

DRIL-QUIP INC  
Form DEF 14A  
April 05, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

**DRIL-QUIP, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

## Edgar Filing: DRIL-QUIP INC - Form DEF 14A

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Price per unit or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(6) Amount previously paid:

(7) Form, Schedule or Registration Statement No.:

(8) Filing party:

(9) Date filed:

Notes:

Reg. § 240.14a-101.

SEC 1913 (3-99)

**Dril-Quip, Inc.**

**6401 N. Eldridge Parkway**

**Houston, Texas 77041**

April 5, 2013

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders to be held at the Omni Houston Hotel Westside, 13210 Katy Freeway, Houston, Texas, on May 16, 2013 at 9:30 a.m. For those of you who cannot be present at this annual meeting, we urge that you participate by indicating your choices on the enclosed proxy card and completing and returning it at your earliest convenience.

This booklet includes the notice of the meeting and the proxy statement, which contains information about the Board of Directors and its committees and personal information about the nominees for the Board. Other matters on which action is expected to be taken during the meeting are also described.

It is important that your shares are represented at the meeting, whether or not you are able to attend personally. Accordingly, please sign, date and mail promptly the enclosed proxy in the envelope provided.

On behalf of the Board of Directors, thank you for your continued support.

Blake T. DeBerry

President and Chief Executive Officer

**DRIL-QUIP, INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 16, 2013**

To the Stockholders of

Dril-Quip, Inc.:

The annual meeting of stockholders of Dril-Quip, Inc. will be held at the Omni Houston Hotel Westside, 13210 Katy Freeway, Houston, Texas, on May 16, 2013 at 9:30 a.m., Houston time, for the following purposes:

1. To elect the nominees named in the Proxy Statement as directors to serve for a three-year term.
2. To approve the appointment of BDO USA, LLP as independent registered public accounting firm for 2013.
3. To conduct a non-binding advisory vote to approve the Company's compensation of its named executive officers.
4. To transact such other business as may properly come before the meeting or any reconvened meeting after an adjournment thereof. The Board of Directors has fixed March 25, 2013 as the record date for determining stockholders entitled to notice of, and to vote at, the meeting or any reconvened meeting after an adjournment thereof, and only holders of common stock of record at the close of business on that date will be entitled to notice of, and to vote at, the meeting or any reconvened meeting after an adjournment.

You are cordially invited to attend the meeting in person. Even if you plan to attend the meeting, however, you are requested to mark, sign, date and return the accompanying proxy as soon as possible.

By Order of the Board of Directors

Blake T. DeBerry

*President and Chief Executive Officer*

April 5, 2013

6401 N. Eldridge Parkway

Houston, Texas 77041

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS**

**FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 16, 2013.**

**The Proxy Statement, our annual report to shareholders and other proxy materials are available at <http://www.edocumentview.com/DRQ>.**

**Dril-Quip, Inc.**

**6401 N. Eldridge Parkway**

**Houston, Texas 77041**

**PROXY STATEMENT**

**INTRODUCTION**

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Dril-Quip, Inc., a Delaware corporation, of proxies from the holders of our common stock, par value \$.01 per share, for use at the 2013 Annual Meeting of Stockholders to be held at the time and place and for the purposes set forth in the accompanying notice. The approximate date on which this proxy statement and the accompanying proxy will first be mailed to stockholders is April 5, 2013.

In addition to the solicitation of proxies by mail, proxies may also be solicited by telephone or personal interview by our regular employees. We will pay all costs of soliciting proxies. We will also reimburse brokers or other persons holding stock in their names or in the names of their nominees for their reasonable expenses in forwarding proxy materials to beneficial owners of such stock.

**RECORD DATE AND VOTING SECURITIES**

As of the close of business on March 25, 2013, the record date for determining stockholders entitled to notice of and to vote at the annual meeting, we had outstanding and entitled to vote 40,523,436 shares of common stock. Each share entitles the holder to one vote on each matter submitted to a vote of stockholders.

The requirement for a quorum at the annual meeting is the presence in person or by proxy of holders of a majority of the outstanding shares of our common stock. Proxies indicating stockholder abstentions and shares represented by broker non-votes (*i.e.*, shares held by brokers or nominees for which instructions have not been received from the beneficial owners or persons entitled to vote and for which the broker or nominee does not have discretionary power to vote on a particular matter) will be counted for purposes of determining whether there is a quorum at the annual meeting. Votes cast by proxy or in person at the annual meeting will be counted by the persons appointed as election inspectors for the annual meeting.

Brokers holding shares must vote according to specific instructions they receive from the beneficial owners of those shares. If brokers do not receive specific instructions, brokers may in some cases vote the shares in their discretion. However, the New York Stock Exchange, or NYSE, precludes brokers from exercising voting discretion on certain proposals without specific instructions from the beneficial owner. Importantly, NYSE rules expressly prohibit brokers holding shares in street name for their beneficial holder clients from voting in uncontested director elections on behalf of the clients without receiving specific voting instructions from those clients. Under NYSE rules, brokers will have discretion to vote only on Proposal 2 (approval of the appointment of independent registered public accounting firm). Brokers cannot vote on Proposal 1 (election of directors) or Proposal 3 (advisory vote to approve executive compensation) without instructions from the beneficial owners. If you do not instruct your broker how to vote on these matters, your broker will not vote for you.

All duly executed proxies received prior to the annual meeting will be voted in accordance with the choices specified thereon and, in connection with any other business that may properly come before the meeting, in the discretion of the persons named in the proxy. **As to any matter for which no choice has been specified in a duly executed proxy, the shares represented thereby will be voted FOR the election as director of the nominees listed herein, FOR approval of the appointment of BDO USA, LLP as our independent**



registered public accounting firm, FOR approval, on an advisory basis, of the compensation of our named executive officers and in the discretion of the persons named in the proxy in connection with any other business that may properly come before the annual meeting.

A stockholder giving a proxy may revoke it at any time before it is voted at the annual meeting by filing with the Secretary at our executive offices a written instrument revoking it, by delivering a duly executed proxy bearing a later date or by appearing at the annual meeting and voting in person. Our executive offices are located at 6401 N. Eldridge Parkway, Houston, Texas 77041. For a period of ten days prior to the annual meeting, a complete list of stockholders entitled to vote at the annual meeting will be available for inspection by stockholders of record during ordinary business hours for proper purposes at our executive offices.

## SECURITY OWNERSHIP OF

### CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number of shares of our common stock beneficially owned directly or indirectly as of March 25, 2013 by (i) each person who is known to us to own beneficially more than 5% of our common stock, (ii) each of our directors, director nominees and executive officers and (iii) all executive officers, director nominees and directors as a group.

Name of Beneficial Owner (1)	Amount of Beneficial Ownership	
	Number of Shares	Percent of Stock
Blake T. DeBerry (2)	75,341	*
James A. Gariepy (3)	75,341	*
Jerry M. Brooks (4)	55,947	*
James C. Webster (5)	12,497	*
Alexander P. Shukis (6)	3,200	*
John V. Lovoi (6)	3,200	*
L. H. Dick Robertson (6)	3,200	*
Terence B. Jupp (6)	1,600	*
All directors and executive officers as a group (8 persons)	230,326	*
BlackRock, Inc. (7)	3,163,829	7.8%
40 East 52nd Street		
New York, NY 10022		
Goldman Sachs Asset Management, L.P. (8)	2,055,828	5.1%
200 West Street		
New York, NY 10282		

\* Less than 1%.

- (1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock. The address of each such person, unless otherwise provided, is 6401 N. Eldridge Parkway, Houston, Texas 77041.
- (2) Includes (a) 25,350 shares of restricted stock held directly by Mr. DeBerry and (b) 46,250 shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 25, 2013.
- (3) Includes (a) 25,350 shares of restricted stock held directly by Mr. Gariepy and (b) 46,250 shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 25, 2013.
- (4) Includes (a) 9,700 shares of restricted stock held directly by Mr. Brooks and (b) 45,000 shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 25, 2013.



- (5) Includes (a) 9,250 shares of restricted stock held directly by Mr. Webster and (b) 2,000 shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 25, 2013.
- (6) Consists entirely of shares of restricted stock.
- (7) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 8, 2013. The filing indicates that BlackRock, Inc. has sole voting and dispositive power with respect to 3,163,829 shares.
- (8) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2013. Such filing indicates that Goldman Sachs Asset Management, L.P., together with GS Investment Strategies, LLC, has shared voting with respect to 2,000,442 shares and shared dispositive power with respect to 2,055,828 shares.

#### PROPOSAL I

#### ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes, Class I, Class II and Class III, with staggered terms of office ending in 2013, 2014 and 2015, respectively. The term for each class expires on the date of the third annual stockholders' meeting for the election of directors following the most recent election of directors for such class. Each director holds office until the next annual meeting of stockholders for the election of directors of his class and until his successor has been duly elected and qualified.

Our Board of Directors has nominated each of Alexander P. Shukis and Terence B. Jupp for election as a director to serve a three-year term expiring on the date of the annual meeting of stockholders to be held in 2016 (or until his successor is duly elected and qualified). Mr. Shukis has served as a member of our Board of Directors since 2003. Mr. Jupp was recommended to the Board of Directors as a director candidate by our Chief Executive Officer and subsequently appointed to our Board of Directors in November 2012. In accordance with our bylaws, directors are elected by a majority of the votes cast at the meeting. This means that the number of shares voted for a director must exceed the number of votes cast against that director. Abstentions and broker non-votes will not affect the outcome of the vote. For additional information on the election of directors, see Corporate Governance Matters Majorities Voting in Director Elections.

Our Board of Directors has no reason to believe that Messrs. Shukis and Jupp will not be candidates for director at the time of the annual meeting or will be unable to serve as directors. If Mr. Shukis or Mr. Jupp become unavailable for election, our Board of Directors can name a substitute nominee, and proxies will be voted for the substitute nominee pursuant to discretionary authority, unless withheld.

**The Board of Directors recommends that you vote FOR the election of the nominees listed below. Properly dated and signed proxies will be so voted unless authority to vote in the election of directors is withheld.**

#### Nominees for Class I Director for Three-Year Term to Expire in 2016

The following sets forth information concerning the nominees for election as a director at the annual meeting, including the nominees' age as of March 25, 2013, position with us, business experience during the past five years and the experiences, qualifications, attributes or skills that caused our Nominating, Governance and Compensation Committee and the Board to determine that the nominees should serve as directors of the Company.

*Alexander P. Shukis*, age 68, has been a Class I director since February 2003. He is chairman of the Audit Committee and a member of the Nominating, Governance and Compensation Committee of the Board of Directors. From July 2001 until his retirement in December 2007, Mr. Shukis was the Controller of Corporate Strategies, Inc., a merchant bank. From 1997 to July 2001, Mr. Shukis was self-employed, working as a business consultant. From 1995 to 1997, he was Chief Financial Officer and Director of Great Western Resources, Inc., an exploration and production company. He served as Vice President and Controller of Great Western Resources, Inc. from 1986 to 1995. Mr. Shukis holds a BBA in accounting from the University of Houston. Mr. Shukis was selected to serve as a director due to his extensive financial and accounting background and his knowledge of the energy industry.

