sales.** Cost of sales increased by \$17.5 million, or approximately 26.7%, to \$83.2 million for the three months ended June 30, 2024 from \$65.7 million for the same period in 2023. This increase was primarily due to the acquisition of Great North. Cost of sales as a percentage of revenue decreased to 69.2% from 73.3% for the three months ended June 30, 2024 and 2023, respectively, primarily driven by favorable product mix within Subsea Products and Well Construction.

**Selling, General and Administrative Expenses.** For the three months ended June 30, 2024, selling, general and administrative expenses increased by \$7.7 million, or 34.6% to \$29.8 million from \$22.1 million for the same period in 2023. This increase was primarily due to the addition of Great North expenses and higher personnel related costs.

**Engineering and Product Development Expenses.** For the three months ended June 30, 2024, engineering and product development expenses increased by approximately \$0.4 million, or 12.1%, to \$3.6 million from approximately \$3.2 million for the same period in 2023. This increase was primarily due to the increased testing and qualifications related to specific international customer requirements.

**Restructuring and Other Charges.** For the three months ended June 30, 2024, the Company incurred no additional costs under the 2021 global strategic plan. During the three months ended June 30, 2023, the Company incurred costs of approximately (\$0.6) million under the 2021 global strategic plan. 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. This was partially offset by other charges that primarily consisted of office moves, site cleanup, preparation costs, consulting and legal fees.

**Gain on Sale of Property, Plant and Equipment.** For the three months ended June 30, 2024, there was an immaterial loss on sale of property, plant and equipment of less than \$0.1 million. For the three months ended June 30, 2023, the gain on sale of property, plant and equipment was \$0.7 million, primarily related to the sale of certain obsolete machinery and equipment and scrap parts.

**Foreign Currency Transaction Gain.** Foreign currency transaction loss for the three months ended June 30, 2024, was \$6.7 million as compared to a gain of \$4.8 million for the same period in 2023.

**Operating Income (Loss).** Subsea Products operating income was approximately \$4.5 million higher for the three months ended June 30, 2024 as compared to the same period in 2023 due a favorable product mix and the impacts of productivity initiatives.

Subsea Services operating income increased by approximately \$3.1 million, in line with increased revenue driven by customer specific increases in international markets.

Well Construction operating income was approximately \$3.9 million lower for the three months ended June 30, 2024 as compared to the same period in 2023, which was primarily driven by lower activity for Well Construction services and the release of a \$1.9 million restructuring liability in the second quarter of 2023, partially offset by the addition \$1.7 million in operating income from Great North.

Corporate operating loss was approximately \$11.9 million higher for the three months ended June 30, 2024 as compared to the same period in 2023, primarily due to a foreign currency transaction loss and higher payroll expense.

*Income Tax Provision (Benefit).* Income tax provision for the three months ended June 30, 2024 was \$0.8 million on a loss before taxes of \$2.6 million, resulting in an effective tax rate of 30.7%. Income tax expense was different than the U.S federal statutory income tax rate of 21% primarily due to the change in earnings mix by geography and tax jurisdiction, changes in valuation allowances in the United States, foreign withholding tax, and changes in nondeductible expenses. Income tax provision for the three months ended June 30, 2023 was \$2.1 million on an income before taxes of \$5.6 million, resulting in an effective income tax rate of approximately 37.6%. Income tax expense was different than the U.S federal statutory income tax rate of 21% primarily due to projected earnings mix by geography and tax jurisdiction, foreign withholding taxes, nondeductible compensation and the change in valuation allowances in the United States and in various foreign countries.

*Net Income (Loss).* Net loss was approximately \$1.8 million for the three months ended June 30, 2024 as compared to a net income of \$3.5 million for the same period in 2023 for the reasons set forth above.

### **Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023**

*Revenues.* Revenues increased by \$50.1 million, or approximately 27.8%, to \$230.6 million for the six months ended June 30, 2024 from \$180.5 million for the six months ended June 30, 2023.

Subsea Products revenue decreased by approximately \$12.7 million primarily driven by lower Connector and Surface Equipment orders in the first half of 2024.

Subsea Services revenue increased by approximately \$3.7 million primarily driven by customer specific increases in international markets.

Well Construction revenue increased by approximately \$59.1 million, which was primarily driven by the acquisition of Great North, which contributed \$47 million in revenue in the first half of 2024, and large bore liner hanger growth in international offshore markets.

