

DRIL-QUIP INC  
Form DEF 14A  
April 15, 2009

**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)

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:

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

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(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):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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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.

(1) Amount previously paid:

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

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(3) Filing party:

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(4) Date filed:

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Notes:

Reg. § 240.14a-101.

SEC 1913 (3-99)

**Dril-Quip, Inc.**

**13550 Hempstead Highway**

**Houston, Texas 77040**

April 15, 2009

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 14, 2009 at 2:00 p.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.

Larry E. Reimert  
*Co-Chairman of the Board*  
  
*and Co-Chief Executive Officer*

Gary D. Smith  
*Co-Chairman of the Board*  
  
*and Co-Chief Executive Officer*

J. Mike Walker  
*Co-Chairman of the Board*  
  
*and Co-Chief Executive Officer*

**DRIL-QUIP, INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 14, 2009**

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 Thursday, May 14, 2009 at 2:00 p.m., Houston time, for the following purposes:

1. To elect the three nominees named in the Proxy Statement as directors to serve for a three-year term.
2. To approve the appointment of BDO Seidman, LLP as our independent registered public accounting firm for 2009.
3. To re-approve the performance criteria for awards under the 2004 Incentive Plan to allow certain awards to continue to qualify as performance-based compensation deductible under Internal Revenue Code Section 162(m).

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 24, 2009 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

Gary D. Smith  
*Co-Chairman of the Board, Co-Chief Executive Officer  
and Secretary*

April 15, 2009

13550 Hempstead Highway

Houston, Texas 77040

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING  
TO BE HELD ON MAY 14, 2009.**

**This Proxy Statement, our annual report to shareholders and other proxy materials are available at  
<http://bnymellon.mobular.net/bnymellon/drq>.**

**Dril-Quip, Inc.**

**13550 Hempstead Highway**

**Houston, Texas 77040**

**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 2009 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 15, 2009. 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 material to beneficial owners of such stock.

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 directors of the nominees listed herein, FOR approval of the appointment of BDO Seidman, LLP as our independent registered public accounting firm, FOR re-approval of the performance criteria under the 2004 Incentive Plan 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 13550 Hempstead Highway, Houston, Texas 77040. 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.

**RECORD DATE AND VOTING SECURITIES**

As of the close of business on March 24, 2009, the record date for determining stockholders entitled to notice of and to vote at the annual meeting, we had outstanding and entitled to vote 39,022,597 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.

## 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 24, 2009 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
Larry E. Reimert (2)	2,574,429	6.6%
Gary D. Smith (3)	3,153,270	8.0%
J. Mike Walker (4)	4,194,738	10.6%
Jerry M. Brooks (5)	7,500	*
Alexander P. Shukis	0	*
Gary L. Stone	2,000	*
John V. Lovoi	0	*
L. H. Dick Robertson	0	*
All directors and executive officers as a group (8 persons)	9,931,937	25.0%
Goldman Sachs Asset Management, L.P. (6)		
32 Old Slip		
New York, NY 10005	2,694,924	6.9%
Barclays Global Investors, NA (7)		
400 Howard Street		
San Francisco, California 94105	1,988,806	5.1%

\* 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 13550 Hempstead Highway, Houston, Texas 77040.
- (2) Includes (a) 910 shares of common stock held directly by Mr. Reimert, (b) 27,304 shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 24, 2009 and (c) 2,546,215 shares of common stock held by Reimert Family Partners, Ltd., a limited partnership of which Mr. Reimert is the Managing General Partner, and with respect to which he exercises voting and investment power.
- (3) Includes (a) 1,110 shares of common stock held directly by Mr. Smith, (b) 152,160 shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 24, 2009 (c) and 3,000,000 shares of common stock held by Four Smiths Company, Ltd., a limited partnership of which Mr. Smith and his wife, Gloria Jean Smith, are the Managing General Partners, and with respect to which they exercise voting and investment power. Mrs. Smith may also be deemed to be the beneficial owner of such shares.

