DRIL-QUIP INC
Form 10-Q
April 25, 2019
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, 2019

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 incorporation or organization)	(I.R.S. Employer 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)

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

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
Common Stock, $.01 par value per share	DRQ	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of 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 such files). Yes No

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

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

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

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

As of April 25, 2019, the number of shares outstanding of the registrant's common stock, par value $0.01 per share, was 36,228,006.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

DRIL-QUIP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2019	December 31, 2018
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$414,808	418,100
Trade receivables, net	208,156	202,165
Inventories, net	194,547	191,194
Prepaids and other current assets	25,829	41,522
Total current assets	843,340	852,981
Operating lease right of use assets	4,401	-
Property, plant and equipment, net	270,424	274,123
Deferred income taxes	7,843	7,995
Goodwill	7,780	7,714
Intangible assets	34,474	34,974
Other assets	15,467	14,723
Total assets	$1,183,729	1,192,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$20,655	26,693
Accrued income taxes	3,970	3,138
Customer prepayments	12,834	9,648
Accrued compensation	8,446	10,537
Operating lease liabilities	1,176	-
Other accrued liabilities	23,648	32,242
Total current liabilities	70,729	82,258
Deferred income taxes	2,332	2,466
Income tax payable	9,678	9,623
Operating lease liabilities, long-term	3,189	-
Other long-term liabilities	2,396	2,001
Total liabilities	88,324	96,348
Commitments and contingencies (Note 13)		
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, 36,212,740 and 36,264,001 shares issued and outstanding at March 31, 2019 and December 31, 2018	376	376
Additional paid-in capital	39,815	34,953
Retained earnings	1,198,700	1,205,946
Accumulated other comprehensive losses	(143,486)	(145,113)
Total stockholders' equity	1,095,405	1,096,162
Total liabilities and stockholders' equity	$1,183,729	1,192,510

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

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DRIL-QUIP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(UNAUDITED)

	Three months ended March 31, 2019	2018
	(In thousands, except per share data)	
Revenues:		
Products	$65,434	$71,045
Services	18,476	17,463
Leasing	10,407	10,665
Total revenues	94,317	99,173
Cost and expenses:		
Cost of sales:		
Products	51,544	57,343
Services	9,237	14,620
Leasing	8,595	1,522
Total cost of sales	69,376	73,485
Selling, general and administrative	24,544	27,547
Engineering and product development	3,617	4,418
Restructuring and other charges	2,396	-
Gain on sale of assets	(13)	-
Total costs and expenses	99,920	105,450
Operating loss	(5,603)	(6,277)
Interest income	2,006	1,797
Interest expense	(121)	(2)
Loss before income taxes	(3,718)	(4,482)
Income tax provision	2,333	2,901
Net loss	$(6,051)	$(7,383)
Loss per common share:		
Basic	$(0.17)	$(0.20)
Diluted	$(0.17)	$(0.20)
Weighted average common shares outstanding:		
Basic	35,559	37,729
Diluted	35,559	37,729

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

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DRIL-QUIP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three months ended March 31,	
	2019	2018
	(In thousands)	
Net loss	$(6,051)	$(7,383)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	1,627	13,121
Total comprehensive loss	$(4,424)	$5,738

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

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DRIL-QUIP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three months ended March 31,	
	2019	2018
	(In thousands)	
Operating activities		
Net loss	$(6,051)	$(7,383)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,356	8,241
Stock-based compensation expense	4,862	3,974
Restructuring and other charges	1,271	-
Gain on sale of assets	(13)	(22)
Deferred income taxes	(73)	(5)
Changes in operating assets and liabilities:		
Trade receivables, net	(5,597)	1,195
Inventories, net	(2,700)	17,244
Prepaids and other assets	15,960	(4,076)
Accounts payable and accrued expenses	(14,478)	(7,403)
Other, net	(699)	(377)
Net cash provided by operating activities	838	11,388
Investing activities		
Purchase of property, plant and equipment	(3,527)	(10,571)
Proceeds from sale of equipment	341	71
Net cash used in investing activities	(3,186)	(10,500)
Financing activities		
Repurchase of common shares	(1,116)	-
Proceeds from exercise of stock options	-	52
Net cash provided by (used in) financing activities	(1,116)	52
Effect of exchange rate changes on cash activities	172	1,471
Increase (decrease) in cash and cash equivalents	(3,292)	2,411
Cash and cash equivalents at beginning of period	418,100	493,180
Cash and cash equivalents at end of period	$414,808	$495,591