*Cost of Sales.* Cost of sales increased by \$30.4 million, or approximately 23.2% to \$161.6 million for the six months ended June 30, 2024 from \$131.2 million for the same period in 2023. This increase was primarily due to the acquisition of Great North. Cost of sales as a percentage of revenue decreased to 70.1% from 72.7% for the six months ended June 30, 2024 and 2023, respectively, primarily driven by favorable product mix within Subsea Products and Well Construction.

*Selling, General and Administrative Expenses.* For the six months ended June 30, 2024, selling, general and administrative expenses increased by \$15.1 million, or 33.7% to \$59.8 million from \$44.7 million for the same period in 2023. This increase was primarily due to the addition of Great North expenses and higher personnel related costs.

*Engineering and Product Development Expenses.* For the six months ended June 30, 2024, engineering and product development expenses increased by approximately \$0.7 million, or 11.0%, to \$7.3 million from approximately \$6.6 million for the same period in 2023. This increase was primarily due to the increased testing and qualifications related to specific international customer requirements.

*Restructuring and Other Charges.* For the six months ended June 30, 2024, the Company incurred no additional costs under the 2021 global strategic plan. During the six months ended June 30, 2023, the Company incurred costs of approximately \$1.1 million under the 2021 global strategic plan. These charges were primarily related to office moves, site cleanup, preparation costs, consulting and legal fees.

*Gain on Sale of Property, Plant and Equipment.* For the six months ended June 30, 2024, the gain on sale of property, plant and equipment was \$0.1 million, primarily related to the sale of scrap parts. For the six months ended June 30, 2023, the gain on sale of property, plant and equipment was \$7.4 million, primarily related to the sale of our Houston aftermarket facility, the Houston forge facility buildings and certain obsolete machinery and equipment and scrap parts.

*Foreign Currency Transaction Gain.* Foreign currency transaction loss for the six months ended June 30, 2024, was \$4.8 million as compared to a gain of \$3.7 million for the same period in 2023.

*Operating Income (Loss).* Subsea Products operating income was approximately \$3.6 million higher for the six months ended June 30, 2024 as compared to the same period in 2023, due a favorable product mix and the impacts of productivity initiatives.

Subsea Services operating income decreased by approximately \$4.5 million, primarily driven by a gain of \$5.9 million on the sale of our Houston aftermarket facility recognized in the first half of 2023.

Well Construction operating income was approximately \$1.1 million higher for the six months ended June 30, 2024 as compared to the same period in 2023, which was primarily driven by the acquisition of Great North, which contributed \$3.6 million in operating income. This is partially offset by the release of a \$1.9 million restructuring liability in the first half of 2023 and higher payroll expense in 2024.

Corporate operating loss was approximately \$30.5 million higher for the six months ended June 30, 2024 as compared to the same period in 2023, primarily due to \$19.4 million in expenses related to the planned merger with Innovex and a foreign currency transaction loss in the first half of 2024.

*Income Tax Provision (Benefit).* Income tax provision for the six months ended June 30, 2024 was \$2.6 million on a loss before taxes of \$19.2 million resulting in an effective tax rate of (13.4%). Income tax expense was different than the U.S federal statutory income tax rate of 21% primarily due to the change in earnings mix by geography and tax jurisdiction, changes in valuation allowances in the United States, foreign withholding tax, and changes in nondeductible expenses. Income tax provision for the six months ended June 30, 2023 was \$5.7 million on an income before taxes of \$11.5 million, resulting in an effective income tax rate of approximately 49.7%. Income tax expense was different than the U.S federal statutory income tax rate of 21% primarily due to projected earnings mix by geography and tax jurisdiction, foreign withholding taxes, nondeductible compensation and the change in valuation allowances in the United States and in various foreign countries.