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- (4) Includes (a) 3,709,300 shares of common stock held directly by Mr. Walker and (b) 485,438 shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 24, 2009.
- (5) Consists entirely of shares of common stock that may be acquired pursuant to options that are currently exercisable or will become exercisable within 60 days of March 24, 2009.
- (6) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 9, 2009. Such filing indicates that Goldman Sachs Asset Management, L.P., together with GS Investment Strategies, LLC, has shared voting and dispositive power with respect to 2,694,924 shares.



- (7) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 5, 2009. Such filing indicates that Barclays Global Investors, NA, Barclays Global Fund Advisors and Barclays Global Investors, Ltd., together and with other affiliates, as a group, beneficially own some or all of the shares reported. As stated in the Schedule 13G, Barclays Global Investors, NA has sole voting power with respect to 533,338 shares and sole dispositive power with respect to 629,395 shares; Barclays Global Fund Advisors has sole voting power with respect to 997,222 shares and sole dispositive power with respect to 1,339,262 shares; and Barclays Global Investors, Ltd. has sole voting power with respect to 975 shares and sole dispositive power with respect to 20,149 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 2010, 2011 and 2009, 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.

At the annual meeting, our Board of Directors has nominated Gary D. Smith, Larry E. Reimert and L.H. Dick Robertson for election as directors to each serve a three-year term expiring on the date of the annual meeting of stockholders to be held in 2012 (or until his successor is duly elected and qualified). Messrs. Smith, Reimert and Robertson currently serve as members of our Board of Directors. In accordance with our bylaws, the affirmative vote of a plurality of the votes cast by holders of common stock entitled to vote in the election of directors at the annual meeting is required for the election of the nominee as director. Accordingly, although abstentions and broker non-votes are considered shares present at the meeting for the purpose of determining a quorum, they will have no effect on the election of directors.

Our Board of Directors has no reason to believe that the nominees for election as directors will not be candidates or will be unable to serve, but if for any reason any nominee is unavailable as a candidate or unable to serve when the election occurs, the persons designated as proxies in the enclosed proxy card, in the absence of contrary instructions, will in their discretion vote the proxies for the election of a substitute nominee selected by our Board of Directors.

**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 III Directors for Three-Year Terms to Expire in 2012**

The following sets forth information concerning the nominees for election as directors at the annual meeting, including each nominee's age as of March 24, 2009, position with us, and business experience during the past five years.

*Larry E. Reimert*, age 61, is Co-Chairman of the Board and Co-Chief Executive Officer with principal responsibility for engineering, product development and finance. He has been the Director - Engineering, Product Development and Finance, as well as a member of the Board of Directors, since our inception in 1981. Prior to that, he worked for Vetco Offshore, Inc. in various capacities, including Vice President of Technical Operations, Vice President of Engineering and Manager of Engineering. Mr. Reimert holds a BSME degree from the University of Houston and an MBA degree from Pepperdine University.

*Gary D. Smith*, age 66, is Co-Chairman of the Board and Co-Chief Executive Officer with principal responsibility for sales, service, training and administration. He has been the Director - Sales, Service, Training and Administration, as well as a member of the Board of Directors, since our inception in 1981. Prior to that, he worked for Vetco Offshore, Inc. in various capacities, including General Manager and Vice President of Sales and Services.

*L. H. Dick Robertson*, age 74, 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 Attwood 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.

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

The following sets forth information concerning the Class I and Class II directors whose present terms of office will expire at the 2010 and 2011 annual meetings of stockholders, respectively, including each director's age as of March 24, 2009, position with us, if any, and business experience during the past five years.

##### *Class I*

*Alexander P. Shukis*, age 64, 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.

*Gary L. Stone*, age 72, has been a Class I director since June 2001 and is a member of the Audit Committee and the Nominating, Governance and Compensation Committee of the Board of Directors. From January 1997 until his retirement in May 2000, he served as a Senior Vice President/First Vice President with Bank One, Texas, N.A. Mr. Stone holds a bachelor of science degree in geological engineering from the University of Utah and an MBA degree from the University of Pittsburgh.