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

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DRIL-QUIP, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(In thousands)		
Balance at January 1, 2019	$ 376	$ 34,953	$ 1,205,946	$ (145,113)	$ 1,096,162
Foreign currency translation adjustment				1,627	1,627
Net loss			(6,051)		(6,051)
Comprehensive loss					(4,424)
Repurchase of common stock (28,078 shares)			(1,116)		(1,116)
Stock option expense		4,862			4,862
Other			(79)		(79)
Balance at March 31, 2019	$ 376	$ 39,815	$ 1,198,700	$ (143,486)	$ 1,095,405

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(In thousands)		
Balance at January 1, 2018	$ 372	$ 20,083	$ 1,400,296	$ (126,290)	$ 1,294,461
Foreign currency translation adjustment				13,121	13,121
Net loss			(7,383)		(7,383)
Comprehensive loss					5,738
ASC 606			1,786		1,786
Stock option expense	9	3,965			3,974
Other		(84)	(766)		(850)
Balance at March 31, 2018	$ 381	$ 23,964	$ 1,393,933	$ (113,169)	$ 1,305,109

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

DRIL-QUIP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Principles of Consolidation

Dril-Quip, Inc., a Delaware corporation (the “Company” or “Dril-Quip”), designs, manufactures, sells and services highly engineered drilling and production equipment that is well suited primarily for use in deepwater, harsh environment and severe service applications. The Company’s principal products consist of subsea and surface wellheads, subsea and surface production trees, subsea control systems and manifolds, mudline hanger systems, specialty connectors and associated pipe, drilling and production riser systems, liner hangers, wellhead connectors, diverters and safety valves. Dril-Quip’s products are used by major integrated, large independent and foreign national oil and gas companies and drilling contractors throughout the world. Dril-Quip also provides technical advisory assistance on an as-requested basis during installation of its products, as well as rework and reconditioning services for customer-owned Dril-Quip products. In addition, Dril-Quip’s customers may rent or purchase running tools from the Company for use in the installation and retrieval of the Company’s products.

The Company’s operations are organized into three geographic segments— Western Hemisphere (including North and South America; headquartered in Houston, Texas), Eastern Hemisphere (including Europe and Africa; headquartered in Aberdeen, Scotland) and Asia-Pacific (including the Pacific Rim, Southeast Asia, Australia, India and the Middle East; headquartered in Singapore). Each of these segments sells similar products and services, and the Company has major manufacturing facilities in all three of its regional headquarter locations as well as in Macae, Brazil. The Company’s major subsidiaries are Dril-Quip (Europe) Limited, located in Aberdeen with branches in Denmark, Norway and Holland; Dril-Quip Asia-Pacific PTE Ltd., located in Singapore; and Dril-Quip do Brazil LTDA, located in Macae, Brazil. Other operating subsidiaries include TIW Corporation (TIW) and Honing, Inc., both, located in Houston, Texas; DQ Holdings Pty. Ltd., located in Perth, Australia; Dril-Quip (Ghana) Ltd., located in Takoradi, Ghana; PT DQ Oilfield Services Indonesia, located in Jakarta, Indonesia; Dril-Quip (Nigeria) Ltd., located in Port Harcourt, Nigeria; Dril-Quip Egypt for Petroleum Services S.A.E., located in Alexandria, Egypt; Dril-Quip Oilfield Services (Tianjin) Co. Ltd., located in Tianjin, China, with branches in Shezhen and Beijing, China; and Dril-Quip Qatar LLC, located in Doha, Qatar; Drip-Quip TIW Mexico S.A. de C.V., located in Villahermosa, Mexico; TIW de Venezuela S.A., located in Anaco, Venezuela and with a registered branch located in Ecuador; TIW (UK) Limited, located in Aberdeen, Scotland; TIW Hungary LLC, located in Szolnok, Hungary; and TIW International LLC, with a registered branch located in Singapore.