*Net Income (Loss).* Net loss was approximately \$21.8 million for the six months ended June 30, 2024 as compared to a net income of \$5.8 million for the same period in 2023 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 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 and net income and 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 condensed 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:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
	(In thousands)			
Net income (loss)	\$ (1,812)	\$ 3,483	\$ (21,796)	\$ 5,794
Add:				
Interest income, net	(2,053)	(1,979)	(4,249)	(4,726)
Income tax provision (benefit)	(801)	2,102	2,577	5,726
Depreciation and amortization expense	8,007	7,049	16,439	13,938
Restructuring and other charges	-	(610)	-	1,108
Acquisition costs	1,695	1,134	20,742	1,134
Gain on sale of property, plant and equipment	54	(738)	(146)	(7,385)
Foreign currency transaction loss (gain)	6,671	(4,812)	4,775	(3,692)
Stock compensation expense	3,378	2,566	6,166	5,143
Other	1,376	592	2,181	585
Adjusted EBITDA <sup>(1)</sup>	<u>\$ 16,515</u>	<u>\$ 8,787</u>	<u>\$ 26,689</u>	<u>\$ 17,625</u>

<sup>(1)</sup> 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.

## Liquidity and Capital Resources

### Cash Flows

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

	<b>Six months ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
	(In thousands)	
Operating activities	\$ (13,408)	\$ (41,638)
Investing activities	15,502	14,066
Financing activities	(475)	(22)
	1,619	(27,594)
Effect of exchange rate changes on cash activities	(3,800)	(720)
Decrease in cash and cash equivalents	<u>\$ (2,181)</u>	<u>\$ (28,314)</u>

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 period, as these are non-cash changes. As a result, changes reflected in certain accounts on the condensed consolidated statements of cash flows may not reflect the changes in corresponding accounts on the condensed 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 and (ii) to fund working capital. 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. We believe our currently anticipated operating cash flows will be sufficient to meet our cash needs arising in the ordinary course of business for the next twelve months.

Net cash used in operating activities for the six months ended June 30, 2024 was \$13.4 million as compared to \$41.6 million for the six months ended June 30, 2023. The \$28.2 million increase in cash from operating activities is primarily due to increases resulting from the change in operating assets and liabilities of \$32.9 million.

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The change in operating assets and liabilities for the six months ended June 30, 2024 resulted in a \$32.9 million increase in cash as compared to the change in operating assets and liabilities for the six months ended June 30, 2023. The \$21.5 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 the changes in accounts payable and accrued expenses was \$17.3 million primarily due to the timing of payroll cycles and accounts payable distributions. Increases in cash due to changes in inventory was \$3.1 million due to changes in inventory levels as we continually reassess our needs. These increases were partially offset by a decrease in cash of \$9.0 million due to changes in prepaids and other assets.

The change in investing cash flows for the six months ended June 30, 2024 resulted in a \$15.5 million increase in cash, primarily due to \$25.9 million of maturities in our short-term investments during the quarter, which were reinvested in investments classified as cash equivalents as per our accounting policy. This is partially offset by capital expenditures of \$10.9 million for the six months ended June 30, 2024. Capital expenditures for the six months ended June 30, 2024 were \$5.4 million for machinery and equipment related to our global strategic program which includes consolidation of our manufacturing facilities, \$4.5 million for rental tools to support our developed products and \$1.0 million for other capital expenditures.

### *Credit Facility*

The Company's ABL Credit Facility, dated February 23, 2018, as amended, was terminated effective February 22, 2022. 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 June 30, 2024, the cash balance in that account was approximately \$3.6 million. The Company is required to maintain a balance equal to the outstanding letters of credit plus 5% at all times which is included in "Restricted cash" in our condensed consolidated balance sheets as at June 30, 2024 and December 31, 2023. Withdrawals from this cash collateral account are only allowed at such point a given letter of credit has expired or has been cancelled.

### *Repurchase of Equity Securities*

On February 22, 2022, the Board authorized an incremental \$100.0 million share repurchase plan. The repurchase plan has no set expiration date and any repurchased shares are expected to be cancelled. 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 amount of common stock and may be modified or superseded at any time at the Company's discretion.

For the three and six months ended June 30, 2024 and 2023, the Company purchased no shares under the share repurchase plans.

The Company currently has no derivative instruments and no off-balance sheet hedging or financing arrangements, contracts or operations.

## **Other Matters**

From time to time, the Company enters into discussions or negotiations to acquire other businesses or enter into joint ventures. The timing, size or success of any such efforts and the associated potential capital commitments are unpredictable and dependent on market conditions and opportunities existing at the time. The Company may seek to fund all or part of any such efforts with proceeds from debt or equity issuances. Debt or equity financing may not, however, be available at that time due to a variety of circumstances, including, among others, the Company's credit ratings, industry conditions, general economic conditions and market conditions.