*Terence B. Jupp*, 53, has been a Class I director since November 2012. He is a member of the Audit Committee and the Nominating, Governance and Compensation Committee of the Board of Directors. Mr. Jupp has been Chief Operating Officer of CASA Exploration, an oil and gas exploration company, since January 2012. From September 2009 until January 2012, Mr. Jupp was President and Chief Executive Officer of Trans-Global Oil and Gas Corp., and from April 2008 until August 2009 was Chief Operating Officer of Turkana Energy. From May 2007 until March 2008, Mr. Jupp was a private investor. From August 2006 until April 2007, Mr. Jupp was employed by Anadarko Petroleum as Vice President International Operations Americas/Far East following its acquisition of Kerr-McGee Oil and Gas. Prior to that, he worked for Kerr-McGee in various management positions domestically and internationally for over 20 years, including as Vice President International Exploration and Production. Mr. Jupp holds a Bachelor of Science degree in petroleum engineering from Texas A&M University. Mr. Jupp was selected to serve as a director due to his executive experience with oil and gas exploration companies, including his international experience in the energy industry.

#### **Information Concerning Class II and Class III Directors**

The following sets forth information concerning the Class II and Class III directors whose present terms of office will expire at the 2014 and 2015 annual meetings of stockholders, respectively, including each director's age as of March 25, 2013, position with us, if any, business experience during the past five years and the experiences, qualifications, attributes or skills that caused our Nominating, Governance and Compensation Committee and the Board to determine that the nominee should serve as a director of the Company.

##### *Class II*

*Blake T. DeBerry*, age 53, has served as a Class II director and the President and Chief Executive Officer of the Company since October 2011. Prior to that time, he served as our Senior Vice President Sales and Engineering. Mr. DeBerry has filled various engineering and management positions since his employment began with us in 1988, including as Vice President of Dril-Quip Asia Pacific PTE. Ltd. based in Singapore. Mr. DeBerry holds a bachelor of science degree in mechanical engineering from Texas Tech University. Mr. DeBerry was selected to serve as a director because he is our Chief Executive Officer, he has extensive knowledge of the Company and its operations and people gained over 20 years and he has demonstrated engineering knowledge and technical expertise.

*John V. Lovoi*, age 52, has been a Class II director since May 2005 and Chairman of the Board since October 2011. He is also chairman of the Nominating, Governance and Compensation Committee and a member of the Audit Committee of the Board of Directors. He is the Managing Partner of JVL Advisors LLC, a private energy investment company established in 2002. From January 2000 to August 2002, Mr. Lovoi was a Managing Director at Morgan Stanley Incorporated, and during this period served as head of the firm's Global Oil and Gas Research practice and then as head of the firm's Global Oil and Gas Investment Banking practice. From 1995 to 2000, he was a leading oilfield services and equipment research analyst for Morgan Stanley. Prior to joining Morgan Stanley, he spent two years as a senior financial executive at Baker Hughes and four years as an energy investment banker with Credit Suisse First Boston. Mr. Lovoi is a director of Helix Energy Solutions Group, an energy services company, and is a former director of Evergreen Energy, Inc., a provider of energy technology. Mr. Lovoi holds a bachelor of science degree in chemical engineering from Texas A&M University and an MBA degree from the University of Texas at Austin. Mr. Lovoi was selected to serve as a director due to his financial expertise and industry insight, as well as his experience as a director of other public companies.

##### *Class III*

*L. H. Dick Robertson*, age 78, has been a Class III director since December 2006 and is a member of the Audit Committee and the Nominating, Governance and Compensation Committee of the Board of Directors. Previously, he was the president and chief executive officer of Dual Drilling Company, an international offshore drilling contractor, from 1984 until June 1996, when Dual Drilling merged with Ensco International Incorporated. From June 1996 to the

present, Mr. Robertson has been retired. Prior to his employment with Dual Drilling Company, Mr. Robertson served as president and chief executive officer of Republic Drilling & Service, president of Progress Drilling & Marine, Inc., chairman, president and chief executive officer of Atwood Oceanics, Inc. and senior vice president of Global Marine, Inc. Mr. Robertson holds a bachelor of science degree in petroleum engineering and a BBA in general business from Texas A&M University. Mr. Robertson was selected to serve as a director due to his executive experience, including his experience as chief executive officer of contract drilling companies, and his background in the energy industry.

## **CORPORATE GOVERNANCE MATTERS**

### **Board Leadership Structure**

The offices of Chairman of the Board and Chief Executive Officer are currently separate and have been separate since October 2011. At that time, the Board of Directors appointed Mr. Lovoi as Chairman of the Board and Blake T. DeBerry as President and Chief Executive Officer.

The Board does not have a policy requiring either that the positions of the Chairman of the Board and the Chief Executive Officer should be separate or that they should be occupied by the same individual. The Board believes that this issue is properly addressed as part of the succession planning process and that it is in the best interests of the Company for the Board to make a determination on the matter when it elects a new chief executive officer or at other times consideration is warranted by circumstances. The Board believes that this structure enables it to fulfill its oversight role in determining the manner in which its leadership is configured with a view toward flexibility and maintaining a structure that best serves our Company and its stockholders.

The Board believes that the current separation of these two important roles is in the best interest of the Company and its stockholders at this time. This structure permits the Chairman to direct board operations and lead the board in its oversight of management and the Chief Executive Officer to develop and implement the Company's board-approved strategic vision and manage its day-to-day business. The separation of duties also allows Mr. Lovoi and Mr. DeBerry to focus on their responsibilities as Chairman and Chief Executive Officer, respectively. The Board believes that the independent board chairman helps provide an opportunity for Board members to provide more direct input to management in shaping our organization and strategy and strengthens the Board's independent oversight of management. To that end, at each regularly scheduled Board meeting, our non-management directors hold executive sessions at which our management is not in attendance. Mr. Lovoi, as Chairman, presides at these sessions.

### **Board's Role in the Oversight of Risk Management**

The Board of Directors has ultimate oversight responsibility for our system of enterprise risk management. Management is responsible for developing and implementing our program of enterprise risk management. Pursuant to the Audit Committee charter, the Audit Committee has been designated to take the lead in overseeing our risk management process and overall risk management system at the Board level. Accordingly, the Audit Committee meets periodically with management to review our major financial risk exposures and the steps management has taken to monitor and control those exposures. The Audit Committee also monitors our risk management policies and guidelines concerning risk assessment and risk management. In this role, the Audit Committee receives reports from management and other advisors, and analyzes our risk management process and system, the nature of the material risks we face and the adequacy of our policies and procedures designed to respond to and mitigate these risks.

In addition to the formal compliance program, the Board and the Audit Committee encourage management to promote a corporate culture that understands risk management and incorporates it into our overall corporate strategy and day-to-day business operations. Our risk management structure also includes an ongoing effort to assess and analyze the most likely areas of future risk for the Company. As a result, the Board and Audit Committee periodically ask our executives to discuss the most likely sources of material future risks and how the Company is addressing any significant potential vulnerability.

The Board believes that the administration of its risk oversight function has not affected its leadership structure. In reviewing our compensation program, the Nominating, Governance and Compensation Committee has made an assessment of whether compensation policies and practices create risks that are reasonably likely to have a material adverse effect on us and has concluded that they do not create such risks as presently constituted.

### **Determinations of Director Independence**

Under rules adopted by the NYSE, no board member qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with us. In evaluating each director's independence, the Board considers all relevant facts and circumstances in making a determination of independence. In particular, when assessing the materiality of a director's relationship with us, the Board considers the issue not merely from the standpoint of the director, but also from the standpoint of persons or organizations with which the director has an affiliation.

As contemplated by the rules of the NYSE then in effect, the Board adopted categorical standards in 2004 to assist the Board of Directors in making independence determinations. Under the rules then in effect, immaterial relationships that fall within the guidelines were not required to be disclosed separately in proxy statements. As set forth in our Corporate Governance Guidelines, a relationship falls within the categorical standard if it:

is not a type of relationship that would preclude a determination of independence under Section 303A.02(b) of the New York Stock Exchange Listed Company Manual;

consists of charitable contributions by us to an organization where a director is an executive officer and does not exceed the greater of \$1 million or 2% of the organization's gross revenue in any of the last three years; or

is not a type of relationship that would require disclosure in the proxy statement under Item 404 of Regulation S-K of the SEC. In its determination of independence, the Board of Directors reviewed and considered all relationships and transactions between each director, his family members or any business, charity or other entity in which the director has an interest, on the one hand, and we, our affiliates, or our senior management has an interest, on the other. The Board considered the relationships and transactions in the context of the NYSE's objective listing standards, the categorical standards noted above and the additional standards established for members of audit, compensation and governance committees.

In connection with its determination as to the independence of directors, the Board considered ordinary course transactions between the Company and a subsidiary of Helix Energy Solutions Group, Inc. In particular, the Board considered that Mr. Lovoi is a director of Helix Energy Solutions Group, Inc. and that Helix made payments for products purchased from the Company of approximately \$582,000 in 2012. These payments represent approximately 0.08% of the Company's consolidated gross revenues in 2012, and approximately 0.07% of Helix's consolidated gross revenues in 2012. The Board also considered that Helix may order additional products from the Company in the future. The Board has concluded that these transactions and relationships do not adversely affect Mr. Lovoi's ability or willingness to act in the best interests of the Company and its shareholders or otherwise compromise his independence, nor are similar transactions in the future expected to adversely affect Mr. Lovoi's independence. The Board took note of the fact that these transactions were on standard terms and conditions and that neither company was afforded any special benefits. The Board further noted that Mr. Lovoi had no involvement in negotiating the terms of the purchases or interest in the transactions.

As a result of this review, the Board of Directors affirmatively determined that Messrs. Jupp, Lovoi, Robertson and Shukis are independent from us and our management. In addition, the Board of Directors affirmatively determined that Messrs. Jupp, Lovoi, Robertson and Shukis are independent under the additional standards for audit committee membership under rules of the SEC. The remaining director, Mr. DeBerry, is not independent because of his current service as a member of our senior management.

You can access our Independence Guidelines in our Corporate Governance Guidelines on the Investors section of our website at [www.dril-quip.com](http://www.dril-quip.com).

### **Code of Business Conduct and Ethics**

Pursuant to NYSE rules, we have adopted the Dril-Quip, Inc. Code of Business Conduct and Ethics for our directors, officers and employees. The Code of Business Conduct and Ethics, which also meets the requirements of a code of ethics under Item 406 of Regulation S-K, is posted on our website at [www.dril-quip.com](http://www.dril-quip.com). Changes in and waivers to the Code of Business Conduct and Ethics for our directors and executive officers will also be posted on our website.

### **Majority Voting in Director Elections**

Our amended and restated bylaws include a majority voting standard in uncontested director elections. This standard applies to the election of directors at this meeting. To be elected, a nominee must receive more votes cast for that nominee's election than votes cast against that nominee's election. In contested elections, the voting standard will be a plurality of votes cast. Under our bylaws, a contested election is one at which the number of candidates for election as directors exceeds the number of directors to be elected, as determined by our Corporate Secretary as of the tenth day preceding the date we mail or deliver a notice of meeting to stockholders.