##### *Class II*

*J. Mike Walker*, age 65, is Co-Chairman of the Board and Co-Chief Executive Officer with principal responsibility for manufacturing, purchasing and facilities. He has been the Director Manufacturing, Purchasing and Facilities, as well as a member of the Board of Directors, since our inception in 1981. Prior to that, he served as the Director of Engineering, Manager of Engineering and Manager of Research and Development with Vetco Offshore, Inc. Mr. Walker holds a BSME degree from Texas A&M University, an MSME degree from the University of Texas at Austin and a Ph.D. in mechanical engineering from Texas A&M University.

*John V. Lovoi*, age 48, has been a Class II director since May 2005. He is 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 also serves as a director of Helix Energy Solutions Group, an energy services company. 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.

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**CORPORATE GOVERNANCE MATTERS**

**Determinations of Director Independence**

Under rules adopted by the New York Stock Exchange, 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. 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 us, our affiliates, or our senior management has an interest on the other. As a result of this review, the Board of Directors affirmatively determined that Messrs. Lovoi, Robertson, Shukis and Stone are independent from us and our management. In addition, the Board of Directors affirmatively determined that Messrs. Lovoi, Robertson, Shukis and Stone are independent under the additional standards for audit committee membership under rules of the SEC. The remaining directors, Messrs. Reimert, Smith and Walker, are members of our senior management.

As contemplated by the rules of the NYSE, the Dril-Quip, Inc. Corporate Governance Guidelines set forth categorical standards to assist the Board of Directors in making independence determinations. Under the rules of the NYSE, immaterial relationships that fall within the guidelines are not required to be disclosed separately in this proxy statement. As set forth in the Corporate Governance Guidelines, a relationship falls within the categorical standard and is not required to be disclosed separately in the proxy statement 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 (the "NYSE 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 3 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. The relationships of Messrs. Lovoi, Robertson, Shukis and Stone were considered to fall within the categorical standards.

**Code of Business Conduct and Ethics**

Pursuant to Rule 303A.10 of the NYSE Manual, we have adopted the Dril-Quip, Inc. Code of Business Conduct and Ethics for our directors, officers and employees. The Code of Ethics also meets the requirements of a code of ethics under Item 406 of Regulation S-K. Changes in and waivers to the Code of Ethics for our directors, executive officers and certain senior financial officers will be posted on our website within five business days and maintained for at least twelve months.

**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. Lovoi, Robertson and Stone. The Board of Directors has determined that Mr. Shukis is an audit committee financial expert as such term is defined in Item 401(h) 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. Robertson, Shukis and Stone.

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 our Co-Chief Executive Officers' compensation; evaluate our Co-Chief Executive Officers' 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 our Co-Chief Executive Officers' compensation based on that evaluation, including administering, negotiating any changes to and determining amounts due under the employment agreements of the chief executive officers;

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 February 2008 in accordance with the employment agreements of our Co-Chief Executive Officers, our Co-Chief Executive Officers proposed, and the Nominating, Governance and Compensation Committee approved, our budget and the companies comprising our industry peers utilized for purposes of determining the 2008 annual cash incentive compensation of our Co-Chief Executive Officers.

In October 2008, the Nominating, Governance and Compensation Committee met to review the performance of, and recommend to our Board the base salaries of, our Co-Chief Executive Officers for the period from October 8, 2008 to October 7, 2009, and to award options to purchase common stock to each of our Co-Chief Executive Officers, as required by the employment agreements with each of our Co-Chief Executive Officers. In addition, pursuant to the recommendations of our Co-Chief Executive Officers, the Nominating, Governance and Compensation Committee awarded options to purchase common stock to our Chief Financial Officer and a specified amount of options to purchase common stock to be distributed among key employees at the discretion of our Co-Chief Executive Officers. Subject to certain limitations, our long term incentive plan permits the Nominating, Governance and Compensation Committee to delegate its duties under the plan to our Co-Chairmen of the Board and our other senior officers.