The condensed consolidated financial statements included herein are unaudited. The balance sheet at December 31, 2018 has been derived from the audited consolidated financial statements at that date. In the opinion of management, the unaudited condensed consolidated interim financial statements include all normal recurring adjustments necessary for a fair statement of the financial position as of March 31, 2019 and the results of operations, comprehensive income and cash flows for the three -month periods ended March 31, 2019 and 2018. Certain information and footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Management believes the unaudited interim related disclosures in these condensed consolidated financial statements are adequate. The results of operations, comprehensive income and cash flows for the three-month period ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

2. Significant Accounting Policies

Principles of Consolidation

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

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Use of Estimates

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

Revenue Recognition

The Company generates revenues through the sale of products, the sale of services and the leasing of installation tools. The Company normally negotiates contracts for products, including those accounted for under the over time method, rental tools and services separately. Modifications to the scope and price of sales contracts may occur in the form of variations and change orders. For all product sales, it is the customer's decision as to the timing of the product installation as well as whether Dril-Quip running tools will be purchased or rented. Furthermore, the customer is under no obligation to utilize the Company's technical advisory assistance services. The customer may instead choose to use a third party or its own personnel.

Product and Service Revenues

Product and service revenues are recognized as the Company satisfies the performance obligation by transferring control of the promised good or service to the customer. Revenues are measured based on consideration specified in a contract with a customer and exclude sales incentives and amounts collected on behalf of third parties. In addition, some customers may impose contractually negotiated penalties for late delivery that are excluded from the transaction price.

Management has elected to utilize certain practical expedients allowed under Accounting Standards Codification 606, Revenue from Contracts with Customers (ASC 606). Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer are excluded from the measurement of the transaction price. Shipping and handling activities that are performed after a customer obtains control of the good are accounted for as activities to fulfill the promise to transfer the good and thus are excluded from the transaction price.

Product revenues

The Company recognizes product revenues from two methods:

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

Revenues recognized under the over time method

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

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

the structural designs are unique and require significant engineering and manufacturing efforts generally requiring more than one year in duration;

- the contracts contain specific terms as to milestones, progress billings and delivery dates;
- product requirements cannot be filled directly from the Company's standard inventory; and
- The Company has an enforceable right to payment for any work completed to date and the enforceable payment includes a reasonable profit margin.

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

Under the over time method, billings may not correlate directly to the revenue recognized. Based upon the terms of the specific contract, billings may be in excess of the revenue recognized, in which case the amounts are included in customer prepayments as a liability on the Condensed Consolidated Balance Sheets. Likewise, revenue recognized may exceed customer billings in which case the amounts are reported in trade receivables. Unbilled revenues are expected to be billed and collected within one year. At March 31, 2019 and December 31, 2018, receivables included $66.7 million and $57.0 million of unbilled receivables, respectively. For the quarter ended March 31, 2019, there were 21 projects representing approximately 18.0% of the Company's total revenues and approximately 26.0% of its product revenues that were accounted for using the over time method, compared to eight projects for the first quarter of 2018, which represented approximately 11.0% of the Company's total revenues and approximately 16.0% of its product revenues.

Revenues recognized under the point in time method

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

Service revenues

The Company recognizes service revenues from two sources:

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

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

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

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

Lease revenues

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

Practical Expedients

We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

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Fair Value of Financial Instruments

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

Restructuring and Other Charges

In the third quarter of 2018, we initiated a global strategic plan to better align our operations with current market conditions. As a result of this plan, during the three months ended March 31, 2019, we incurred restructuring and other charges of approximately $2.4 million primarily related to employee termination benefits and consulting fees, which are included in "Selling, general and administrative" in our accompanying condensed consolidated statement of income (loss).

Treasury Shares

The Company continues to evaluate current market conditions on an on-going basis as it relates to executing its share buyback program. On February 26, 2019, the Board of Directors authorized a share repurchase plan under which the Company can repurchase up to $100 million of its common stock. The repurchase plan has no set expiration date and any repurchased shares are expected to be cancelled. For the three-month period ended March 31, 2019, the Company purchased 28,078 shares under the share repurchase plan at an average price of approximately $39.74 per share totaling approximately $1.1 million and has retired such shares.

Earnings Per Share

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

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

	Three months ended March 31,	
	2019	2018
	(In thousands)	
Weighted average common shares outstanding - basic	35,559	37,729
Dilutive effect of common stock options and awards	-	-
Weighted average common shares outstanding – diluted	35,559	37,729

For the three months ended March 31, 2019, the Company has excluded the following common stock options and awards because their impact on the loss per share is anti-dilutive (in thousands on a weighted average basis):

	Three months ended March 31,	
	2019	2018
	(In thousands)	
Director stock awards	4	4
Stock options	-	11
Performance share units	92	78
Restricted stock awards	44	77

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Reclassifications. As a result of our global business transformation, certain prior period amounts have been reclassified to conform to the current period presentation as it related to product engineering and quality assurance cost. We reclassified approximately $5.0 million of engineering cost from our engineering and product development cost and approximately $0.7 million of quality assurance cost from selling, general and administrative to product cost of sales for the three months ended March 31, 2018. These reclassifications did not have an impact on our Net Income, Balance Sheets, Statement of Comprehensive Income (Loss), Statement of Equity and Statement of Cash Flows. Engineering cost and quality assurance cost were approximately $4.2 million and $0.8 million, respectively, for the three months ended March 31, 2019.