Our Corporate Governance Guidelines include director resignation procedures. In brief, these procedures provide that:

An incumbent director nominee must submit an irrevocable letter of resignation that becomes effective upon and only in the event that (1) the nominee fails to receive the required vote for election to the Board at the next meeting of shareholders at which such nominee faces re-election and (2) the Board accepts such resignation;

Each director candidate who is not an incumbent director must agree to submit such an irrevocable resignation upon election as a director;

Upon the failure of any nominee to receive the required vote, the Nominating, Governance and Compensation Committee makes a recommendation to the Board on whether to accept or reject the resignation;

The Board takes action with respect to the resignation and publicly discloses its decision and the reasons therefor within 90 days from the date of the certification of the election results; and

The resignation, if accepted, will be effective at the time specified by the Board when it determines to accept the resignation, which effective time may be deferred until a replacement director is identified and appointed to the Board.

Our Corporate Governance Guidelines can be found on the Investors section of our website at [www.dril-quip.com](http://www.dril-quip.com).

### **Committees of the Board of Directors**

The Board of Directors has appointed two committees: the Audit Committee and the Nominating, Governance and Compensation Committee.

#### ***Audit Committee***

The current members of the Audit Committee are Mr. Shukis, who serves as Chairman, and Messrs. Jupp, Lovoi and Robertson. The Board of Directors has determined that Mr. Shukis is an audit committee financial expert as such term is defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC.

The Audit Committee Charter contains a detailed description of the Audit Committee's duties and responsibilities. Under the charter, the Audit Committee has been appointed by the Board of Directors to assist the Board in overseeing (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditor's independence, qualifications and performance, and (iv) the performance of our internal audit function. The Audit Committee also has direct responsibility for the appointment, compensation and retention of our independent auditors.

#### *Nominating, Governance and Compensation Committee*

The current members of the Nominating, Governance and Compensation Committee are Mr. Lovoi, who serves as Chairman, and Messrs. Jupp, Robertson and Shukis.

The Board of Directors has approved the Nominating, Governance and Compensation Committee Charter, which contains a detailed description of the Nominating, Governance and Compensation Committee's responsibilities. Under the charter, the Nominating, Governance and Compensation Committee identifies and recommends individuals qualified to become Board members, consistent with criteria approved by the Board, and assists the Board in determining the composition of the Board and its committees, in monitoring a process to assess Board and committee effectiveness and in developing and implementing our corporate governance guidelines, practices and procedures. In fulfilling its compensation role, the Nominating, Governance and Compensation Committee assists the Board in establishing the compensation of our directors and executive officers in a manner consistent with our stated compensation strategy, internal equity considerations, competitive practice and the requirements of applicable law and regulations and rules of applicable regulatory bodies.

#### Compensation Matters

In fulfilling its compensation role, the Nominating, Governance and Compensation Committee is authorized to:

review and approve corporate goals and objectives relevant to the Chief Executive Officer's compensation; evaluate the Chief Executive Officer's performance in light of those goals and objectives; and either as a committee or together with other independent directors (as directed by the Board), determine and approve the Chief Executive Officer's compensation based on that evaluation, including administering, negotiating any changes to and determining amounts due under the Chief Executive Officer's employment agreement;

review and approve, or make recommendations to the Board with respect to, the compensation of other executive officers, and oversee the periodic assessment of the performance of such officers;

from time to time consider and take action on the establishment of and changes to incentive compensation plans, equity-based compensation plans and other benefit plans, including making recommendations to the Board on plans, goals or amendments to be submitted for action by our stockholders;

administer our compensation plans, including authorizing the issuance of our common stock and taking other action on grants and awards, determinations with respect to achievement of performance goals, and other matters provided in the respective plans; and

review from time to time when and as the Nominating, Governance and Compensation Committee deems appropriate the compensation and benefits of non-employee directors, including compensation pursuant to equity-based plans, and approve, or make recommendations to the Board with respect to, any changes in such compensation and benefits.

In October 2012, the Nominating, Governance and Compensation Committee awarded restricted stock and performance units to our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel and a specified amount of restricted stock and performance units to be distributed among key employees at the discretion of Mr. DeBerry. Subject to certain limitations, our long term incentive plan permits the Nominating, Governance and Compensation Committee to delegate its duties under the plan to the Chairman of the Board and our senior officers. The Nominating, Governance and Compensation Committee also increased the salaries of these officers to levels considered appropriate for officers in our peer group.



The Nominating, Governance and Compensation Committee has the authority to engage a third-party consultant at any time. Since October 2011, the Nominating, Governance and Compensation Committee has engaged a third-party consultant, Meridian Compensation Partners, LLC ( Meridian ), to evaluate and recommend appropriate modifications to our compensation program consistent with our program s objectives.

The Nominating, Governance and Compensation Committee also met in February 2013 to determine the annual cash incentive compensation earned during 2012 by our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel. Annual cash compensation for 2012 was based on the Company s actual performance compared to target performance and adjusted for each officer for the achievement of personal goals. Please see Executive Compensation Compensation Discussion and Analysis for information about the Company s 2012 executive officer compensation.

#### Selection of Nominees for the Board of Directors

##### *Identifying Candidates*

The Nominating, Governance and Compensation Committee solicits ideas for potential Board candidates from a number of sources, including members of the Board of Directors, our executive officers, individuals personally known to the members of the Nominating, Governance and Compensation Committee and research. In addition, the Nominating, Governance and Compensation Committee will consider candidates submitted by stockholders. Any such submissions should include the candidate s name and qualifications for Board membership and should be directed to our Corporate Secretary at the address indicated on the first page of this proxy statement. Although the Board does not require the stockholder to submit any particular information regarding the qualifications of the stockholder s candidate, the level of consideration that the Nominating, Governance and Compensation Committee will give to the stockholder s candidate will be commensurate with the quality and quantity of information about the candidate that the nominating stockholder makes available to the Nominating, Governance and Compensation Committee. Mr. Jupp was recommended to the Board of Directors as a director candidate by our Chief Executive Officer and subsequently appointed to our Board of Directors in November 2012. The Nominating, Governance and Compensation Committee did not receive any candidate submissions from stockholders during 2012. The Nominating, Governance and Compensation Committee will consider all candidates identified through the processes described above and will evaluate each of them on the same basis.

In addition, our bylaws permit stockholders to nominate directors for election at an annual stockholders meeting whether or not such nominee is submitted to and evaluated by the Nominating, Governance and Compensation Committee. To nominate a director using this process, the stockholder must follow certain procedures required by the Bylaws which are described under Additional Information Advance Notice Required for Stockholder Nominations and Proposals below.

##### *Evaluating Candidates*

The members of the Nominating, Governance and Compensation Committee are responsible for assessing the skills and characteristics that candidates for election to the Board should possess, as well as the composition of the Board as a whole. This assessment will include the qualifications under applicable independence standards and other standards applicable to the Board and its committees, as well as consideration of skills and experience in the context of the needs of the Board. The charter of the Nominating, Governance and Compensation Committee requires the Committee to evaluate each candidate for election to the Board in the context of the Board as a whole, with the objective of recommending individuals that can best perpetuate the success of our business and represent stockholder interests through the exercise of sound business judgment using their diversity of experience in a number of areas. Each candidate must meet certain minimum qualifications, including:

independence of thought and judgment;

the ability to dedicate sufficient time, energy and attention to the performance of her or his duties, taking into consideration the nominee s service on other public company boards; and



skills and expertise complementary to the existing Board members' skills; in this regard, the Nominating, Governance and Compensation Committee will consider the Board's need for operational, sales, management, financial or other relevant expertise. The Nominating, Governance and Compensation Committee may also consider the ability of the prospective candidate to work with the then-existing interpersonal dynamics of the Board and her or his ability to contribute to the collaborative culture among Board members.

Based on this initial evaluation, the Nominating, Governance and Compensation Committee will determine whether to interview the candidate, and if warranted, will recommend that one or more of its members and senior management, as appropriate, interview the candidate in person or by telephone. After completing this evaluation and interview process, the Nominating, Governance and Compensation Committee recommends to the Board a slate of director nominees for election at the next annual meeting of stockholders or for appointment to fill vacancies on the Board.

### **Information Regarding Meetings**

During 2012, the Board of Directors held four meetings. The Audit Committee met four times and the Nominating, Governance and Compensation Committee met three times. During 2012, all current directors attended at least 75% of the meetings of the Board of Directors and the committees thereof held during the period of such director's service.

We expect, but do not require, Board members to attend the annual meeting. Last year, all of our Board members attended the annual meeting.

### **Stockholder Communications**

Stockholders and other interested parties may communicate directly with our independent directors by sending a written communication in an envelope addressed to Board of Directors (Independent Members) in care of the Corporate Secretary at the address indicated on the first page of this proxy statement.

Stockholders and other interested parties may communicate directly with the Board of Directors by sending a written communication in an envelope addressed to Board of Directors in care of the Corporate Secretary at the address indicated on the first page of this proxy statement.

### **Website Availability of Governance Documents**

You can access our Corporate Governance Guidelines, Code of Business Conduct and Ethical Practices, Audit Committee Charter and Nominating, Governance and Compensation Committee Charter on the Investors section of our website at [www.dril-quip.com](http://www.dril-quip.com). Information contained on our website or any other website is not incorporated into this proxy statement and does not constitute a part of this proxy statement. Additionally, any stockholder who so requests may obtain a printed copy of the governance documents from the Corporate Secretary at the address indicated on the first page of this proxy statement.

### **Compensation Committee Interlocks and Insider Participation**

The Nominating, Governance and Compensation Committee is comprised entirely of Messrs. Jupp, Lovoi, Shukis and Robertson, each of whom is an independent director. None of the members of the Nominating, Governance and Compensation Committee during fiscal 2012 or as of the date of this proxy statement is or has been an officer or employee of Dril-Quip and no executive officer of Dril-Quip served on the compensation committee or board of any company that employed any member of Dril-Quip's Nominating, Governance and Compensation Committee or Board.

---

## **Policies and Procedures for Approval of Related Person Transactions**

The Board has adopted a written policy implementing procedures for the review, approval or ratification of related person transactions. Under the policy, a related person is any director, executive officer or more than 5% stockholder. The policy applies to any transaction in which (1) we are a participant, (2) any related person has a direct or indirect material interest and (3) the amount involved exceeds \$120,000, but excludes any transaction that does not require disclosure under Item 404(a) of Regulation S-K. The Nominating, Governance and Compensation Committee is responsible for reviewing, approving and ratifying any related person transaction. The Nominating, Governance and Compensation Committee intends to approve only those related person transactions that are in, or are not inconsistent with, the best interests of us and our stockholders.

## **RELATED PERSON TRANSACTIONS**

### **Employment Agreements with Executive Officers**

On December 8, 2011, we entered into employment agreements with Blake T. DeBerry, President and Chief Executive Officer, James A. Gariepy, Senior Vice President and Chief Operating Officer, Jerry M. Brooks, Vice President Finance and Chief Financial Officer, and James C. Webster, Vice President General Counsel and Secretary. The following summary of the employment agreements does not purport to be complete and is qualified by reference to the form of the agreements, which have been filed with the SEC and may be obtained from the Corporate Secretary at the address indicated on the first page of this proxy statement.

Each employment agreement has an initial three-year term but automatically extends for one additional year on the third anniversary of the effective date and on each subsequent anniversary of the effective date. Pursuant to the employment agreements, each executive will receive an annual base salary at least equal to the annual base salary earned by such executive immediately prior to the effective date. In addition to an annual salary, each executive will be eligible to receive an annual bonus to be determined each year in accordance with our normal bonus practices or under any annual bonus plan adopted by us after the effective date. Each executive will also be entitled to paid vacation in accordance with the Company's policies, to receive benefits consistent with our other senior executives, including medical, life and disability insurance, and to participate in our incentive, savings and retirement plans. Each employment agreement is subject to the right of the Company and each respective executive to terminate his employment at any time. The employment agreements provide certain benefits upon termination or change-in-control. For more information, see Executive Compensation Potential Payments Upon Termination or Change-in-Control.

In addition, each executive is subject to a perpetual covenant not to use or disclose our trade secrets or confidential information and, if the executive is terminated after the first anniversary of the effective date, non-competition and non-solicitation covenants during the term of his employment and for 12 months following his termination.

## **DIRECTOR COMPENSATION**

Effective as of January 1, 2012, the non-employee Chairman of the Board receives an annual fee of \$150,000 and the Company's other non-employee directors receive an annual fee of \$75,000. In addition, the non-employee Chairman of the Board and the other non-employee directors receive a fee of \$1,000 for attendance at each Board of Directors meeting and \$1,000 for each committee meeting. All directors are reimbursed for their out-of-pocket expenses and other expenses incurred in attending meetings of the Board or its committees and for other expenses incurred in their capacity as directors.

Under the Company's 2004 Incentive Plan, as amended, non-employee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards, cash awards or performance awards.

The following table sets forth a summary of the compensation paid to our non-employee directors for 2012:

Name	Fees Earned or Paid in Cash	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
John V. Lovoi	\$ 160,000	\$ 215,824					\$ 375,824
L.H. Dick Robertson	\$ 86,000	\$ 215,824					\$ 301,824
Alexander P. Shukis	\$ 86,000	\$ 215,824					\$ 301,824
Terence B. Jupp (2)	\$ 19,750	\$ 108,096					\$ 127,846

(1) Amounts reflect the aggregate grant date fair value of restricted stock awards computed in accordance with FASB ASC 718, Share-Based Payment (ASC 718). Assumptions used in the calculation of this amount are included in footnote 13 to our audited consolidated financial statements for the fiscal year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2013.

(2) Mr. Jupp joined the Board on November 15, 2012. These amounts reflect his compensation from that date until December 31, 2012. Upon the recommendation of the Nominating, Governance and Compensation Committee, the Board granted 1,600 shares of restricted stock to each of Messrs. Lovoi, Robertson and Shukis in May 2012 and October 2012 under the 2004 Incentive Plan, as amended. Upon the recommendation of the Nominating, Governance and Compensation Committee, the Board granted 1,600 shares of restricted stock to Mr. Jupp upon his appointment to the Board in November 2012.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Overview

The primary objectives of our compensation programs are to attract and retain talented executive officers and to deliver rewards for superior corporate performance. We had four named executive officers in 2012: our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel. The compensation of our named executive officers was at the discretion of the Nominating, Governance and Compensation Committee (the Committee) and was governed in part by employment agreements entered into with those executives on December 8, 2011. The employment agreements are described under Related Person Transactions Employment Agreements with Executive Officers and Executive Compensation Potential Payments Upon Termination or Change-in-Control.

#### Purpose of the Executive Compensation Program

Our executive compensation program has been designed to accomplish the following objectives:

align executive compensation with performance and appropriate peer group comparisons;

produce long-term, positive results for our stockholders;

create a proper balance between building stockholder wealth and executive wealth while maintaining good corporate governance; and

Edgar Filing: DRIL-QUIP INC - Form DEF 14A

provide market-competitive compensation and benefits that will enable us to attract, motivate and retain a talented workforce.

### **Administration of Executive Compensation Program**

Our executive compensation program is administered by the Committee. The specific duties and responsibilities of the Committee are described in this proxy statement under Corporate Governance Matters Committees of the Board of Directors Nominating, Governance and Compensation Committee. The Committee normally meets each February or March to set cash bonuses earned during the prior year and to review and, as appropriate, make changes to the executive compensation program. The Committee also normally meets in September or October to determine base salaries for our executive officers and award equity-based compensation. The Committee also meets at other times during the year and acts by written consent when necessary or appropriate.

Our Chief Executive Officer provides recommendations on the base salaries of our other executive officers. Our Chief Executive Officer also periodically reviews and recommends specific performance metrics to be used for determining our annual cash incentive payments. These recommendations are then presented to the Committee for its consideration and approval. Our Chief Executive Officer bases his recommendations on a variety of factors such as his appraisal of the executive's job performance and contribution to the Company, improvement in organizational and employee development and accomplishment of strategic priorities. Our Chief Executive Officer does not make any recommendations regarding his own compensation.

### **Role of Consultants**

The Committee has the authority to engage a third-party consultant at any time. To assist in carrying out its responsibilities, the Committee retained Meridian to provide independent advice on executive compensation and to perform specific tasks as requested by the Committee. Meridian reports directly to the Committee, which pre-approved the scope of work and the fees charged. The Committee reviewed and assessed Meridian's independence and performance in order to confirm that it was independent and met all applicable regulatory requirements. No other services were provided to us by Meridian in 2012.

In October 2011, the Committee engaged Meridian to evaluate our compensation program consistent with our program's policies and objectives. The Committee directed Meridian to review the base salary and short term and long term incentive of our named executive officers. In order to ensure that our compensation programs are market-based, Meridian analyzed and matched the position and responsibilities of each named executive officer to publicly available data from a peer group of oilfield service companies. The Committee directed Meridian to update its analysis with respect to compensation for the Company's named executive officers in 2012.

For 2012, the peer group for Meridian's analysis consisted of the following 11 publicly traded oilfield services companies: Oceaneering International, Inc., Oil States International, Inc., Superior Energy Services, Inc., Atwood Oceanics, Inc., Helix Energy Solutions Group, Inc., Hercules Offshore, Inc., Hornbeck Offshore Services, Inc., Gulfmark Offshore, Inc., Parker Drilling Company, Newpark Resources, Inc. and Tesco Corporation.

This peer group of companies represents a group of companies in the oilfield services industry of comparable size to Dril-Quip based on measures such as enterprise value, revenues, market capitalization and assets. We believe that the use of this group as a reference for evaluating our compensation policies helps align us with our peers and competitors. We also believe this group of companies provides a sufficiently large data set that is generally not subject to wide changes in compensation data.

Pursuant to Meridian's recommendations and its own analysis, the Committee has implemented the compensation program for our named executive officers as further described below.

## Elements of Compensation

### General

Our executive compensation program generally consists of the following elements:

base salary;

annual incentive compensation in the form of cash bonuses;

long-term stock-based incentive compensation consisting of restricted stock and performance unit awards;

contributions to our 401(k) retirement plan; and

benefits such as medical and dental insurance.

We primarily seek to reward achievement of our short-term goals with base salary and annual cash incentive compensation, while long-term interests are rewarded through long-term equity awards. We believe that base salaries should be at levels competitive with peer companies that compete with us for business opportunities and executive talent, and annual cash bonuses and stock option awards should be at levels which reflect progress toward our corporate goals and individual performance. In general, salary level and annual and long term incentive compensation for each named executive officer are based on market data for the officer's position. Compensation levels can vary compared to the market due to a variety of factors such as experience, scope of responsibilities, tenure and individual performance.

### Relative Size of Major Compensation Elements

The relative sizes of the components of an executive's compensation are determined in the sole discretion of the Committee, often with reference to recommendations by third party consultants. Pursuant to their employment agreements, however, the Committee may not reduce the salary of our named executive officers.

Factors taken into account in determining compensation for all executive officers are our performance and the executive's responsibilities, experience, leadership, potential future contributions and demonstrated individual performance. The Committee seeks to achieve the appropriate balance between immediate cash rewards for the achievement of company-wide and personal objectives and long-term incentives that align the interests of our executive officers with those of our stockholders. In setting executive compensation, the Committee considers the aggregate compensation payable to an executive officer and the form of the compensation. The Committee also considered the results of the 2012 advisory vote on executive compensation and based upon the strong stockholder support, believes that its approach to executive compensation is appropriate.

The following table summarizes the relative size of base salary and incentive compensation for 2012 for each of our named executive officers:

Name	Base Salary	Annual Cash Incentive	Long-Term Stock-Based Incentive
Blake T. DeBerry	17%	24%	59%
James A. Gariepy	17%	22%	61%
Jerry M. Brooks	22%	22%	56%
James C. Webster	23%	16%	61%

### *Base Salary*

## Edgar Filing: DRIL-QUIP INC - Form DEF 14A

We evaluate base salaries for our named executive officers annually. The base salaries for our Chief Executive Officer and our other executive officers are reviewed and approved by the Committee. Our Chief Executive Officer provides recommendations on adjustments to the base salary of our other executive officers. Base salary recognizes the job being performed and the value of that job in the competitive market. Base salary must be sufficient to attract and retain the executive talent necessary for our continued success and provide an

element of compensation that is not at risk in order to avoid fluctuations in compensation that could distract our executives from the performance of their responsibilities.

#### Executive Officers

Base salaries for our named executive officers are based on a review of numerous factors, including our financial and operating performance during the relevant period and the executive officer's experience level and contribution to our success. Salary determinations are subjective and are not based on any formula. The Committee and the Chief Executive Officer, as applicable, make a subjective assessment of our actual financial results compared to our overall annual budget based on the financial statements as a whole, taking into account market and economic conditions unknown during the preparation of the relevant annual budgets. Among other items, the Committee and the Chief Executive Officer compare our actual revenues and expenses, operating income, net income and earnings per share to the budgeted amounts for these items. In addition, annual adjustments to base salary also reflect changes or responses to changes in market data.

In determining the current base salaries, the relevant budgetary data available to the Committee included information from the last six months of 2011 and the first nine months of 2012. The 2011 budget was prepared by our former Chief Executive Officer and approved by the Committee at its February 2011 meeting. The 2012 budget was prepared by Mr. DeBerry and approved by the Committee at its February 2012 meeting. For the twelve months ended June 30, 2012, the relevant portions of the Company's 2011 and 2012 annual budgets forecasted revenues of \$625 million, expenses of \$478 million, operating income of \$147 million, net income of \$107 million and earnings per share of \$2.67. Actual results for the same periods were revenues of \$680 million, expenses of \$530 million, operating income of \$150 million, net income of \$110 million and earnings per share of \$2.72. In addition, the Committee recognized, and took into account, economic and market factors affecting the Company during the period, but unknown during the preparation of the 2011 or 2012 budgets.

In October 2011, the Committee engaged Meridian to evaluate our compensation program consistent with our program's policies and objectives and market data. Based on analysis in Meridian's November 2011 report, the Committee approved increases in the salaries of Messrs. DeBerry, Gariepy, Brooks and Webster to \$600,000, \$550,000, \$350,000 and \$300,000, respectively, effective December 8, 2011. These salaries were in effect until October 2012, at which time the Committee met to review the overall compensation of the named executive officers based on their positions and performance, and in relation to the compensation provided to executives at the Company's peers. In connection with that review, the Committee approved increases in the salaries of Messrs. DeBerry, Gariepy, Brooks and Webster to \$630,000, \$575,000, \$365,000 and \$325,000, respectively, effective as of October 17, 2012.

#### ***Annual Cash Incentive Compensation***

Our annual incentive compensation award provides an annual cash award that is designed to link each employee's annual compensation to the achievement of annual performance objectives for the Company, as well as to recognize the employee's performance during the year.

*2012 Awards.* In December 2011, based on the recommendations of Meridian, the Committee instituted a cash bonus plan for its executive officers for their performance in 2012 (the 2012 Bonus Plan). Under the terms of the 2012 Bonus Plan, each executive's bonus award for 2012 performance was calculated based on (i) our performance in the 12-month period ending December 31, 2012 against target performance, (ii) the executive officer's achievement of personal objectives and (iii) the bonus target amounts for each executive officer which are set by the Committee. In December 2011, the annual cash incentive target for each of our executive officers was set by the Committee at the following percentages of their salaries: 100% for each of Mr. DeBerry and Mr. Gariepy, 75% for Mr. Brooks and 50% for Mr. Webster.

At the beginning of 2012, our Chief Executive Officer proposed, and the Committee approved, our budget for 2012, including EBIT. Our Chief Executive Officer also discussed certain personal objectives with each



executive. Our EBIT (which is the same as operating income) was chosen by the Committee as the relevant Company performance metric for the 2012 annual cash incentive awards. Our EBIT for 2012 was calculated by our Chief Financial Officer, based upon our audited financial statements, and presented to the Committee. The Committee reviewed the calculations as prepared by our Chief Financial Officer and determined the applicable performance percentages for purposes of determining the amount of the bonus in accordance with the following threshold, target and maximum amounts:

	<b>EBIT Element (70% of Bonus Determination)</b>	
	<b>EBIT Performance as % of Budget</b>	<b>EBIT Bonus Target Multiplier</b>
<b>Maximum</b>	120%	200%
	117	184.0
	114	170.0
	111	156.0
	108	142.0
	105	128.0
	102	114.0
<b>Target</b>	100%	100%
	97	92.0
	94	85.0
	91	78.0
	88	71.0
	85	64.0
	82	57.0
<b>Threshold</b>	80%	50%
	less than 80%	0%

The bonus amounts were determined by multiplying the dollar amount of each executive officer's incentive target by the appropriate EBIT Bonus Target Multiplier and then subtracting up to 30% of that product for any personal objectives that are not satisfied. The satisfaction of personal objectives were determined at the discretion of our Chief Executive Officer and the Committee for our Chief Operating Officer, Chief Financial Officer and General Counsel, and at the discretion of the Committee for our Chief Executive Officer.

Based on our performance in 2012, we achieved EBIT performance as a percentage of our 2012 budget of approximately 106.7%, which corresponds to an EBIT Bonus Target Multiplier of approximately 136%. After any adjustment for the performance of our executive officers based on the achievement of their personal objectives in 2012, in February 2013, the Committee awarded bonuses to Messrs. DeBerry, Garipey, Brooks and Webster in the amounts of \$814,600, \$746,700, \$345,700 and \$203,700, respectively, for their performance in 2012.

*2013 Awards.* In February 2013, the Committee approved cash bonus criteria under the Dril-Quip, Inc. Short Term Incentive Plan for executive officers for their performance in 2013 (the 2013 Bonus Criteria), which is substantially similar to the 2012 Bonus Plan. Under the terms of the 2013 Bonus Criteria, each executive's bonus award for 2013 performance will be calculated based on (i) our performance in the 12-month period ending December 31, 2013 against target performance, (ii) the executive officer's achievement of personal objectives and (iii) the bonus target amounts for each executive officer which are set by the Committee. In February 2013, the annual cash incentive target for each of our executive officers was set by the Committee at the same percentages of their salaries as their cash incentive targets for 2012: 100% for each of Mr. DeBerry and Mr. Garipey, 75% for Mr. Brooks and 50% for Mr. Webster.

At the beginning of 2013, our Chief Executive Officer proposed, and the Committee approved, our budget for 2013, including EBIT. Our Chief Executive Officer also discussed certain personal objectives with each executive. Our EBIT was chosen by the Committee as the relevant Company performance metric for the 2013

annual cash incentive awards. Our EBIT for 2013 will be calculated by our Chief Financial Officer, based upon our audited financial statements, and presented to the Committee. The Committee will review the calculations as prepared by our Chief Financial Officer and determine the applicable performance percentages for purposes of determining the amount of the bonus in accordance with the following threshold, target and maximum amounts:

	EBIT Element (70% of Bonus Determination)	
	EBIT Performance as % of Budget	EBIT Bonus Target Multiplier
Maximum	120%	200%
	116	180.0
	112	160.0
	108	140.0
	104	120.0
Target	100%	100%
	96	90.0
	92	80.0
	88	70.0
	84	60.0
Threshold	80%	50%
	less than 80%	0%

The bonus amounts will be determined by multiplying the dollar amount of each executive officer's incentive target by the appropriate EBIT Bonus Target Multiplier and then subtracting up to 30% of that product for any personal objectives that are not satisfied. The determination of whether personal objectives are satisfied will be at the discretion of our Chief Executive Officer and the Committee for our Chief Operating Officer, Chief Financial Officer and General Counsel, and at the discretion of the Committee for our Chief Executive Officer.

**Long-Term Stock-Based Incentive Compensation**

*Restricted Stock Grants.* The Committee is responsible for restricted stock grants under our incentive compensation plan. The Committee approves the grant of restricted stock at meetings of the Committee, and generally does not grant restricted stock by written consent. The Committee establishes an award for our named executive officers and a total number of awards for non-executive employees and delegates to the Chief Executive Officer the distribution of such awards to our non-executive employees. Historically, our grants of equity compensation have been made on October 28, the anniversary of the closing of our initial public offering (or if such date is not a business day, the preceding business day).

In determining the amount, if any, of restricted stock granted to our named executive officers and our other key employees, the Committee considers numerous factors, including, among others, the following:

our financial and operating performance during the relevant period;

the executive's contribution to our success;

the level of competition for executives with comparable skills and experience; and

the total number of shares of restricted stock granted to an executive over the course of his or her career, together with the retentive effect of additional restricted stock grants.

Based on these considerations, the Committee awarded each of Messrs. DeBerry and Gariepy with 13,350 shares of restricted stock, Mr. Brooks with 5,700 shares of restricted stock and Mr. Webster with 5,250 shares of restricted stock in October 2012.

Edgar Filing: DRIL-QUIP INC - Form DEF 14A

*Performance Units.* The Committee also elected to grant to our current named executive officers shares of performance units in October 2012 under the 2004 Incentive Plan. The Committee believed adding a performance unit

award to the Company's long term stock-based compensation would better align executive performance with stockholder interests and would focus the officers on long-term performance as the performance units vest over three-year intervals. Under the plan, participants may earn from 0% to 200% of their target award based upon the Company's relative total share return (TSR) to the 15 component companies of the Philadelphia Oil Service Index (OSX index). The TSR is calculated over a 3-year period from October 1, 2012 to September 30, 2015.

The Committee considered the same factors enumerated above for its grant of performance units. Based on these considerations, the Committee granted to each of Messrs. DeBerry and Garipey 13,350 performance units, Mr. Brooks with 5,700 performance units and Mr. Webster with 5,250 performance units. The Committee determined that it was appropriate to grant each executive officer awards in an equal number of performance units and restricted stock shares to balance the objectives of retention and performance.

*Stock Options.* The Committee last awarded stock options to named executive officers in October 2011. At that time, the Committee engaged Meridian to evaluate and recommend appropriate modifications to our compensation program consistent with our program's objectives. Meridian completed its report in November 2011 and, pursuant to Meridian's recommendations and after internal deliberation, the Committee elected to discontinue the use of stock options as an incentive tool in favor of restricted stock and performance unit awards, which more closely align the Company with its market peers.

#### ***Other Benefits***

We provide our executive officers with other personal benefits that we believe are reasonable and consistent with our overall compensation program.

The employment agreements of our named executive officers provide certain benefits upon termination which are described under Potential Payments Upon Termination or Change-in-Control.

We seek to provide benefit plans, such as medical, life and disability insurance, in line with market conditions. Executive officers are eligible for the same benefit plans provided to other employees, including insurance plans and supplemental plans chosen and paid for by employees who wish additional coverage. We do not have any special insurance plans for executive officers.

#### ***Post-Employment Benefits***

We make contributions to the Dril-Quip, Inc. 401(k) Plan, which is a voluntary and contributory plan for eligible employees. Our contributions, which are based on a percentage of matching employee contributions, totaled approximately \$2.8 million in 2012, which includes an aggregate of \$39,231 for our named executive officers' benefit.

#### **Impact of Accounting and Tax Treatments**

##### ***Accounting Treatment***

Under ASC 718, we recognize the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards. We utilize a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options under ASC 718. Restricted stock awards are measured based on the fair value of the stock at the date of grant. We valued the performance unit awards using a Monte Carlo simulation model based on probable achievement level of the underlying performance conditions as of the grant date.

##### ***Tax Treatment***

Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended (the Code), generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to the chief executive officer or any of the three other most highly compensated officers other than the Chief Financial Officer. Performance-based compensation arrangements may qualify for an exemption from the deduction limit if they satisfy various requirements under Section 162(m). Although we consider the impact of this rule when developing and implementing our executive

compensation program, we believe it is important to preserve flexibility in designing compensation programs. Accordingly, we have not adopted a policy that all compensation must qualify as deductible under Section 162(m).

#### **Shareholder Advisory Say-on-Pay Vote**

At our 2013 annual meeting, we are providing our stockholders with the opportunity to cast an advisory vote on the compensation of our named executive officers, commonly known as a say-on-pay vote. This vote provides our stockholders the opportunity to express their views regarding the compensation program for our named executive officers as disclosed in this proxy statement. As an advisory vote, the say-on-pay vote at our 2013 annual meeting will not be binding upon the Company or the Board of Directors. However, the Board of Directors values the opinions expressed by our stockholders, and the Committee will consider the outcome of the vote when making future compensation decisions for our named executive officers. For additional information, please refer to Proposal III: Advisory Vote to Approve Executive Compensation beginning on page 30.

The advisory vote at our 2013 annual meeting will be our third say-on-pay vote. We conducted our first say-on-pay vote at our 2011 annual meeting at which an advisory resolution approving the compensation of our named executive officers, as disclosed in the proxy statement for our 2011 annual meeting, was approved by approximately 95% of the shares that were voted either for or against the resolution (excluding abstentions and broker non-votes). At our second say-on-pay vote at our 2012 annual meeting, an advisory resolution approving the compensation of our named executive officers, as disclosed in the proxy statement for our 2012 annual meeting, was approved by approximately 98% of the shares that were voted either for or against the resolution (excluding abstentions and broker non-votes). We have considered the favorable results of this vote, and the Committee has not made any changes to our overall executive compensation program as a direct result of the vote.

At our 2011 annual meeting, we also conducted an advisory vote on the frequency of future stockholder advisory votes on executive compensation, at which the Board of Directors recommended that our stockholders vote in favor of holding annual say-on-pay votes instead of the other options presented. At our 2011 annual meeting, approximately 87% of the shares that were voted in favor of one of the three available frequency recommendations (excluding abstentions and broker non-votes) voted in favor of an annual frequency, approximately five percent voted in favor of holding future votes once every two years, and approximately eight percent voted in favor of holding future votes once every three years. In May 2011, we disclosed that, in accordance with the results of the advisory vote, we intend to hold future say-on-pay votes annually until we next hold an advisory vote on the frequency of say-on-pay votes as required under SEC rules.

#### **Compensation Committee Report**

The Nominating, Governance and Compensation Committee of the Board has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on such review and discussions, the Nominating, Governance and Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

The Nominating, Governance and

Compensation Committee

John V. Lovoi

Terence B. Jupp

L.H. Dick Robertson

Alexander P. Shukis

### Summary Compensation Table

The following table sets forth information regarding the compensation of our Chief Executive Officer, our Chief Operating Officer and our General Counsel for services rendered in all capacities during 2011 and 2012 and of our Chief Financial Officer (all four officers collectively, the named executive officers ) for services rendered in all capacities during 2010, 2011 and 2012:

	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
Blake T. DeBerry	2012	\$ 605,538		\$ 2,058,704		\$ 814,600	\$ 381,462 (5)	\$ 3,860,304
President and Chief Executive Officer	2011	322,404	\$ 250,000	\$ 1,252,620	\$ 485,700		388,002 (5)	2,698,726
James A. Gariepy	2012	554,616		2,058,704		746,700	10,686	3,370,706
Senior Vice President and Chief	2011	320,096	230,000	1,252,620	485,700		361,506 (6)	2,649,922
Operating Officer								
Jerry M. Brooks Vice	2012	352,769		878,997		345,700	62,480 (7)	1,639,946
President Finance and	2011	295,019	140,000	417,540	323,800		10,499	1,186,858
Chief Financial Officer	2010	267,116	100,000		317,600		10,523	695,239
James C. Webster	2012	304,616		809,603		203,700	10,725	1,328,644
Vice President General Counsel and	2011	208,192 (8)	220,000 (9)	417,540	259,040		5,085	1,109,857
Secretary								

- (1) Amounts reflect the aggregate grant date fair value of restricted stock awards and performance unit awards computed in accordance with ASC 718. With respect to performance unit awards, amounts are based on probable achievement level of the underlying performance conditions as of the grant date. Assumptions used in the calculation of this amount are included in footnote 13 to our audited consolidated financial statements for the fiscal year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2013. The maximum value at the grant date of performance unit awards assuming the highest level of performance is achieved is as follows:

Name	Year	Maximum Value of Stock Awards (\$)
Blake T. DeBerry	2012	2,260,422
James A. Gariepy	2012	2,260,422
Jerry M. Brooks	2012	965,124
James C. Webster	2012	888,930

- (2) Amounts reflect the aggregate grant date fair value of option awards computed in accordance with ASC 718. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions used in the calculation of this amount are included in footnote 13 to our audited consolidated financial statements for the fiscal year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2013.
- (3) Amounts reflect short term incentive awards earned with respect to performance in the designated year and paid in the following year.
- (4) The amounts shown under All Other Compensation for each named executive officer include our matching contributions in 2011 to Mr. DeBerry's and Mr. Webster's 401(k) account in the amounts of \$8,681 and \$5,058, respectively, and to each other named executive officer's 401(k) account in the amount of \$9,800 for 2011 and 2010, as applicable. The amounts shown in 2012 include our matching contributions to Mr. DeBerry's 401(k) account in the amount of \$9,231 and to each other named executive officer's 401(k) account in the amount of \$10,000. Each named executive officer is responsible for paying income tax on the amounts listed above.
- (5) The 2011 amounts shown for Mr. DeBerry include amounts associated with his overseas assignment as follows: an overseas allowance of \$23,409, a local payment refund of \$3,894, a housing allowance of \$80,396, a schooling allowance of \$14,536, a utilities allowance of \$4,130, a company car allowance of \$7,000, payments for foreign taxes of \$205,971, relocation costs of \$32,884 and miscellaneous costs or allowances of \$7,101. The 2012 amounts shown for Mr. DeBerry include a payment of foreign taxes of \$371,530.
- (6) The 2011 amounts shown for Mr. Gariepy include amounts associated with his overseas assignment as follows: an overseas allowance of \$23,409, a housing/utilities allowance of \$55,871, a schooling allowance of \$16,345, a transportation allowance of \$2,202, a membership allowance of \$1,885, a company car allowance for \$6,931, payments for foreign taxes of \$194,114, storage costs of \$2,062, a U.S. tax return payment of \$4,092, a tax gross up of \$4,183, relocation costs of \$39,464 and miscellaneous costs or allowances of \$1,148.

## Edgar Filing: DRIL-QUIP INC - Form DEF 14A

- (7) The 2012 amounts shown for Mr. Brooks include a payment of \$51,775 for unused vacation in connection with a change in the Company's policies with respect to the accrual of vacation days.
- (8) Mr. Webster joined the Company on February 28, 2011. The 2011 amount reflects his salary from that date until December 31, 2011.
- (9) The 2011 amount shown for Mr. Webster includes a \$100,000 bonus paid to Mr. Webster in August 2011 pursuant to the terms of his offer letter.

## Grants of Plan-Based Awards

The following table contains information with respect to the grant of plan-based awards.

	Grant Date	Date of Nominating, Governance and Compensation Committee Approval	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Underlying Stock Options	All Other Awards: Number of Securities or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards (3)
			Threshold	Target	Maximum	Threshold	Target (#)	Maximum			
Blake T. DeBerry	10/26/2012	10/17/2012	\$ 300,000	\$ 600,000	\$ 1,200,000					\$ 928,493	
	10/26/2012	10/17/2012				6,675	13,350	26,700		1,130,211	
James A. Garipey	10/26/2012	10/17/2012	275,000	550,000	1,100,000					928,493	
	10/26/2012	10/17/2012				6,675	13,350	26,700		1,130,211	
Jerry M. Brooks	10/26/2012	10/17/2012	131,250	262,500	525,000					396,435	
	10/26/2012	10/17/2012				2,850	5,700	11,400		482,562	
James C. Webster	10/26/2012	10/17/2012	75,000	150,000	300,000					365,138	
	10/26/2012	10/17/2012				2,625	5,250	10,500		444,465	

- (1) The estimated payouts under non-equity incentive plan awards were based on the terms of the 2012 Bonus Plan. The maximum payout amount (as shown in the Maximum column) was 200% of target for all of our named executive officers. The threshold payout amount (as shown in the Threshold column) was 50% of target for all of our named executive officers. Actual amounts paid in 2013 for 2012 performance are shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.
- (2) The grants of equity incentive plan awards consist of two types of awards for each named executive officer: a restricted stock unit award covering a number of shares listed in the Target # column in the second line for each officer, and a performance unit award, for which threshold, target and maximum numbers of shares are shown in the columns under Estimated Future Payouts Under Equity Incentive Plan Awards in the third line for each officer. The 2012 restricted shares vest in 33 1/3% increments annually beginning on October 26, 2013. The performance unit awards vest based on the Company's total shareholder return compared to the total shareholder return of the 15 component companies of the Philadelphia Oil Service Index over the period from October 1, 2012 to September 30, 2015. All awards were granted under our 2004 Incentive Plan.
- (3) Represents the full grant date fair value of the awards calculated in accordance with ASC 718. Assumptions used in the calculation of this amount are included in footnote 13 to our audited consolidated financial statements for the fiscal year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2013.



**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information concerning the outstanding stock option, restricted stock and performance unit awards made to each named executive officer as of December 31, 2012:

	Option Awards					Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	
Blake T. DeBerry	10,000			\$ 38.97	10/27/2016				
	10,000			54.13	10/26/2017				
	10,000			20.98	10/28/2018				
	7,500	2,500 (a)		48.77	10/28/2019				
	5,000	5,000 (b)		66.93	10/28/2020				
	3,750	11,250 (c)		68.43	10/28/2021				
						12,000 (e)	\$ 876,600		
					13,350 (f)	\$ 975,218			
							6,675 (g)	\$ 487,609	
James A. Gariepy	10,000			38.97	10/27/2016				
	10,000			54.13	10/26/2017				
	10,000			20.98	10/28/2018				
	7,500	2,500 (a)		48.77	10/28/2019				
	5,000	5,000 (b)		66.93	10/28/2020				
	3,750	11,250(c)		68.43	10/28/2021				
						12,000 (e)	\$ 876,600		
					13,350 (f)	\$ 975,218			
							6,675 (g)	\$ 487,609	
Jerry M. Brooks	10,000			38.97	10/27/2016				
	10,000			54.13	10/26/2017				
	10,000			20.98	10/28/2018				
	7,500	2,500 (a)		48.77	10/28/2019				
	5,000	5,000 (b)		66.93	10/28/2020				
	2,500	7,500 (c)		68.43	10/28/2021				
						4,000 (e)	\$ 292,200		
					5,700 (f)	\$ 416,385			
							2,850 (g)	\$ 208,193	
James C. Webster	2,000	6,000 (c)		68.43	10/28/2021				
						4,000 (e)	\$ 292,200		
						5,250 (f)	\$ 383,513		
							2,625 (g)	\$ 191,756	

- (a) The options vest on October 28, 2013.
- (b) The options vest in two equal annual installments beginning on October 28, 2013.
- (c) The options vest in three equal annual installments beginning on October 28, 2013.
- (d) The options vest in four equal annual installments beginning on October 28, 2013.
- (e) The restricted stock awards vest in two equal annual installments beginning on December 8, 2013.
- (f) The restricted stock awards vest in one-third increments over a three-year period beginning on October 26, 2013, the first anniversary of the date of grant.
- (g) The performance unit awards are shown at threshold amounts and vest based on the Company's total shareholder return compared to the total shareholder return of the 15 component companies of the Philadelphia Oil Service Index over the period from October 1, 2012 to September 30, 2015.

**Option Exercises and Stock Vested**

The following table indicates the number and value of stock awards vested during 2012:

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercises (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting #(a)	Value Realized on Vesting \$(b)
Blake T. DeBerry			6,000	\$ 423,540
James A. Gariepy			6,000	423,540
Jerry M. Brooks			2,000	141,180
James C. Webster			2,000	141,180

- (a) Amount represents the vesting of a portion of the restricted stock awards granted on December 8, 2011. The restricted stock awards vest in one-third increments over a three-year period beginning on December 8, 2012, the first anniversary of the date of grant.
- (b) The Value Realized on Vesting for the restricted stock awards was determined using the market price on the vesting date.

**Equity Compensation Plan Information**

The table below sets forth the following information about our common stock that may be issued under our existing equity compensation plan as of December 31, 2012. Our existing equity compensation plan has been approved by our stockholders.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
Equity compensation plans approved by stockholders (1)	977,171 (2)	\$ 52.74 (3)	825,348
Equity compensation plans not approved by stockholders		N/A	
<b>Total</b>	<b>977,171</b>	<b>\$ 52.74</b>	<b>825,348</b>

- (1) Consists of the 1997 Incentive Plan of Dril-Quip, Inc. and the 2004 Incentive Plan of Dril-Quip, Inc. No further awards may be issued under the 1997 Incentive Plan.
- (2) Includes, in addition to 751,687 shares underlying options, an aggregate of 92,700 shares issuable upon settlement of outstanding grants of 46,350 performance units (which assumes maximum performance is achieved) and 132,784 shares of restricted stock awards that have not yet vested.
- (3) This weighted-average exercise price does not reflect the shares issuable upon settlement of outstanding grants of performance shares or stock awards.

---

**Potential Payments Upon Termination or Change-in-Control**

**Current Executive Officers**

Effective December 8, 2011, we entered into employment agreements with Blake T. DeBerry, President and Chief Executive Officer, James A. Gariepy, Senior Vice President and Chief Operating Officer, Jerry M. Brooks, Vice President Finance and Chief Financial Officer, and James C. Webster, Vice President General Counsel and Secretary.

If an executive's employment is terminated by us without cause (as defined in the employment agreement) and prior to a change of control period (as defined in the employment agreement), the executive will be entitled to (i) a lump sum cash payment equal to the executive's base salary through the termination date together with compensation for accrued vacation time (the Accrued Amount), (ii) a lump sum cash payment equal to two times the executive's annual base salary, in the case of Messrs. DeBerry and Gariepy, and one times the annual base salary, in the case of Messrs. Brooks and Webster, and (iii) continued medical, dental and life insurance coverage until the earlier of the executive's receipt of equivalent coverage and benefits under other plans of a subsequent employer or two years, in the case of Messrs. DeBerry and Gariepy, or one year, in the case of Messrs. Brooks and Webster.

If an executive's employment is terminated by us without cause or by the executive for good reason (as defined in the employment agreement) and during a change of control period, the executive will be entitled to (i) a lump sum cash payment equal to the Accrued Amount, (ii) a lump sum cash payment equal to three times the executive's annual base salary, in the case of Messrs. DeBerry and Gariepy, and two times the annual base salary, in the case of Messrs. Brooks and Webster, (iii) a lump sum cash payment equal to a pro rata portion of the greater of the annual bonus target for the year of termination or the average annual bonus amount paid for the three most recent performance periods (as defined in the employment agreement), (iv) a lump sum cash payment in an amount equal to three times, in the case of Messrs. DeBerry and Gariepy, and two times, in the case of Messrs. Brooks and Webster, the greater of the annual bonus target for the year of termination or the average annual bonus amount paid for the three most recent performance periods (as defined in the employment agreement), (v) immediate vesting of any stock options or restricted stock previously granted to the executive and outstanding as of the time immediately prior to the date of his termination, and (vi) continued medical, dental and life insurance coverage until the earlier of the executive's receipt of equivalent coverage and benefits under other plans of a subsequent employer or three years, in the case of Messrs. DeBerry and Gariepy, or two years, in the case of Messrs. Brooks and Webster.

If an executive's termination is with cause at any time, other than for good reason during a change of control period (as defined in the employment agreement) or due to death or disability, the executive will be entitled to (i) a lump sum cash payment equal to the Accrued Amount and (ii) the provision of deferred compensation and other employee benefits otherwise due.

In the event the change-of-control severance benefits payable to the executive under the employment agreement subject the executive to the parachute payment excise tax under Section 4999 of the Code (Excise Tax), the executive will be liable for payment of the Excise Tax. No Excise Tax gross-up payment will be made to or on behalf of the executive by us.

Edgar Filing: DRIL-QUIP INC - Form DEF 14A

The following tables show potential payments to our executive officers under their existing employment agreements upon termination of employment, assuming a December 31, 2012 termination date:

Payments Upon Termination	Blake T. DeBerry		
	Without Cause and Prior to Change of Control Period	Without Cause or By the Executive for Good Reason and During the Change of Control Period	With Cause; Other than for Good Reason; Due to Death or Disability
Unpaid Salary and Accrued Vacation Through Date of Termination (1)	\$ 38,912	\$ 38,912	\$ 38,912
Base Salary Severance Payment (2)	1,260,000	1,890,000	
Pro Rated Bonus Amount (3)		630,000	
Additional Bonus Amount (4)		1,890,000	
Stock Options, Restricted Stock and Performance Unit Vesting (5)		2,970,310	
Continued Insurance Coverage (6)	21,440	33,249	
<b>Total</b>	<b>\$ 1,320,352</b>	<b>\$ 7,452,471</b>	<b>\$ 38,912</b>

- (1) Includes 129 hours of accrued vacation time.
- (2) Calculated using base salary in effect at December 31, 2012.
- (3) Calculated using a target bonus amount of \$630,000.
- (4) Calculated using a target bonus amount of \$630,000.
- (5) Calculated based on (i) the difference between the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05) and the exercise price of unvested stock options as of such date, in the case of stock options, (ii) the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05), in the case of restricted stock and performance units and (iii) performance unit payout at target amount.
- (6) Calculated based on assumptions used for financial reporting purposes under FASB ASC 715-60 ( ASC 715-60 ), *Employer's Accounting for Postretirement Benefits Other than Pensions*.

Payments Upon Termination	James A. Gariepy		
	Without Cause and Prior to Change of Control Period	Without Cause or By the Executive for Good Reason and During the Change of Control Period	With Cause; Other than for Good Reason; Due to Death or Disability
Unpaid Salary and Accrued Vacation Through Date of Termination (1)	\$ 24,255	\$ 24,255	\$ 24,255
Base Salary Severance Payment (2)	1,150,000	1,725,000	
Pro Rated Bonus Amount (3)		575,000	
Additional Bonus Amount (4)		1,725,000	
Stock Options, Restricted Stock and Performance Unit Vesting (5)		2,970,310	
Continued Insurance Coverage (6)	21,440	33,249	
<b>Total</b>	<b>\$ 1,195,695</b>	<b>\$ 7,052,814</b>	<b>\$ 24,255</b>

- (1) Includes 88 hours of accrued vacation time.
- (2) Calculated using base salary in effect at December 31, 2012.
- (3) Calculated using a target bonus amount of \$575,000.
- (4) Calculated using a target bonus amount of \$575,000.
- (5)

## Edgar Filing: DRIL-QUIP INC - Form DEF 14A

- Calculated based on (i) the difference between the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05) and the exercise price of unvested stock options as of such date, in the case of stock options and (ii) the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05), in the case of restricted stock and performance units and (iii) performance unit payout at target amount.
- (6) Calculated based on assumptions used for financial reporting purposes under ASC 715-60.

<b>Jerry M. Brooks</b>			
<b>Payments Upon Termination</b>	<b>Without Cause and Prior to Change of Control Period</b>	<b>Without Cause or By the Executive for Good Reason and During the Change of Control Period</b>	<b>With Cause; Other than for Good Reason; Due to Death or Disability</b>
Unpaid Salary and Accrued Vacation Through Date of Termination (1)	\$ 27,364	\$ 27,364	\$ 27,364
Base Salary Severance Payment (2)	365,000	730,000	
Pro Rated Bonus Amount (3)		273,750	
Additional Bonus Amount (4)		547,500	
Stock Options, Restricted Stock and Performance Unit Vesting (5)		1,250,920	
Continued Insurance Coverage (6)	11,344	23,447	
<b>Total</b>	<b>\$ 403,708</b>	<b>\$ 2,852,981</b>	<b>\$ 27,364</b>

- (1) Includes 156 hours of accrued vacation time.
- (2) Calculated using base salary in effect at December 31, 2012.
- (3) Calculated using a target bonus amount of \$273,750.
- (4) Calculated using a target bonus amount of \$273,750.
- (5) Calculated based on (i) the difference between the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05) and the exercise price of unvested stock options as of such date, in the case of stock options and (ii) the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05), in the case of restricted stock and performance units and (iii) performance unit payout at target amount.
- (6) Calculated based on assumptions used for financial reporting purposes under ASC 715-60.

<b>James C. Webster</b>			
<b>Payments Upon Termination</b>	<b>Without Cause and Prior to Change of Control Period</b>	<b>Without Cause or By the Executive for Good Reason and During the Change of Control Period</b>	<b>With Cause; Other than for Good Reason; Due to Death or Disability</b>
Unpaid Salary and Accrued Vacation Through Date of Termination (1)	\$ 16,212	\$ 16,212	\$ 16,212
Base Salary Severance Payment (2)	325,000	650,000	
Pro Rated Bonus Amount (3)		162,500	
Additional Bonus Amount (4)		325,000	
Stock Options, Restricted Stock and Performance Unit Vesting (5)		1,086,945	
Continued Insurance Coverage (6)	10,373	21,440	
<b>Total</b>	<b>\$ 351,585</b>	<b>\$ 2,262,097</b>	<b>\$ 16,212</b>

- (1) Includes 104 hours of accrued vacation time.
- (2) Calculated using base salary in effect at December 31, 2012.
- (3) Calculated using a target bonus amount of \$162,500.
- (4) Calculated using a target bonus amount of \$162,500.
- (5) Calculated based on (i) the difference between the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05) and the exercise price of unvested stock options as of such date, in the case of stock options and (ii) the closing price of Dril-Quip common stock on December 31, 2012 (\$73.05), in the case of restricted stock and performance units and (iii) performance unit payout at target amount.
- (6) Calculated based on assumptions used for financial reporting purposes under ASC 715-60.

**Report of the Audit Committee**

The Audit Committee has been appointed by the Board of Directors to assist the Board in overseeing (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditor's independence, qualifications and performance, and (iv) the performance of our internal audit function. The Audit Committee operates under a written charter adopted by the Board and reviewed annually by the Audit Committee.

The Audit Committee has reviewed and discussed our audited consolidated financial statements for the fiscal year ended December 31, 2012 with management and has discussed with BDO USA, LLP, our independent registered public accountants, the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, with respect to those audited financial statements.

The Audit Committee has received the written disclosures and the letter from BDO USA, LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding BDO USA, LLP's communications with the Audit Committee concerning independence, and has reviewed, evaluated and discussed with BDO USA, LLP its independence.

Based on its review of the audited financial statements and the various discussions noted above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for filing with the Securities and Exchange Commission.

Audit Committee

Alexander P. Shukis

Terence B. Jupp

John V. Lovoi

L.H. Dick Robertson

**PROPOSAL II****APPROVAL OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has approved the appointment of BDO USA, LLP as independent registered public accounting firm to conduct an audit of our consolidated financial statements for the year ending December 31, 2013. This firm has acted as independent registered public accounting firm for us since September 2004, and was approved as independent registered public accounting firm for 2012 at our 2012 annual meeting of stockholders. The Board of Directors recommends the approval of BDO USA, LLP as independent registered public accounting firm to conduct an audit of our consolidated financial statements for the year 2013.

**Fees**

Aggregate fees for professional services rendered for us by our independent registered public accounting firm as of or for the years ended December 31, 2012 and 2011 were as follows:

	<b>2012</b>	<b>2011</b>
1. Audit	\$ 1,203,300	\$ 1,170,400
2. Audit Related		
3. Tax		
4. All Other		
<b>Total:</b>	<b>\$ 1,203,300</b>	<b>\$ 1,170,400</b>

Audit fees for 2012 were for professional services rendered for the audits of our consolidated financial statements (including consents), the review of those financial statements included in our quarterly reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2012, opinions related to the effectiveness of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act and services in connection with statutory and regulatory filings.

Audit fees for 2011 were for professional services rendered for the audits of our consolidated financial statements (including consents), the review of those financial statements included in our quarterly reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2011, opinions related to the effectiveness of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act and services in connection with statutory and regulatory filings.

Representatives of BDO USA, LLP are expected to attend the annual meeting and will be available to respond to questions which may be asked by stockholders. Such representatives will also have an opportunity to make a statement at the meeting if they desire to do so.

**Audit Committee Pre-Approval Policy for Audit and Non-Audit Services**

The Audit Committee has established a policy that requires pre-approval of the audit and non-audit services performed by the independent registered public accounting firm. Unless a service proposed to be provided by the independent registered public accounting firm has been pre-approved by the Audit Committee under its pre-approval policies and procedures, it will require specific pre-approval of the engagement terms by the Audit Committee. Under the policy, pre-approved service categories are generally provided for up to 12 months and must be detailed as to the particular services provided and sufficiently specific and objective so that no judgments by management are required to determine whether a specific service falls within the scope of what has been pre-approved. In connection with any pre-approval of services, the independent registered public accounting firm is required to provide detailed back-up documentation concerning the specific services to be provided.



The Audit Committee may delegate pre-approval authority to one or more of its members, including to a subcommittee of the Audit Committee. The member or members to whom such authority is delegated shall report any pre-approval actions taken by them to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate to management any of its responsibilities to pre-approve services performed by the independent registered public accounting firm.

**Required Vote and Recommendation of the Board of Directors**

**The Board of Directors recommends that you vote FOR the approval of the appointment of BDO USA, LLP as our independent registered public accounting firm.** In accordance with our bylaws, approval of this proposal will require the affirmative vote of a majority of the votes cast for or against the proposal. Accordingly, abstentions and broker non-votes applicable to shares present at the meeting will not be included in the tabulation of votes cast on this matter.

### PROPOSAL III

#### ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

In accordance with Section 14A of the Exchange Act and the related rules of the SEC, we are providing our stockholders with the opportunity to cast a non-binding advisory vote to approve the compensation of our named executive officers at the 2013 Annual Meeting of Shareholders. This item, commonly referred to as a "say on pay" vote, provides you, as a Dril-Quip, Inc. stockholder, the opportunity to express your views regarding the compensation of our named executive officers as disclosed in this proxy statement.

The primary objective of our compensation programs are to attract and retain talented executive officers and to deliver rewards for superior corporate performance. We have structured our compensation program in order to:

align executive compensation with performance and appropriate peer group comparisons;

produce long-term, positive results for our stockholders;

create a proper balance between building stockholder wealth and executive wealth while maintaining good corporate governance; and

provide market-competitive compensation and benefits that will enable us to attract, motivate and retain a talented workforce.

The discussion under "Compensation Discussion and Analysis" beginning on page 12 describes our executive compensation program and the related decisions made by the Nominating, Governance and Compensation Committee in 2012 and the beginning of 2013 in more detail. We urge you to read this discussion, as well as the summary compensation table and other related compensation tables and narrative discussion beginning on page 20 which provides detailed information regarding the compensation of our named executive officers.

We are seeking your advisory vote to approve the compensation of our named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including under "Compensation Discussion and Analysis," and in the compensation tables and the related narrative discussion. As an advisory vote, this proposal is not binding upon the Company or the Board of Directors. The final decision on the compensation and benefits of our named executive officers and on whether and how to address the results of the vote remains with the Board of Directors and the Nominating, Governance and Compensation Committee. However, the Board of Directors values the opinions expressed by our stockholders, and, as it did in 2012, the Nominating, Governance and Compensation Committee will consider the outcome of the vote when making future compensation decisions for our named executive officers.

#### Required Vote and Recommendation of the Board of Directors

**The Board of Directors recommends a vote FOR approval, on an advisory basis, of the compensation of the Company's named executive officers as disclosed in this proxy statement.** In accordance with our bylaws, approval of this proposal will require the affirmative vote of a majority of the votes cast for or against the proposal. Accordingly, abstentions and broker non-votes applicable to shares present at the meeting will not be included in the tabulation of votes cast on this matter.

#### OTHER BUSINESS

Management does not intend to bring any business before the meeting other than the matters referred to in the accompanying notice. If, however, any other matters properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote pursuant to discretionary authority granted in the proxy in accordance with their best judgment on such matters. The discretionary authority includes matters that the Board of Directors does not know are to be presented at the meeting by others.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who own more than 10% of a registered class of our equity securities to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of common stock. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish us with copies of all such forms they file.

Based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, we believe that during the year ended December 31, 2012 all our directors and executive officers during 2012 complied on a timely basis with all applicable filing requirements under Section 16(a) of the Exchange Act.

**ADDITIONAL INFORMATION**

**Stockholder Proposals for 2014 Meeting**

In order to be included in our proxy material for our annual meeting of stockholders in 2014, eligible proposals of stockholders intended to be presented at the annual meeting must be received by us on or before December 6, 2013 (directed to our Corporate Secretary at the address indicated on the first page of this proxy statement).

**Advance Notice Required for Stockholder Nominations and Proposals**

Our bylaws require timely advance written notice of stockholder nominations of director candidates and of any other proposals to be presented at an annual meeting of stockholders. Notice will be considered timely for the annual meeting to be held in 2014 if it is received by February 15, 2014. In the case of director nominations by stockholders, our bylaws require that 90 days advance written notice be delivered to our Corporate Secretary at our executive offices and set forth for each person whom the stockholder proposes to nominate for election or re-election as a director, among other things, (a) the name, age, business address and residence address of such person, (b) the principal occupation or employment of such person, (c) the number of shares of each class of our capital stock beneficially owned by such person and (d) the written consent of such person to having such person's name placed in nomination at the meeting and to serve as of a director if elected. The stockholder giving the notice must also include the name and address, as they appear on our books, of such stockholder and the number of shares of each class of our voting stock that are then beneficially owned by such stockholder.

In the case of other proposals by stockholders at an annual meeting, our bylaws require that 90 days advance written notice be delivered to our Corporate Secretary at our executive offices and set forth (a) a description of each proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on our books, the stockholder proposing such business and any other stockholders known by such stockholder to be supporting such proposal, (c) the class and number of shares of our stock that are beneficially owned by the stockholder on the date of such notice, (d) any financial interest of the stockholder in such proposal and (e) a representation that the stockholder intends to appear in person or by proxy at the meeting to bring the proposed business before the annual meeting. A copy of our bylaws setting forth the requirements for the nomination of director candidates by stockholders and the requirements for proposals by stockholders may be obtained from our Corporate Secretary at the address indicated on the first page of this proxy statement.

In order for director nominations and stockholder proposals to have been properly submitted for presentation at this annual meeting, notice must have been received by our Corporate Secretary on or before February 9, 2013. We received no such notice and no stockholder director nominations or proposals will be presented at the annual meeting.

### **Householding of Annual Meeting Materials**

The SEC has adopted rules that permit companies and intermediaries, such as brokers and banks, to satisfy delivery requirements for proxy statements and annual reports to an address shared by two or more shareholders by delivering a single set of such documents to those stockholders. This method of delivery is referred to as householding. We do not household our proxy statement and annual report with respect to our stockholders of record. However, if you hold your shares in street name, your intermediary, such as a broker or bank, may rely on householding and you may receive a single set of our proxy statement and annual report if you share an address with another stockholder.

Once you have received notice from your broker that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate set of proxy materials, or if you are receiving multiple sets of proxy materials and wish to receive only one, please notify your broker. Stockholders who currently receive multiple sets of the proxy materials at their address and would like to request householding of their communications should contact their broker.

### **Annual Report**

The Annual Report to Stockholders, which includes our consolidated financial statements for the year ended December 31, 2012, has been mailed to all stockholders. The Annual Report is not a part of the proxy solicitation material.

You may obtain a copy of Dril-Quip's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 without charge from our Corporate Secretary by sending a written request to the address indicated on the first page of this proxy statement. The Annual Report on Form 10-K is also available at [www.dril-quip.com](http://www.dril-quip.com).

By Order of the Board of Directors

Blake T. DeBerry

*President and Chief Executive Officer*

April 5, 2013

**DRIL-QUIP, INC.**

***IMPORTANT ANNUAL MEETING  
INFORMATION***

Using a **black ink** pen, mark your votes with an **X** as shown in **X**  
this example. Please do not write outside the designated areas.

**Annual Meeting Proxy Card**

q PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

**A Proposals** The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.

1. Election of Directors

Nominees:	For	Against	Abstain
01 - Alexander P. Shukis	..	..	..
02 - Terence B. Jupp	..	..	..

+

2. Approval of the appointment of BDO USA, LLP

as the company's independent registered public  
accounting firm for the fiscal year ending

December 31, 2013.

3. Advisory vote to approve compensation of the  
Company's named executive officers.

**B Non-Voting Items**

**Change of Address** Please print new address below.

**Comments** Please print your comments below.

**C Authorized Signatures** This section must be completed for your vote to be counted. Date and Sign Below

**NOTE:** Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Date (mm/dd/yyyy) Please print date below.

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

/ /

01MDFC

1 UPX

+

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS**

**FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 16, 2013.**

**The Proxy Statement, our annual report to shareholders and other proxy materials are available at:**

**[www.edocumentview.com/DRO](http://www.edocumentview.com/DRO)**

q PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

**Proxy DRIL-QUIP, INC.**

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD**

**May 16, 2013**

The undersigned hereby appoints Jerry M. Brooks and James C. Webster, jointly and severally, as proxy holders, with full power of substitution and with discretionary authority, to vote all shares of Common Stock which the undersigned is entitled to vote at the Annual Meeting of Stockholders of Dril-Quip, Inc. (the Company) to be held on May 16, 2013, at the Omni Houston Hotel Westside, 13210 Katy Freeway, Houston, Texas, at 9:30 a.m., or at any adjournment thereof, hereby revoking any proxy heretofore given.

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN AND IN THE DISCRETION OF THE PROXY HOLDERS ON ANY OTHER MATTERS THAT COME BEFORE THE MEETING. IN THE ABSENCE OF SPECIFIC DIRECTIONS TO THE CONTRARY, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE DIRECTORS NAMED HEREIN, FOR APPROVAL OF BDO USA, LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2013, AND FOR APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS.**

(Continued and to be marked, dated and signed, on the other side)