The Nominating, Governance and Compensation Committee met in February 2009 to determine the annual cash incentive compensation earned during 2008 by our Co-Chief Executive Officers pursuant to the terms of their employment agreements. Additionally, our Co-Chief Executive Officers proposed an increase in our Chief Financial Officer's salary effective March 10, 2009, as well as the amount of his 2008 annual cash incentive, which the Nominating, Governance and Compensation Committee reviewed and approved. Please see [Executive Compensation Compensation Discussion and Analysis](#) for information about our 2008 executive officer compensation.

The Nominating, Governance and Compensation Committee has the authority to engage a third-party consultant at any time. Each year, we engage a third-party firm, Towers Perrin, to prepare an analysis of the return on capital for our industry peers for use in determining the annual cash bonus of our Co-Chief Executive Officers. Please see [Executive Compensation Compensation Discussion and Analysis Elements of Compensation Annual Cash Incentive Compensation](#) for information regarding the determination of our annual cash bonus for our Co-Chief Executive Officers. In 2008, we did not otherwise engage any consultant related to annual executive compensation decisions.

#### 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 our 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. The Nominating, Governance and Compensation Committee did not receive any candidate submissions during 2008. 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. 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 2008, the Board of Directors held four meetings. The Audit Committee met four times and the Nominating, Governance and Compensation Committee met two times. During 2008, all directors attended at least 75% of the meetings of the Board of Directors and the Committees thereof.

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

### **Executive Sessions of the Board of Directors and the Presiding Director**

At each regularly scheduled Board meeting, our non-management directors hold executive sessions at which our management is not in attendance. The director who presides at these sessions is the chairman of our Audit Committee, currently Mr. Shukis.

### **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 our Corporate Secretary at the address indicated on the first page of this proxy statement.

Stockholders and other interested parties may communicate directly with our Board of Directors by sending a written communication in an envelope addressed to Board of Directors in care of our 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 Ethics, 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 our 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 independent directors. None of the members of the Nominating, Governance and Compensation Committee during fiscal 2008 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. 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 Co-Chief Executive Officers**

In connection with our initial public offering, we entered into employment agreements with each of Messrs. Reimert, Smith and Walker, our Co-Chief Executive Officers. Effective December 31, 2008, we entered into amended and restated employment agreements with each of Messrs. Reimert, Smith and Walker in order to modify their prior employment agreements to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder. Except for revisions to certain provisions regarding the timing of payments made with respect to annual bonuses, reimbursement of expenses and obligations of the Company upon termination, the benefits and terms of the amended and restated employment agreements are substantially similar in all material respects to the benefits and terms of the prior employment agreements. The following summary of these agreements does not purport to be complete and is qualified by reference to them. We have filed the form of these agreements with the SEC. A copy of the form of these agreements may be obtained from our Corporate Secretary at the address indicated on the first page of this proxy statement.

Each of these agreements provides for an annual base salary, as well as an annual performance bonus for each twelve-month period ending on December 31 equal to up to 120% of the executive's annual base salary, with the precise amount of the bonus determined based on specific Company performance goals. The performance goals, which are equally weighted, are based on (i) our annual earnings before interest and taxes (EBIT) measured against our annual budget or plan, and (ii) our annual return on capital (defined as EBIT divided by total assets less current liabilities) compared to a peer group of companies. In addition, each agreement provides that the employee will receive an annual grant of a number of options under our incentive plan equal to the employee's base salary multiplied by three and divided by the market price of the common stock on the grant date. Each agreement provides that the employee's compensation, including his annual base



salary, annual performance bonus and annual grant of options, shall be reviewed at least annually by the Nominating, Governance and Compensation Committee and shall be subject to increase at any time and from time to time on a basis determined by the Nominating, Governance and Compensation Committee, in the exercise of its sole discretion. Each agreement also entitles the employee to participate in all of our incentive, savings, retirement and welfare benefit plans in which other of our executive officers participate. Each agreement requires us to maintain a flexible perquisites spending account in the amount of \$25,000 each year for use in paying for membership dues, costs associated with purchasing or leasing an automobile, financial counseling, tax return preparation and mobile phones. We are required to pay the unused and remaining balances of such accounts annually to Messrs. Reimert, Smith and Walker. See Executive Compensation Compensation Discussion and Analysis Elements of Compensation Perquisites and Other Benefits.