## **Critical Accounting Estimates**

During the six months ended June 30, 2024, there were no material changes in our judgments and assumptions associated with the development of our critical accounting policies. Refer to the Form 10-K/A for a discussion of our critical accounting policies.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is currently exposed to certain market risks related to interest rate changes on its short-term investments and fluctuations in foreign exchange rates. The Company does not engage in any material hedging transactions, forward contracts or currency trading which could mitigate the market risks inherent in such transactions. There have been no material changes in market risks for the Company since December 31, 2023.

## **Foreign Exchange Rate Risk**

The Company has operations in various countries around the world and conducts business in a number of different currencies. 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 experienced a foreign currency pre-tax loss of approximately \$6.7 million and \$4.8 million during the three and six months ended June 30, 2024. The Company experienced a foreign currency pre-tax gain of approximately \$4.8 million \$3.7 million, during the three and six months ended June 30, 2023.

The Company does not engage in any material hedging transactions, forward contracts or currency trading which could mitigate the effects and risks inherent in such transactions. Additionally, there is no assurance that the Company will be able to protect itself against currency fluctuations in the future.

#### **Item 4. Controls and Procedures**

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2024 because of the material weakness in our internal control over financial reporting described in Part II, Item 9A of the Form 10-K/A.

#### ***Changes in Internal Control over Financial Reporting***

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2024 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### ***Management's Plan to Remediate the Material Weaknesses***

As it relates to the material weakness that exists as of June 30, 2024, we are currently in the process of designing and implementing remediation plans and taking steps to address the root cause of the material weakness. Such plans include, but may not be limited to, the following:

- We will perform an evaluation of the design and implementation of certain internal controls impacted by the material weakness.
- We will enhance the design of the controls related to the review of financial statement classification of inventory write-downs related to restructuring.
- We will provide technical accounting training to individuals involved in determining financial statement classification of inventory write-downs related to restructuring.

While we believe these efforts will improve our internal controls and address the root cause of the material weakness, such material weakness will not be remediated until our remediation plan has been fully implemented and we have concluded, through testing, that our controls are operating effectively for a sufficient period of time.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

For a description of the Company’s legal proceedings, see “Contingencies,” Note 14 to the Notes to Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in the Company’s Annual Report on Form 10-K/A, as updated in our Quarterly Report on Form 10-Q/A for the period ending March 31, 2024.



**Item 5. Other Information**

During the second quarter of 2024, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, except as follows:

On May 7, 2024, James C. Webster, Vice President, General Counsel and Secretary, adopted a trading plan intended to satisfy Rule 10b5-1(c) to sell up to 6,000 shares of Dril-Quip, Inc. common stock between August 6, 2024 through February 7, 2025, subject to certain conditions.

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**Item 6.**

(a) Exhibits

The following Exhibits are filed herewith:

<b>Exhibit No.</b>	<b>Description</b>
*3.1	— <a href="#">Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017).</a>
*3.2	— <a href="#">Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 18, 2023).</a>
31.1	— <a href="#">Rule 13a-14(a)/15d-14(a) Certification of Jeffrey J. Bird.</a>
31.2	— <a href="#">Rule 13a-14(a)/15d-14(a) Certification of Kyle F. McClure.</a>
32.1	— <a href="#">Section 1350 Certification of Jeffrey J. Bird.</a>
32.2	— <a href="#">Section 1350 Certification of Kyle F. McClure.</a>
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 Document.
101.CAL	— Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	— Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	— Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	— Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	— Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Incorporated herein by reference as indicated.



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

I, Jeffrey J. Bird, certify that:

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

Date: August 7, 2024

/s/ Jeffrey J. Bird

Jeffrey J. Bird

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

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

I, Kyle F. McClure, certify that:

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

Date: August 7, 2024

/s/ Kyle F. McClure

Kyle F. McClure

*Vice President – Chief Financial Officer*

*(Principal Financial Officer and Duly Authorized Signatory)*

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

In connection with the Quarterly Report of Dril-Quip, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2024 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey J. Bird, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

Date: August 7, 2024

/s/ Jeffrey J. Bird

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Jeffrey J. Bird

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

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

In connection with the Quarterly Report of Dril-Quip, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2024 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Kyle F. McClure, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

Date: August 7, 2024

/s/ Kyle F. McClure

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Kyle F. McClure

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

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