3. New Accounting Standards

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." The new standard requires lessees to recognize lease assets (right of use) and lease obligations (lease liability) for leases previously classified as operating leases under generally accepted accounting principles on the balance sheet for leases with terms in excess of 12 months. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Please see Note 9, "Leases", for a discussion of the impact related to the adoption of this standard.

4. Revenue Recognition

Revenues from contracts with customers consisted of the following:

	Three months ended March 31, 2019				
	Western Hemisphere	Eastern Hemisphere	Asia-Pacific	Intercompany	Total
	(In thousands)				
Product Revenues	$36,376	$ 18,618	$10,440	$ -	$65,434
Service Revenues	9,845	5,005	3,626	-	18,476
Total	$46,221	$ 23,623	$14,066	$ -	$83,910

Contract Balances

Balances related to contracts with customers consisted of the following:

Contract Assets (amounts shown in thousands)

Contract Assets at December 31, 2018	$83,188

Additions	39,447
Transfers to Accounts Receivable	(19,090)
Contract Assets at March 31, 2019	$103,545

Contract Liabilities (amounts shown in thousands)

Contract Liabilities at December 31, 2018	$9,648
Additions	59,090
Revenue Recognized	(55,906)
Contract Liabilities at March 31, 2019	$12,832

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Receivables, which are included in trade receivables, net, were $195.0 million and $120.2 million for the three months ended March 31, 2019 and 2018, respectively. The amount of revenues from performance obligations satisfied (or partially satisfied) in previous periods was $15.4 million. The contract liabilities primarily relate to advance payments from customers and are included in "Customer prepayments" in our accompanying condensed consolidated balance sheets. The contract assets primarily relate to unbilled amounts typically resulting from sales under contracts when the over time method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer and is included in "Trade receivables, net" in our accompanying condensed consolidated balance sheets. Contract assets are transferred to the receivables when the rights become unconditional.

Obligations for returns and refunds were considered immaterial as of March 31, 2019.

Remaining Performance Obligations

The aggregate amount of the transaction price allocated to remaining performance obligations from our reconditioning services and over time product lines was $67.7 million as of March 31, 2019. The Company expects to recognize revenue on approximately 51.4% and 100.0% of the remaining performance obligations over the next 12 and 24 months, respectively.

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

5. Stock-Based Compensation and Stock Awards

During the three months ended March 31, 2019, the Company recognized approximately $4.9 million of stock-based compensation expense, which includes approximately $1.8 million related to accelerated vesting of restricted stock awards of our former Chief Operating Officer, pursuant to a separation agreement entered into with him. The stock based compensation is included in "Selling, general and administrative" in our accompanying condensed consolidated statements of income (loss) and "Additional paid-in capital" in our accompanying condensed consolidated balance sheets, compared to $4.0 million recognized for the three months ended March 31, 2018. No stock-based compensation expense was capitalized during the three months ended March 31, 2019 or 2018.

6. Inventories, net

Inventories consist of the following:

	March 31, 2019	December 31, 2018
	(In thousands)	
Raw materials and supplies	$50,775	$ 55,878
Work in progress	58,105	51,251
Finished goods	188,457	192,632
	297,337	299,761
Less: allowance for obsolete and excess inventory	(102,790)	(108,567)
Total inventory	$194,547	$ 191,194

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7. Goodwill

The changes in the carrying amount of goodwill by reporting unit during the three months ended March 31, 2019 were as follows:

	Carrying Value January 1, 2019	Foreign Currency Translation	Carrying Value March 31, 2019
	(In thousands)		
Eastern Hemisphere	$7,714	$ 66	$ 7,780
Western Hemisphere	-	-	-
Asia-Pacific	-	-	-
Total	$7,714	$ 66	$ 7,780

The Company performs its annual impairment tests of goodwill as of October 1 or when there is an indication an impairment may have occurred. As of March 31, 2019, there were no indications an impairment may have occurred.

The fair values used in the goodwill impairment assessment were determined using the net present value of the expected future cash flows for the reporting unit. During the Company’s goodwill impairment analysis, the Company determines the fair value of the reporting unit, as a whole, using a discounted cash flow analysis, which requires significant assumptions and estimates about future operations. The assumptions about future cash flows and growth rates are based on our current budget for the remainder of the current year, 2020 and for future periods, as well as our strategic plans and management’s beliefs about future exploration and development in the industry.
Changes in management's forecast commodity price assumptions may cause us to reassess our goodwill for impairment and could result in non-cash impairment charges in the future.

8. Intangible Assets

Intangible assets consist of the following:

		March 31, 2019			
	Estimated Useful Lives	Gross Book Value	Accumulated Amortization	Foreign Currency Translation	Net Book Value
		(In thousands)			
Trademarks	15 years	$8,159	$ -	$ 23	$8,182
Patents	15 - 30 years	5,945	(1,751)	4	4,198
Customer relationships	5 - 15 years	25,787	(4,001)	88	21,874
Non-compete agreements	3 years	171	(127)	-	44

Organizational costs	indefinite	172	-	4	176
		$40,234	$ (5,879)	$ 119	$34,474

	Estimated Useful Lives	December 31, 2018 Gross Book Value	Accumulated Amortization	Foreign Currency Translation	Net Book Value
	(In thousands)				
Trademarks	15 years	$8,236	$ —	$ (72)	$8,164
Patents	15 - 30 years	6,026	(1,925)	(11)	4,090
Customer relationships	5 - 15 years	25,703	(2,953)	(260)	22,490
Non-compete agreements	3 years	171	(113)	—	58
Organizational costs	indefinite	172		—	172
		$40,308	$ (4,991)	$ (343)	$34,974

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9. Leases

Effective January 1, 2019, we adopted ASU 2016-02, “Leases” (Topic 842), and elected the package of practical expedients that does not require us to reassess: (1) whether any expired or existing contracts are, or contain, leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We adopted the practical expedient that allows lessees to treat the lease and non-lease components of a lease as a single lease component. The impact of the adoption of ASC 842, as of January 1, 2019, was approximately $5.5 million to our assets, approximately $1.6 million to our current liability and approximately $3.9 million to our long-term liability.

Under the transition method selected by the Company, leases expiring at, or entered into after, January 1, 2019 were required to be recognized and measured. Prior period amounts have not been adjusted and continue to be reflected in accordance with the Company's historical accounting under ASC 840. The adoption of this standard resulted in the recording of operating lease assets and operating lease liabilities as of January 1, 2019, with no related impact on the Company’s Consolidated Statement of Stockholders’ Equity or Consolidated Statement of Income (Loss). Short-term leases have not been recorded on the balance sheet.

We lease facilities related to sales and service, manufacturing, reconditioning, certain office spaces, apartments and warehouse, all of which we classify as operating leases. In addition, we also lease certain office equipment and vehicles, which we classify as financing leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet; short-term lease expense for the three months ended March 31, 2019 was approximately $0.5 million.

Most leases include one or more options to renew, with renewal terms that can extend the lease term on a monthly, annual or longer basis. The exercise of lease renewal options is at the Company’s sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain of being exercised.

Certain lease agreements include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

	Classification	Three months ended March 31, 2019 (In thousands)
Assets		
Operating	Operating lease right of use assets	$ 4,401
Finance	Other assets	722
Total lease assets		$ 5,123
Liabilities		
Current		

Operating	Operating lease liabilities	$ 1,176
Finance	Other accrued liabilities	361
Noncurrent		
Operating	Operating lease liabilities, long-term	3,189
Finance	Other long-term liabilities	397
Total lease liabilities		$ 5,123

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate, which is based on our rate for the Asset Backed Loan Facility.

Our lease cost at March 31, 2019 is as follows:

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	Classification	Three months ended March 31, 2019 (In thousands)
Operating lease cost	Selling, general and administrative	$ 374
Finance lease cost		-
Amortization of leased assets	Selling, general and administrative	92
Interest on lease liabilities	Interest expense	9
Total lease cost		$ 475

The five year and beyond maturity of our lease obligations is presented below:

	Three months ended March 31, 2019		
	Operating Leases	Finance Leases	Total
	(In thousands)		
2019	$1,109	$ 303	$1,412
2020	1,128	241	1,369
2021	479	142	621
2022	280	47	327
2023	181	19	200
After 2023	2,827	95	2,922
Total lease payments	$6,004	$ 847	$6,851
Less: interest	1,566	83	1,649
Present value of lease liabilities	$4,438	$ 764	$5,202

The lease term and discount rate for our operating and finance leases is as follows:

	March 31, 2019	
Weighted average remaining lease term (years)		
Operating leases	12.4	
Finance leases	2	
Weighted average discount rate		
Operating leases	4.79	%
Finance leases	4.33	%

We had no material non-cash financing leases entered into during the three months ended March 31, 2019.

Other information pertaining to our lease obligations is as follows:

	Three months ended March 31, 2019 (In thousands)
Other Information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 368
Operating cash flows from finance leases	9

Financing cash flows from finance leases for the three months ended March 31, 2019 were immaterial to our Consolidated Financial Statements.

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The Company leases certain offices, shop and warehouse facilities, automobiles and equipment. Future annual minimum lease commitments at December 31, 2018 are as follows: 2019 - $2.0 million; 2020 - $1.5 million; 2021 - $0.8 million; 2022 - $.05 million; 2023 - $0.4 million; and thereafter - $4.2 million.

10. Asset Backed Loan (ABL) Credit Facility

On February 23, 2018, the Company, as borrower, and the Company's subsidiaries TIW and Honing, Inc., as guarantors, entered into a five -year senior secured revolving credit facility (the "ABL Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent, and other financial institutions as lenders with total commitments of $100.0 million, including up to $10.0 million available for letters of credit. The maximum amount that the Company may borrow under the ABL Credit Facility is subject to the borrowing base, which is based on a percentage of eligible accounts receivable and eligible inventory, subject to reserves and other adjustments.

All obligations under the ABL Credit Facility are fully and unconditionally guaranteed jointly and severally by the Company, TIW, Honing, Inc., and future significant domestic subsidiaries, subject to customary exceptions. Borrowings under the ABL Credit Facility are secured by liens on substantially all of the Company's personal property, and bear interest at the Company's option at either (i) the CB Floating Rate (as defined therein), calculated as the rate of interest publicly announced by JPMorgan Chase Bank, N.A., as its "prime rate," subject to each increase or decrease in such prime rate effective as of the date such change occurs, with such CB Floating Rate not being less than Adjusted One Month LIBOR (as defined therein) or (ii) the Adjusted LIBOR (as defined therein), plus, in each case, an applicable margin. The applicable margin ranges from 1.00% to 1.50% per annum for CBFR loans and 2.00% to 2.50% per annum for Eurodollar loans and, in each case, is based on the Company's leverage ratio. The unused portion of the ABL Credit Facility is subject to a commitment fee that varies from 0.250% to 0.375% per annum, according to average unused commitments under the ABL Credit Facility. Interest on Eurodollar loans is payable at the end of the selected interest period, but no less frequently than quarterly. Interest on CB Floating Rate loans is payable monthly in arrears.

The ABL Credit Facility contains various covenants and restrictive provisions that limit the Company's ability to, among other things, (1) enter into asset sales; (2) incur additional indebtedness; (3) make investments or loans and create liens; (4) pay certain dividends or make other distributions and (5) engage in transactions with affiliates. The ABL Credit Facility also requires the Company to maintain a fixed charge coverage ratio of 1.0 to 1.0, based on the ratio of EBITDA (as defined therein) to Fixed Charges (as defined therein) during certain periods, including when availability under the ABL Credit Facility is under certain levels. If the Company fails to perform its obligations under the agreement that results in an event of default, the commitments under the ABL Credit Facility could be terminated and any outstanding borrowings under the ABL Credit Facility may be declared immediately due and payable. The ABL Credit Facility also contains cross default provisions that apply to the Company's other indebtedness. The Company is in compliance with the related covenants as of March 31, 2019.

As of March 31, 2019, the availability under the ABL Credit Facility was $40.0 million, after taking into account the outstanding letters of credit of approximately $2.0 million issued under the facility.

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11. Geographic Areas

	For the three months ended March 31,									
	Western Hemisphere		Eastern Hemisphere		Asia-Pacific		DQ Corporate		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	(In thousands)									
Revenues										
Products										
Standard Products	$23,767	$35,952	$14,118	$17,461	$10,440	$6,505	$ -	$ -	$48,325	$59,918
Percentage of Completion	12,609	6,484	4,500	2,404	-	2,239	-	-	17,109	11,127
Total Products	36,376	42,436	18,618	19,865						