

DRIL-QUIP INC
Form 10-Q
April 26, 2016

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

FORM 10-Q

(MARK ONE)

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

For the Quarterly Period Ended March 31, 2016

or

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

Commission file number 001-13439

DRIL-QUIP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 74-2162088
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
6401 N. ELDRIDGE PARKWAY
HOUSTON, TEXAS
77041
(Address of principal executive offices) (Zip Code)
(713) 939-7711
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 25, 2016, the number of shares outstanding of the registrant's common stock, par value \$0.01 per share, was 37,957,052.

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Balance Sheets</u>	<u>3</u>
<u>Statements of Income</u>	<u>4</u>
<u>Statements of Comprehensive Income</u>	<u>5</u>
<u>Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>20</u>
Item 4. <u>Controls and Procedures</u>	<u>20</u>
PART II	
Item 1. <u>Legal Proceedings</u>	<u>22</u>
Item 1A. <u>Risk Factors</u>	<u>22</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>22</u>
<u>Index to Exhibits</u>	<u>25</u>
<u>Signatures</u>	<u>26</u>

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

DRIL-QUIP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2016	December 31, 2015
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$423,366	\$381,336
Trade receivables, net	328,060	319,780
Inventories, net	343,073	344,458
Deferred income taxes	24,934	24,613
Prepays and other current assets	45,183	54,111
Total current assets	1,164,616	1,124,298
Property, plant and equipment, net	294,941	294,251
Other assets	10,901	9,701
Total assets	\$1,470,458	\$1,428,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$33,509	\$30,934
Accrued income taxes	28,143	14,052
Customer prepayments	12,540	18,388
Accrued compensation	11,391	17,957
Other accrued liabilities	19,316	19,484
Total current liabilities	104,899	100,815
Deferred income taxes	2,264	2,977
Total liabilities	107,163	103,792
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, 10,000,000 shares authorized at \$0.01 par value (none issued)	—	—
Common stock:		
100,000,000 shares authorized at \$0.01 par value, 37,957,052 and 37,951,223 shares issued and outstanding at March 31, 2016 and December 31, 2015	378	378
Additional paid-in capital	3,334	—
Retained earnings	1,462,113	1,425,344
Accumulated other comprehensive losses	(102,530)	(101,264)
Total stockholders' equity	1,363,295	1,324,458
Total liabilities and stockholders' equity	\$1,470,458	\$1,428,250

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

Table of Contents

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

	Three months ended March 31,	
	2016	2015
	(In thousands, except per share data)	
Revenues:		
Products	\$135,194	\$187,524
Services	31,367	38,478
Total revenues	166,561	226,002
Cost and expenses:		
Cost of sales:		
Products	76,922	106,007
Services	16,174	19,131
Total cost of sales	93,096	125,138
Selling, general and administrative	13,221	16,958
Engineering and product development	10,901	12,213
Total costs and expenses	117,218	154,309
Operating income	49,343	71,693
Interest income	482	49
Interest expense	(4)	(3)
Income before income taxes	49,821	71,739
Income tax provision	13,052	18,075
Net income	\$36,769	\$53,664
Earnings per common share:		
Basic	\$0.97	\$1.38
Diluted	\$0.97	\$1.38
Weighted average common shares outstanding:		
Basic	37,752	38,773
Diluted	37,847	38,940

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

Table of Contents

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

	Three months ended March 31, 2016 2015 (In thousands)	
Net income	\$36,769	\$53,664
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(1,266)	(32,534)
Total comprehensive income	\$35,503	\$21,130

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

Table of Contents

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

	Three months ended March 31, 2016 2015 (In thousands)	
Operating activities		
Net income	\$36,769	\$53,664
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,775	7,455