On October 27, 2008, each of the employment agreements had a remaining term of four years. The term of each of the employment agreements is automatically extended for one year on October 27 of every year, such that the remaining term of each agreement will never be less than three years. Each agreement is subject to the right of us and the employee to terminate the employee's employment at any time. Each agreement provides certain benefits upon termination or change-in-control. For more information, see Executive Compensation Potential Payments Upon Termination or Change-in-Control.

Each agreement also provides that, during the term of the agreement and after termination thereof, the employee shall not divulge any of our confidential information, knowledge or data. In addition, each agreement requires the employee to disclose and assign to us any and all conceptions and ideas for inventions, improvements and valuable discoveries made by the employee which pertain primarily to our material business activities. Each agreement also provides that, in the event that the agreement is terminated for cause or the employee voluntarily resigns (other than during the year following a change-in-control or for good reason), for one year thereafter the employee will not within any country with respect to which he has devoted substantial attention to our material business interests, (i) accept employment or render services to any of our competitors or (ii) enter into or take part in business that would be competitive with us.

#### **Registration Rights Agreement**

In connection with our initial public offering, we entered into a registration rights agreement among us, Messrs. Reimert, Smith, Walker, Reimert Family Partners, Ltd. and Four Smiths Company, Ltd. (the Registration Rights Agreement). The Registration Rights Agreement provides for registration rights pursuant to which, upon the request of any of Messrs. Reimert, Smith and Walker (the Requesting Holders), we will file a registration statement under the Securities Act of 1933, as amended (the Securities Act), to register the common stock subject to the agreement (Registrable Securities) held by such Requesting Holders and any other stockholders who are parties to the Registration Rights Agreement and who desire to sell Registrable Securities pursuant to such registration statement, subject to a maximum of two requests by each of Messrs. Reimert, Smith and Walker or their successors and assigns. In addition, subject to certain conditions and limitations, the Registration Rights Agreement provides that Messrs. Reimert, Smith, and Walker may participate in any registration by us (including any registration resulting from any exercise of a demand right under the Registration Rights Agreement) of any of our equity securities in an underwritten offering. The registration rights covered by the Registration Rights Agreement generally are transferable to transferees (whether by assignment or by death of the holder) of the Registrable Securities covered thereby. The Registration Rights Agreement generally terminates when all Registrable Securities (i) have been distributed to the public pursuant to a registration statement covering such securities that has been declared effective under the Securities Act, or (ii) may be distributed to the public in accordance with the provisions of prior Rule 144(k) (or any similar provision then in force) under the Securities Act.

**DIRECTOR COMPENSATION**

Each non-employee director receives an annual fee of \$60,000, plus a fee of \$1,000 for attendance at each Board 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 committees thereof and for other expenses incurred in their capacity as directors.

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2008:

<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards</b>	<b>Option Awards</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings</b>	<b>All Other Compensation</b>	<b>Total</b>
John V. Lovoi	\$ 70,000						\$ 70,000
L.H. Dick Robertson	\$ 70,000						\$ 70,000
Alexander P. Shukis	\$ 70,000						\$ 70,000
Gary L. Stone	\$ 70,000						\$ 70,000

## 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 have four executive officers, our three Co-Chief Executive Officers and our Chief Financial Officer. Each of our Co-Chief Executive Officers is compensated pursuant to an employment agreement which was entered into prior to the closing of our initial public offering in 1997 and amended effective December 31, 2008. The employment agreement is described under [Related Person Transactions](#) [Employment Agreements with Co-Chief Executive Officers](#). Additionally, each of our Co-Chief Executive Officers owns greater than 5% of our outstanding shares, which aligns their interests with those of our other stockholders.

#### 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

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 Nominating, Governance and Compensation Committee (the [Committee](#)) of our Board of Directors. We describe the specific duties and responsibilities of the Committee in this proxy statement under [Corporate Governance](#) [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 our executive compensation program. The Committee also normally meets in September or October to determine base salaries for our Co-Chief Executive Officers and award equity-based compensation. Our Co-Chief Executive Officers recommend the base salary of our Chief Financial Officer to the Committee for approval. The Committee also meets at other times during the year and acts by written consent when necessary and appropriate.

The Committee has the authority to engage a third-party consultant at any time. Each year, we have engaged a third-party firm, Towers Perrin, to prepare an analysis of the return on capital for our industry peers for use in determining the annual cash bonus of our Co-Chief Executive Officers. See [Elements of Compensation](#) [Annual Cash Incentive Compensation](#). In 2008, we did not otherwise engage any consultant related to annual executive compensation decisions.

#### Elements of Compensation

##### General

Our executive compensation program generally consists of the following elements:

base salaries;

annual incentive compensation in the form of cash bonuses;

long-term stock-based incentive compensation consisting of stock option awards;

contributions to our 401(k) retirement plan; and

perquisites and other company-provided 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.

Relative Size of Major Compensation Elements

Pursuant to the employment agreements with each of our Co-Chief Executive Officers, the Committee may increase (but not decrease) the base salary, annual bonus and annual option grants for each of the officers, on a basis determined by the Committee in its sole discretion.

Factors taken into account in determining compensation for all our executive officers are our performance and the executive's responsibilities, experience, leadership, potential future contributions and demonstrated individual performance. In setting executive compensation, the Committee considers the aggregate compensation payable to an executive officer and the form of the compensation. 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.

The following table summarizes the relative size of base salary and incentive compensation for 2008 for each of our named executive officers:

Name	Base Salary	Annual Cash Incentive	Long-Term Stock-Based Incentive
Larry E. Reimert	39%	31%	30%
Gary D. Smith	39%	31%	30%
J. Mike Walker	39%	31%	30%
Jerry M. Brooks	55%	18%	27%

**Base Salary**

We evaluate base salaries for our Co-Chief Executive Officers annually and adjust them in October of each year. The base salaries for our Co-Chief Executive Officers are reviewed and approved by the Committee.

Adjustments to the base salary of our Chief Financial Officer are recommended by our Co-Chief Executive Officers for approval by the Committee. In March 2009, in connection with the review of certain of our senior management, our Co-Chief Executive Officers recommended an increase in the base salary of our Chief Financial Officer to \$255,000 effective March 10, 2009, which the Committee reviewed and approved. Our Co-Chief Executive Officers expect to review our Chief Financial Officer's base salary again in March 2010.

Base salaries for our named executive officers are based on a review of numerous factors, including the following:

our financial and operating performance during the relevant period;

the executive officer's contribution to our success; and

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

Our Co-Chief Executive Officers received the following base salaries for the twelve-month period ended October 7, 2008, and are receiving the following base salaries for the twelve-month period ending October 7, 2009:

Name	Twelve-Month Period	Twelve-Month Period
	Ended October 7, 2008	Ending October 7, 2009
Larry E. Reimert	\$ 540,000	\$ 565,000
Gary D. Smith	\$ 540,000	\$ 565,000
J. Mike Walker	\$ 540,000	\$ 565,000

Our Chief Financial Officer, Jerry M. Brooks, received the following base salary for the twelve-month period ended March 9, 2009, and is receiving the following base salary for the twelve-month period ending March 9, 2010:

Name	Twelve-Month Period	Twelve-Month Period
	Ended March 9, 2009	Ending March 9, 2010
Jerry M. Brooks	\$ 240,000	\$ 255,000

For 2009, this reflects an increase of \$25,000 and \$15,000 over 2008 base salaries for our Co-Chief Executive Officers and Mr. Brooks, respectively. This increase was the result of the Committee's and, for our Chief Financial Officer, the Co-Chief Executive Officers', evaluation of the individuals in relation to the achievement of our financial and non-financial goals during 2008.

***Annual Cash Incentive Compensation***

Co-Chief Executive Officers

Under the employment agreements with our Co-Chief Executive Officers, each officer is entitled to an annual cash bonus equal to up to 120% of his then applicable annual base salary, with: