NATIONAL OILWELL INC
Form S-4
September 16, 2004

Table of Contents

As filed with the Securities and Exchange Commission on September 16, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

National-Oilwell, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**5084**	**76-0475815**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

10000 Richmond Avenue
Houston, Texas 77042-4200
(713) 346-7500
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Steven W. Krablin
Senior Vice President and Chief Financial Officer
10000 Richmond Avenue
Houston, Texas 77042-4200
(713) 346-7500
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Dwight W. Rettig **Vice President and General Counsel** **10000 Richmond Avenue** **Houston, TX 77042-4200** **(713) 346-7500**	**James M. Prince** **Thomas P. Mason** **Vinson & Elkins L.L.P.** **2300 First City Tower** **1001 Fannin Street** **Houston, Texas 77002-6760** **(713) 758-2222**	**James F. Maroney** **Vice President, Secretary and General Counsel** **Varco International, Inc.** **2000 W. Sam Houston Parkway South, Suite 1700** **Houston, Texas 77042** **(281) 953-2200**	**Patrick T. Seaver** **R. Scott Shean** **Latham & Watkins LLP** **650 Town Center Drive, Suite 2000** **Costa Mesa, CA 92626-1925** **(714) 540-1235**

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)(2)	Proposed Maximum Offering Price Per Share(3)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration Fee
Common Stock, par value $0.01	87,131,338	Not applicable	$2,664,053,945	$337,536

(1) In accordance with Rule 416(a) under the Securities Act of 1933, as amended, in the event of a stock split, stock dividend or similar transaction involving National Oilwell s common stock, the number of shares registered hereby shall automatically be increased to cover the additional shares issuable pursuant to the Amended and Restated Agreement and Plan of Merger between National Oilwell and Varco International, Inc., effective as of August 11, 2004.

(2) Consists of up to 87,131,338 shares of National Oilwell common stock that may be issued in the merger described in this document upon the conversion of (a) 97,531,803 shares of Varco common stock outstanding on September 10, 2004, (b) up to 6,337,264 shares of Varco common stock that may be issued pursuant to options outstanding as of September 10, 2004, (c) up to 290,871 shares of common stock issuable upon the exercise of purchase rights under the Varco International, Inc. Employee Stock Purchase Plan as of September 10, 2004, (d) 18,763 shares of common stock issuable pursuant to deferred stock units outstanding as of September 10, 2004 and (e) 8,000 shares of common stock issuable pursuant to performance awards outstanding as of September 10, 2004.

(3) Estimated solely for purposes of calculation of the registration fee in accordance with Rules 457(c) and (f)(1) of the Securities Act of 1933, as amended, based on $25.57, the average of the high and low sale prices for shares of Varco common stock as reported on the New York Stock Exchange on September 14, 2004 and the maximum number of shares of Varco common stock that may be exchanged for shares of National Oilwell common stock that are being registered.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this document is not complete and may be changed. National Oilwell may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 16, 2004

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Dear Stockholders:

On August 11, 2004, National-Oilwell, Inc. and Varco International, Inc. agreed to combine their businesses by merging Varco with and into National Oilwell, with National Oilwell continuing as the surviving corporation. We are proposing the merger because we believe it will benefit the stockholders of both companies by creating a larger, more diversified company that is better positioned to compete in the global marketplace. The name of the combined company will be National Oilwell Varco, Inc. and its shares will be traded on the New York Stock Exchange under the trading symbol NOV.

In the merger, each Varco stockholder will receive 0.8363 of a share of National Oilwell common stock for each share of Varco common stock that the stockholder owns. National Oilwell stockholders will continue to own their existing shares, which will not be affected by the merger. We estimate that immediately after the merger National Oilwell stockholders will hold approximately 51%, and Varco stockholders will hold approximately 49%, of the outstanding shares of the combined company based on the number of shares of National Oilwell and Varco common stock outstanding on August 31, 2004. Shares of National Oilwell common stock and Varco common stock are traded on the New York Stock Exchange under the trading symbols NOI and VRC , respectively. On , 2004, the last trading day before the date of this document, National Oilwell common stock closed at $ per share as reported on the New York Stock Exchange. We do not expect that Varco stockholders will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger.

In order to consummate the merger, the merger agreement must be adopted by the National Oilwell stockholders and the Varco stockholders. The obligations of National Oilwell and Varco to complete the merger are also subject to the satisfaction or waiver of several other conditions to the merger, including receiving approvals from regulatory agencies. This document contains detailed information about National Oilwell, Varco and the proposed merger. We encourage you to read carefully this entire document before voting, including the section entitled Risk Factors beginning on page 16 of this document.

National Oilwell s board of directors has unanimously approved the merger agreement and determined that it is advisable and in the best interests of National Oilwell and its stockholders. Accordingly, National Oilwell s board of directors recommends that National Oilwell stockholders vote FOR the proposal to adopt the merger agreement.

Similarly, Varco s board of directors has unanimously approved the merger agreement and determined that it is advisable and in the best interests of Varco and its stockholders. Accordingly, Varco s board of directors recommends that Varco stockholders vote FOR the proposal to adopt the merger agreement.

National Oilwell is also proposing to adopt a new long-term incentive plan to accommodate the larger employee base of the combined company after the merger. Adoption of that plan requires the approval of the National Oilwell stockholders and is subject to the completion of the merger. National Oilwell s board of directors recommends that National Oilwell stockholders vote to approve the new long-term incentive plan.

The proposals are being presented to the stockholders of National Oilwell and Varco at their special meetings. The dates, times and places of the meetings are as follows:

For National Oilwell stockholders:	For Varco Stockholders:
, 2004, : a.m., C.T.	, 2004, : a.m., C.T.
[Address]	[Address]
Houston, Texas	Houston, Texas

Your vote is very important. The merger cannot be completed unless the National Oilwell and Varco stockholders adopt the merger agreement. Whether or not you plan to attend your company s special meeting, please take the time to vote by completing and mailing us the enclosed proxy card or by submitting your voting instructions over the Internet or telephone. If your shares are held in street name, you must instruct your broker in order to vote.

Sincerely,

MERRILL A. MILLER, JR.
Chairman, President and Chief Executive Officer
NATIONAL-OILWELL, INC.

JOHN F. LAULETTA
Chairman of the Board and Chief Executive Officer
VARCO INTERNATIONAL, INC.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this document is truthful or complete. Any representation to the contrary is a criminal offense.

This document is dated , 2004, and was first mailed to National Oilwell and Varco stockholders on or about , 2004.

Table of Contents

NATIONAL-OILWELL, INC.

10000 Richmond Avenue
Houston, Texas 77042-4200

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on , 2004

To National-Oilwell, Inc. Stockholders:

We will hold a special meeting of stockholders of National-Oilwell, Inc. for the following purposes:

To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc. and Varco International, Inc., as amended prior to the special meeting. Adoption of the merger agreement will also constitute approval of the issuance of shares of National Oilwell common stock in the merger and an amendment to National Oilwell s certificate of incorporation increasing the authorized number of shares of common stock to 500 million, eliminating the class of special voting stock and changing the company s name to National Oilwell Varco, Inc.;

To consider and vote on the approval of the National Oilwell Varco Long-Term Incentive Plan;

To consider and vote on any proposal to adjourn the special meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposals; and

To transact other business as may properly be presented at the meeting or any adjournments of the meeting.

The date, time and place of the meeting are as follows:

, 2004

, local time
[Address]

Only stockholders of record at the close of business on , 2004, are entitled to notice of and to vote at the meeting and any adjournments of the meeting. National Oilwell will keep at its offices in Houston, Texas a list of stockholders entitled to vote at the meeting available for inspection for any purpose relevant to the meeting during normal business hours for the 10 days before the meeting.

YOUR PROXY IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE IN ANY ONE OF THE FOLLOWING WAYS:

use the toll-free telephone number shown on the proxy card;

use the Internet website shown on the proxy card; or

mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope. No postage is required if mailed in the United States.

If your shares are held in street name, which means shares held of record by a broker, bank or other nominee, you should check the voting instructions provided by the broker, bank or nominee to determine whether you will be able to vote over the Internet or by telephone.

You may revoke your proxy at any time before it is voted at the special meeting. If your shares are held in an account at a brokerage firm, bank or other nominee, you must instruct them on how to vote your shares and you must contact your broker, bank or nominee to revoke your proxy.

The accompanying document describes the proposed merger in more detail. We encourage you to read the entire document before voting your shares.

Table of Contents

The National Oilwell board of directors unanimously recommends that National Oilwell stockholders vote FOR the adoption of the merger agreement and approval of the National Oilwell Varco Long-Term Incentive Plan.

By Order of the Board of Directors

M. GAY MATHER
Corporate Secretary

Houston, Texas
, 2004

Table of Contents

VARCO INTERNATIONAL, INC.

2000 W. Sam Houston Parkway South, Suite 1700
Houston, Texas 77042

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on , 2004

To the Stockholders of Varco International, Inc.:

We will hold a special meeting of the stockholders of Varco International, Inc. on , 2004, at a.m., local time, at , for the following purposes:

1. To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc., a Delaware corporation, and Varco International, Inc., a Delaware corporation, as amended prior to the special meeting, pursuant to which Varco will be merged with and into National Oilwell and each outstanding share of Varco common stock will be converted into 0.8363 of a share of National Oilwell common stock;

2. To consider and vote on any proposal to adjourn the special meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposal; and

3. To transact any other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

Only stockholders of record at the close of business on , 2004, are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting. A complete list of Varco stockholders of record entitled to vote at the special meeting will be available for the 10 days before the special meeting at our executive offices and principal place of business for inspection by stockholders during ordinary business hours for any purpose germane to the special meeting.

Your vote is very important. All Varco stockholders are cordially invited to attend the special meeting in person. Whether you plan to attend the special meeting or not, if you are the record holder of your shares, please vote using one of the following methods to make sure that your shares are represented and voted at the special meeting:

- use the toll-free telephone number shown on the proxy card;
- use the Internet website shown on the proxy card; or
- mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope. No postage is required if mailed in the United States.

If your shares are held in street name, which means shares held of record by a broker, bank or other nominee, you should check the voting instructions provided by the broker, bank or nominee to determine whether you will be able to vote over the Internet or by telephone.

You may revoke your proxy at any time before it is voted at the special meeting. If your shares are held in an account at a brokerage firm, bank or other nominee, you must instruct them on how to vote your shares and you must contact your broker, bank or nominee to revoke your proxy.

The accompanying document describes the proposed merger in more detail. We encourage you to read carefully the entire document before voting your shares.

Table of Contents

The Varco board of directors unanimously recommends that Varco stockholders vote FOR the adoption of the merger agreement.

By Order of the Board of Directors,

JAMES F. MARONEY, III
Vice President, Secretary and General Counsel

Houston, Texas
, 2004

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why am I receiving these materials?

A: National Oilwell and Varco have agreed to combine their businesses by merging Varco with and into National Oilwell under the terms of a merger agreement that is described in this document and attached to this document as Annex A. The merger cannot be completed without obtaining the appropriate approvals of the stockholders of each of National Oilwell and Varco. National Oilwell is also proposing to adopt the new National Oilwell Varco Long-Term Incentive Plan, which we sometimes refer to in this document as the Long-Term Incentive Plan or the plan in connection with the merger that requires approval by National Oilwell stockholders and is subject to the completion of the merger. National Oilwell and Varco will hold separate special meetings of their respective stockholders to obtain these approvals.

Q: Why are National Oilwell and Varco proposing the merger?

A: National Oilwell and Varco both believe that the merger will provide substantial benefits to the stockholders of both companies by creating a larger, more diversified company that is better positioned to compete in the global marketplace.

Q: What will happen to Varco as a result of the merger?

A: As a result of the merger, Varco will be merged into National Oilwell, and National Oilwell will continue as the surviving company, and its certificate of incorporation will be amended to change its name to National Oilwell Varco, Inc.

Q: What will stockholders receive in the merger?

A: Each Varco stockholder will receive 0.8363 of a share of National Oilwell common stock in exchange for each share of Varco common stock that the stockholder owns at the effective time of the merger. Instead of receiving fractional shares, Varco stockholders will receive cash from National Oilwell in an amount reflecting the market value of any fractional share.

Each National Oilwell stockholder will continue to hold the shares of National Oilwell common stock that it held prior to the merger; however, those shares will represent a smaller portion of the total outstanding shares of the combined company.

Q: Does adoption of the merger agreement by the National Oilwell stockholders result in any other changes to the capital structure of National Oilwell?

A: The merger agreement provides that, at the effective time of the merger, the authorized number of shares of common stock of National Oilwell will be increased to 500 million shares and the class of special voting stock will be eliminated pursuant to a Certificate of Merger that is attached to this document as Annex E.

Q: What will be the name of the surviving corporation to the merger?

A: National Oilwell Varco, Inc.

Q: What stockholder approvals are needed to complete the merger?

A: The following stockholder approvals are needed to complete the merger:

- the holders of at least a majority of the shares of National Oilwell common stock outstanding on , 2004, the record date set for the meeting of stockholders of National Oilwell, must vote in favor of adopting the merger agreement; and
- the holders of at least a majority of the shares of Varco common stock outstanding on , 2004, the record date set for the meeting of stockholders of Varco, must vote in favor of adopting the merger agreement.

Q: Are any other matters being voted on at the special meetings?

A: The stockholders of National Oilwell are being asked to vote to approve a new Long-Term Incentive Plan. The completion of the merger is not conditioned upon the approval of the Long-Term Incentive

Plan. However, the adoption of the plan is subject to the completion of the merger. The stockholders of National Oilwell and Varco will also be asked to vote on any proposal to adjourn the special meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the proposals being voted on.

Q: What stockholder approvals are needed to approve the Long-Term Incentive Plan and to adjourn the special meeting?

A: The affirmative vote of at least a majority of the votes cast at the special meeting is required to approve the Long-Term Incentive Plan, provided the total votes cast represent over 50% of the outstanding National Oilwell shares entitled to vote on the proposal. The affirmative vote of the holders of at least a majority of the shares of common stock of National Oilwell or Varco, as applicable, present in person or represented by proxy at the special meeting of National Oilwell or Varco, as applicable is required to adjourn the meeting.

Q: How do National Oilwell s and Varco s board of directors recommend that I vote?

A: National Oilwell s board of directors unanimously recommends that National Oilwell stockholders vote FOR the proposals to adopt the merger agreement and to approve the Long-Term Incentive Plan.

Varco s board of directors unanimously recommends that Varco stockholders vote FOR the proposal to adopt the merger agreement.

Q: When do you expect the merger to be completed?

A: We are working to complete the merger as soon as possible. A number of conditions must be satisfied before we can complete the merger, including approval by the stockholders of both National Oilwell and Varco and the expiration or early termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Although we cannot be sure when all of the conditions to the merger will be satisfied, we expect to complete the merger by the first quarter of 2005.

Q: What are the tax consequences to stockholders of the transaction?

A: It is generally expected that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), and the consummation of the merger is conditioned on the receipt by each of National Oilwell and Varco of opinions from their respective counsel to the effect that the merger will so qualify.

Assuming that the merger qualifies as a reorganization under the Internal Revenue Code, then in general, neither the National Oilwell stockholders nor the Varco stockholders who receive shares of National Oilwell common stock in exchange for their Varco common stock in the merger will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger, except that a Varco stockholder will recognize gain or loss with respect to any cash received in lieu of a fractional share of National Oilwell common stock in the merger. Tax matters are very complicated, and the tax consequences of the merger to a Varco stockholder will depend on the facts of each holder s own situation. For a description of the material federal income tax consequences of the merger, please see the information set forth in Material Federal Income Tax Consequences. We also encourage each Varco stockholder to consult the stockholder s own tax advisor for a full understanding of the tax consequences of the merger.

Q: What do I need to do now?

A: You should read this document carefully. Then, if you are the record holder of your shares and choose to vote by proxy, you should do so as soon as possible by any of the following means: completing, signing and mailing your proxy card; using the toll-free telephone number listed on your proxy card and following the recorded instructions; or going to the Internet website listed on your proxy card and following the instructions provided.

Q: If I am planning on attending a meeting in person, should I still grant my proxy?

A: Yes. Whether or not you plan to attend a meeting, you should grant your proxy as described above. Your shares will not be voted unless you attend a meeting and vote in person or grant your proxy. For

Table of Contents

both National Oilwell and Varco stockholders, a failure to vote would have the same effect as a vote against adoption of the merger agreement. For National Oilwell stockholders, a failure to vote on the proposal to approve the Long-Term Incentive Plan will not count as a vote for or against the proposal but could affect whether sufficient votes have been cast on the proposal under the rules of the New York Stock Exchange, or NYSE.

Q: If my shares are held in street name by my broker, will my broker vote my stock for me?

A: Your broker will *not* vote your stock for or against adoption of the merger agreement or, in the case of National Oilwell stockholders, for or against approval of the Long-Term Incentive Plan unless you tell the broker how to vote. To tell your broker how to vote, you should follow the directions that your broker provides to you. A non-vote by your broker will have the same effect as a vote against the adoption of the merger agreement, but will have no effect on any proposal to adjourn or postpone your company s meeting.

Q: Can I change my vote after I have granted my proxy?

A: Yes. Stockholders who hold shares in their own name can change their vote at any time before their proxy is voted at their company s special meeting by:

timely delivery by mail, telephone or Internet of a valid, subsequently-dated proxy;

delivery to your company s Secretary at or before the special meeting of written notice revoking your proxy or of your intention to vote by ballot at the special meeting; or

submitting a vote by ballot at the special meeting; however, your attendance alone will not revoke your proxy.

If your shares are held in a street name account, you must contact your broker, bank or nominee to change your vote.

Q: Where and when are the special meetings?

A: The National Oilwell special meeting will take place at , on , at a.m. The Varco special meeting will take place at , on , at a.m.

Q: Should Varco stockholders send in their certificates representing Varco common stock now?

A: No. After the merger is completed, Varco stockholders will receive written instructions for exchanging their certificates representing Varco common stock. Please do not send in your certificates representing Varco common stock with your proxy card.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this document and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. In addition, if you are a stockholder of both National Oilwell and Varco, you will receive one or more separate proxy cards or voting instruction cards for each company. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

Q: Do I have appraisal rights?

A: No. Neither the National Oilwell stockholders nor the Varco stockholders will have appraisal rights under Delaware law as a result of the merger.

Q: Whom do I call if I have further questions about voting, the meetings or the merger?

A: National Oilwell stockholders may call National Oilwell s Investor Relations department at (713) 346-7500 or InvestorCom, Inc., National Oilwell s proxy solicitor, at (800) 503-3375.

Varco stockholders may call Varco s Investor Relations department at (281) 953-2200 or Morrow & Co., Inc., Varco s proxy solicitor, at (800) 607-0088.

Table of Contents

You may also obtain additional information about National Oilwell and Varco from documents filed with the Securities and Exchange Commission by following the instructions in the section entitled Where You Can Find More Information.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

Table of Contents

SUMMARY

This summary highlights some of the information in this document. It may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the terms of the merger agreement and the merger, you should read carefully this document, the documents we incorporate by reference and the full text of the merger agreement included as Annex A to this document. Please also read Where You Can Find More Information. We have included references to other portions of this document to direct you to a more complete description of the topics presented in this summary.

Unless otherwise indicated, pro forma financial results presented in this document give effect to the completion of the merger.

The Companies

National-Oilwell, Inc. (see page 24)

10000 Richmond Avenue
Houston, Texas 77042
(713) 346-7500
www.natoil.com

The core focus of National Oilwell is to provide the oil and gas industry with the highest quality oilfield products and services. With over 200 worldwide manufacturing and service center locations, National Oilwell supplies customer-focused solutions to meet the quality, productivity and environmental requirements of the oil and gas industry.

National Oilwell designs, manufactures and sells major mechanical components and integrated systems for both land and offshore drilling rigs. It manufactures complete land drilling and well-servicing rigs, the largest line of lifting and handling equipment in the oil and gas industry and a broad offering of downhole drilling motors and specialized drilling tools, and also provides supply chain services through its global network of distribution service centers located near major drilling and production areas worldwide.

Varco International, Inc. (see page 24)

2000 W. Sam Houston Parkway South
Suite 1700
Houston, Texas 77042
(281) 953-2200
www.varco.com

Varco is a leading provider of highly engineered drilling and well-servicing equipment, products and services to the world s oil and gas industry. Varco is also engaged in the design, manufacture, sale and rental of drilling and well-remediation equipment, and is engaged in the provision of technical services. Varco has a long tradition of pioneering many drilling and production innovations which have improved the efficiency, safety, cost and environmental impact of petroleum operations.

Varco is a leading manufacturer and supplier of innovative drilling systems and rig instrumentation; oilfield tubular and sucker rod inspections and internal tubular coating techniques; drill cuttings separation, control and disposal systems and services; high pressure fiberglass tubulars; and coiled tubing and pressure control equipment for land and offshore drilling operations. Varco also provides in-service pipeline inspections and sells and leases advanced in-line inspection equipment to makers of oil country tubular goods.

The Merger

Pursuant to the merger agreement, at the effective time of the merger, Varco will merge with and into National Oilwell, with National Oilwell surviving. As a result of the merger, each Varco stockholder will

receive 0.8363 of a share of National Oilwell common stock for each share of Varco common stock that the stockholder owns at the effective time of the merger. National Oilwell will not issue any fractional shares. Instead, Varco stockholders will receive cash from National Oilwell in an amount that reflects the market value of any fractional share that would have been issued. Based on the number of shares of Varco and National Oilwell common stock outstanding as of August 31, 2004, we anticipate that National Oilwell will issue approximately 81,503,785 shares of its common stock in the merger and that upon completion of the merger, Varco stockholders will own approximately 49% of the combined company and National Oilwell stockholders will own approximately 51% of the combined company.

The merger agreement also provides that, effective as of the completion of the merger, National Oilwell s certificate of incorporation will be amended to increase the number of authorized National Oilwell shares of common stock from 150 million to 500 million, to eliminate the class of special voting stock and to change the name of the company to National Oilwell Varco, Inc.

Reasons for the Merger

National Oilwell (see page 35)

The National Oilwell board believes that the merger will provide substantial strategic and financial benefits to the stockholders of National Oilwell and that the merger will allow National Oilwell and Varco to combine their resources to enhance their ability to provide oilfield products and services. In reaching its determination to approve the merger agreement and the merger, the National Oilwell board consulted with National Oilwell s management, as well as its financial and legal advisors, and considered a variety of factors, a number of which are described in this document.

Varco (see page 38)

The Varco board of directors believes that the merger will provide substantial strategic and financial benefits to the stockholders of Varco, and that the combination will create a stronger oilfield services company that is capable of creating more stockholder value than Varco could achieve on its own. Varco also believes that the combination of Varco and National Oilwell will allow Varco stockholders to participate in a larger, more diversified company that will accelerate both companies strategies to develop, enhance and commercialize products and services. In reaching its decision to approve the merger agreement and the merger, the Varco board of directors considered a variety of factors, a number of which are described in this document.

Recommendations to Stockholders

National Oilwell (see page 35)

National Oilwell s board of directors believes that the merger is advisable and fair to and in the best interests of the National Oilwell stockholders and unanimously recommends that National Oilwell stockholders vote FOR the proposal to adopt the merger agreement. A vote FOR adoption of the merger agreement also constitutes a vote FOR each of the following:

- the issuance of shares of National Oilwell common stock in the merger; and
- an amendment to National Oilwell s certificate of incorporation increasing the authorized number of shares of common stock from 150,000,000 to 500,000,000, eliminating the class of special voting stock and changing the name of National Oilwell to National Oilwell Varco, Inc., to become effective upon completion of the merger.

National Oilwell s board of directors also unanimously recommends that the National Oilwell stockholders vote FOR the approval of the National Oilwell Varco Long-Term Incentive Plan, or the Long-Term Incentive Plan.

As of the record date for the special meeting, approximately 2% of National Oilwell s outstanding common stock was held by its directors and executive officers.

Table of Contents

Varco (see page 38)

Varco s board of directors believes that the merger is advisable and fair to and in the best interests of the Varco stockholders and unanimously recommends that Varco stockholders vote FOR the proposal to adopt the merger agreement.

As of the record date for the special meeting, approximately % of Varco s outstanding common stock was held by its directors and executive officers.

Opinions of Financial Advisors

The opinions of National Oilwell s and Varco s financial advisors are attached to this document as Annexes B and C, respectively. We encourage you to read those opinions carefully in their entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. Each opinion is directed to the applicable board of directors and does not constitute a recommendation to any stockholder as to any matter relating to the merger.

Opinion of Financial Advisor to National Oilwell (see page 41)

Goldman, Sachs & Co., National Oilwell s financial advisor, delivered its opinion to National Oilwell s board of directors that, as of August 11, 2004 and based upon and subject to the factors and assumptions set forth therein, the exchange ratio pursuant to the merger agreement is fair from a financial point of view to National Oilwell.

Opinion of Financial Advisor to Varco (see page 47)

Citigroup Global Markets Inc., Varco s financial advisor, delivered its opinion to the Varco board of directors on August 11, 2004 to the effect that, as of such date and based on and subject to various assumptions made, matters considered and limitations described in the opinion, the exchange ratio of 0.8363 of a share of National Oilwell common stock for each share of Varco common stock in the merger was fair, from a financial point of view, to the Varco stockholders.

The Special Meetings

National Oilwell Special Stockholders Meeting (see page 26)

Where and when: The National Oilwell special stockholders meeting will take place at , Houston, Texas, on 2004 at a.m., local time.

What you are being asked to vote on: At the National Oilwell meeting, National Oilwell stockholders will be asked to consider and vote on the following proposals:

- the adoption of the merger agreement. Adoption of the merger agreement by the National Oilwell stockholders will also constitute approval of the following:
  - the issuance of National Oilwell common stock in connection with the merger; and
  - an amendment to the certificate of incorporation of National Oilwell to increase the authorized shares of common stock to 500,000,000, to eliminate the class of special voting stock and to change the name of the company to National Oilwell Varco, Inc.;
- the approval of the Long-Term Incentive Plan;
- any proposal to adjourn the special meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposals; and

any proposal to transact other business as may properly come before the special meeting.

National Oilwell knows of no other matters that will be presented for consideration of its stockholders at the meeting.

Table of Contents

Who may vote: You may vote at the National Oilwell meeting if you owned National Oilwell common stock at the close of business on the record date, , 2004. On that date, there were shares of National Oilwell common stock outstanding and entitled to vote. You may cast one vote for each share of National Oilwell common stock that you owned on the record date.

What vote is needed: The affirmative vote of the holders of at least a majority of the outstanding shares of National Oilwell common stock is required to adopt the merger agreement. The affirmative vote of at least a majority of the votes cast at the special meeting is required to approve the Long-Term Incentive Plan, provided the total votes cast represent over 50% of the outstanding National Oilwell shares entitled to vote on the proposal. The affirmative vote of the holders of at least a majority of the outstanding shares of National Oilwell common stock present in person or represented by proxy at the special meeting is required to adjourn the meeting.

Varco Special Stockholders Meeting (see page 26)

Where and when: The Varco special stockholders meeting will take place at , Houston, Texas, on , 2004, at a.m., local time.

What you are being asked to vote on: At the Varco meeting, Varco stockholders will be asked to consider and vote on the following approvals:

- the adoption of the merger agreement;
- any proposal to adjourn the special meeting to a later date, if necessary to solicit additional proxies if there are not sufficient votes in favor of the foregoing proposal; and
- to consider any other matters that may properly come before the meeting.

Varco knows of no other matters that will be presented for consideration of its stockholders at the meeting.

Who may vote: You may vote at the Varco meeting if you owned Varco common stock at the close of business on the record date, , 2004. On that date, there were shares of Varco common stock outstanding and entitled to vote. You may cast one vote for each share of Varco common stock that you owned on the record date.

What vote is needed: The affirmative vote of the holders of at least a majority of the outstanding shares of Varco common stock is required to adopt the merger agreement. The affirmative vote of at least a majority of the shares of Varco common stock present in person or represented by proxy at the special meeting is required to adjourn the meeting.

Directors and Management of National Oilwell Following the Merger

The merger agreement provides that National Oilwell will take all requisite action such that the board of directors of National Oilwell Varco, as of the effective time of the merger, will consist of 10 persons, including:

- John F. Lauletta, currently the Chairman of the Board and Chief Executive Officer of Varco;
- Merrill A. Miller, Jr., currently the Chairman of the Board, President and Chief Executive Officer of National Oilwell;
- four directors designated by National Oilwell, consisting of Robert E. Beauchamp, Ben A. Guill, Roger L. Jarvis and David D. Harrison; and
- four directors designated by Varco, consisting of Jeffery A. Smisek, Greg L. Armstrong, Eric L. Mattson and James D. Woods.

Upon completion of the merger, Messrs. Miller and Guill will change the class of directors to which they are currently assigned. At the effective time of the merger, the composition of the classes of the board

will be as follows: Messrs. Lauletta, Beauchamp and Woods will be placed in the class of directors with a term expiring in 2005; Messrs. Miller, Harrison and Armstrong will be placed in the class of directors with a term expiring in 2006; and Messrs. Guill, Jarvis, Mattson and Smisek will be placed in the class of directors with a term expiring in 2007. The merger agreement provides that all designated directors, other than Mr. Lauletta and Mr. Miller, will be required to qualify as independent members of the board of directors as determined in accordance with the rules of the NYSE. The merger agreement does not provide any continuing right of a party to designate directors following the effective time of the merger.

At the effective time of the merger, Mr. Lauletta, currently the Chairman and Chief Executive Officer of Varco, will become the Chairman of the Board of National Oilwell Varco; Mr. Miller, currently the Chairman, President and Chief Executive Officer of National Oilwell, will become the President and Chief Executive Officer of National Oilwell Varco; Joseph C. Winkler, currently the President and Chief Operating Officer of Varco, will become the Chief Operating Officer of National Oilwell Varco; and Clay C. Williams, currently the Vice President and Chief Financial Officer of Varco, will become the Vice President and Chief Financial Officer of National Oilwell Varco.

Overview of the Merger Agreement

Conditions to the Merger (see page 71)

National Oilwell and Varco will complete the merger only if the conditions set forth in the merger agreement are satisfied or, in some cases, waived. These conditions include:

- the adoption by National Oilwell stockholders and Varco stockholders of the merger agreement;
- the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976;
- the receipt of all authorizations, consents and approvals from governmental entities the failure of which to obtain is reasonably likely to have a material adverse effect on National Oilwell or Varco;
- the declaration of effectiveness of the registration statement of which this document is a part by the Securities and Exchange Commission and the absence of any stop order or proceedings seeking a stop order;
- the absence of any decree, order, injunction or law that prohibits the merger or makes the merger unlawful;
- the approval for listing on the NYSE of the shares of National Oilwell common stock to be issued in the merger, subject to official notice of issuance;
- the absence of litigation by any governmental entity that has a reasonable likelihood of success seeking to restrain or prohibit the consummation of the merger;
- the continued accuracy of the representations and warranties of National Oilwell and Varco contained in the merger agreement, except where the failure of a representation or warranty to be accurate would not reasonably be expected to have a material adverse effect on National Oilwell or Varco;
- the performance by National Oilwell and Varco in all material respects of their respective obligations under the merger agreement;
- the absence of any events that have had or are reasonably expected to have a material adverse effect on either National Oilwell or Varco; and
- the receipt of legal opinions from counsel for each of National Oilwell and Varco to the effect that for federal income tax purposes the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Table of Contents

Either National Oilwell or Varco may choose to complete the merger even though a condition to its obligations has not been satisfied if the necessary stockholder approvals have been obtained and the law allows it to do so.

No Solicitation (see page 68)

The merger agreement contains restrictions on the ability of National Oilwell and Varco to solicit or engage in discussions or negotiations with a third party with respect to a proposal to acquire a significant interest in National Oilwell s or Varco s equity or assets. Notwithstanding these restrictions, before their stockholders adopt the merger agreement, the merger agreement provides that under specified circumstances, if National Oilwell or Varco receives a proposal from a third party to acquire a significant interest in the company that the board of directors determines in good faith may reasonably be expected to lead to a proposal that is superior to the merger, National Oilwell or Varco, as applicable, may furnish nonpublic information to that third party and engage in negotiations regarding a transaction with that third party.

Termination of Merger Agreement (see page 73)

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after the stockholder approvals have been obtained:

by mutual written consent of National Oilwell and Varco;

by either National Oilwell or Varco, if the merger is not completed by March 15, 2005, other than due to a breach of the merger agreement by the terminating party;

by either National Oilwell or Varco, if a court or other government entity issues a non appealable final order, decree or ruling, or takes any other nonappealable final action, having the effect of permanently restraining, enjoining or otherwise prohibiting the merger;

by either National Oilwell or Varco, if the necessary approval of the stockholders of either party is not obtained at their respective stockholder meetings;

by Varco, if the board of directors of National Oilwell withdraws or modifies its recommendation of the merger to the stockholders of National Oilwell or recommends an acquisition transaction by a third party relating to National Oilwell;

by National Oilwell, if the board of directors of Varco withdraws or modifies its recommendation of the merger to the stockholders of Varco or recommends an acquisition transaction by a third party relating to Varco;

by Varco, upon certain breaches by National Oilwell of its representations, warranties or covenants in the merger agreement;

by National Oilwell, upon certain breaches by Varco of its representations, warranties or covenants in the merger agreement;

by Varco, if, prior to Varco s receipt of adoption of the merger agreement by its stockholders, Varco s board of directors receives a superior acquisition proposal from a third party and the Varco board of directors concludes, following receipt of the advice of its outside legal counsel, that the failure to accept the superior acquisition proposal would result in a breach of its fiduciary duties under applicable law; or

by National Oilwell, if, prior to National Oilwell s receipt of adoption of the merger agreement by its stockholders, National Oilwell s board of directors receives a superior acquisition proposal from a third party and the National Oilwell board of directors concludes, following receipt of the advice of its outside legal counsel, that the failure to accept the superior acquisition proposal would result in a breach of its fiduciary duties under applicable law.

Table of Contents

Termination Fee; Expenses (see page 73)

If the merger agreement is terminated, either National Oilwell or Varco, in specified circumstances, may be required to pay a termination fee of $75 million to the other party or reimburse up to $5 million of the other party s expenses.

Varco Stock Options, Deferred Stock Units and Employee Stock Purchase Plan (see page 69)

In general, upon completion of the merger, options to purchase shares of Varco common stock will be converted into options to purchase shares of National Oilwell common stock and assumed by National Oilwell. The number of options and exercise prices will be determined by applying the conversion ratio pursuant to the merger agreement. In addition, some converted options will become fully vested and exercisable at the effective time of the merger. In addition, upon completion of the merger, each outstanding deferred stock unit of Varco, representing a right to acquire shares of Varco common stock, will be converted into deferred stock units of National Oilwell Varco, representing a right to acquire shares of National Oilwell Varco common stock appropriately adjusted by applying the conversion ratio pursuant to the merger agreement. Some of the converted deferred stock units will become fully vested as of the effective time of the merger. National Oilwell will assume the Varco equity participation plans at the effective time of the merger.

Each outstanding purchase right under Varco s employee stock purchase plan will be assumed by National Oilwell and converted into a right to purchase National Oilwell common stock in accordance with the merger agreement and the employee stock purchase plan. National Oilwell will assume Varco s employee stock purchase plan at the effective time of the merger.

Interests of Certain National Oilwell and Varco Executive Officers and Directors in the Merger (see page 7)

In considering the recommendations of the respective boards of directors of National Oilwell and Varco with respect to the merger, the stockholders of both companies should be aware that some of the executive officers and directors of National Oilwell and Varco have interests in the transaction that differ from, or are in addition to, the interests of that company s stockholders generally. National Oilwell s board of directors and Varco s board of directors were aware of these interests and considered them, among other matters, when making their respective decisions to approve the merger agreement.

Risk Factors (see page 7)

See Risk Factors for a discussion of factors you should carefully consider before deciding how to vote at your company s special meeting.

Material Federal Income Tax Consequences (see page 7)

It is generally expected that the merger will qualify as a tax-free reorganization within the meaning of the Internal Revenue Code. The consummation of the merger is conditioned on the receipt by each of National Oilwell and Varco of opinions from their respective counsel to the effect that the merger will so qualify. Neither National Oilwell nor Varco may waive these conditions to the merger after its respective stockholders have adopted the merger agreement unless further approval from its stockholders is obtained with appropriate disclosure.

Assuming that the merger qualifies as a reorganization under the Internal Revenue Code, then in general, neither National Oilwell stockholders nor Varco stockholders who receive shares of National Oilwell common stock in exchange for their Varco common stock in the merger will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger, except that a Varco stockholder will recognize gain or loss with respect to any cash received in lieu of a fractional share of National Oilwell common stock in the merger. Tax matters are very complicated, and the tax consequences of the merger to a Varco stockholder will depend on the facts of each holder s own situation. For a description of the material federal income tax consequences of the merger, please see the information set forth in Material Federal Income Tax Consequences. We also encourage each Varco stockholder to consult the stockholder s own tax advisor for a full understanding of the tax consequences of the merger.

Accounting Treatment (see page 8)

National Oilwell will account for the merger using the purchase method of accounting. Under that method of accounting, the aggregate consideration that National Oilwell pays for Varco will be allocated to Varco s assets and liabilities based on their fair values, with any excess being treated as goodwill. National Oilwell currently expects to record approximately $1,513.0 million of goodwill upon completion of the merger, but that estimate is subject to change based upon the final number of shares of National Oilwell common stock issued at the time of closing and the final valuation of Varco s identified assets and liabilities.

Other Information Related to the Merger

Regulatory Approvals (see page 8)

The merger is subject to antitrust laws. National Oilwell and Varco made the required filings with the Federal Trade Commission, or FTC, and the Antitrust Division of the Department of Justice, or DOJ, relating to the merger on September 10, 2004, but they are not permitted to complete the merger until the applicable waiting periods have expired or otherwise terminated. National Oilwell and Varco may be required to obtain additional regulatory approvals from various state and foreign authorities. While we expect to obtain all required regulatory approvals, we cannot assure you that these regulatory approvals will be obtained or that the granting of these regulatory approvals will not involve the imposition of conditions on the completion of the merger. These conditions could result in the conditions to the merger not being satisfied.

Comparison of the Rights of National Oilwell and Varco Stockholders (see page 8)

The stockholders of Varco are being asked to adopt the merger agreement pursuant to which each share of Varco common stock (other than shares of Varco common stock held directly or indirectly by National Oilwell or Varco) will be converted into 0.8363 of one share of National Oilwell common stock. Consequently, such stockholders will no longer hold shares in Varco but will instead hold shares in National Oilwell and their rights as stockholders of National Oilwell will be governed by Delaware law, the amended and restated certificate of incorporation of National Oilwell and National Oilwell s bylaws. There are various differences between the rights of Varco stockholders and the rights of National Oilwell stockholders.

Listing of Common Stock to be Issued in the Merger (see page 8)

National Oilwell has agreed to file an application to have the shares of National Oilwell common stock issued in the merger listed on the NYSE, the approval of which is a condition to closing the merger. At the effective time of the merger, the name of the combined company will be National Oilwell Varco, Inc. and its shares will trade on the NYSE under the ticker symbol NOV.

Appraisal Rights (see page 8)

Neither National Oilwell stockholders nor Varco stockholders have appraisal rights under applicable law or contractual appraisal rights under Delaware law as a result of the merger.

Table of Contents

National Oilwell Varco Long-Term Incentive Plan (see page 9)

On September 13, 2004, National Oilwell s board of directors approved the National Oilwell Varco Long-Term Incentive Plan, subject to approval of the plan by National Oilwell stockholders and to completion of the merger. The Long-Term Incentive Plan is intended, among other things, to help the combined company attract and retain directors and employees after the effective time of the merger and to encourage them to promote the growth and profitability of the combined company. The completion of the merger is not conditioned upon the approval of the Long-Term Incentive Plan.

Table of Contents

Selected Historical Consolidated Financial Data of National Oilwell

National Oilwell is providing the following information to aid in your analysis of the financial aspects of the merger. The following selected historical financial data for each of the years in the five year period ended December 31, 2003 has been derived from National Oilwell s audited consolidated financial statements. The selected historical financial data for the six months ended June 30, 2004 and 2003 has been derived from National Oilwell s unaudited consolidated financial statements. In the opinion of National Oilwell s management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the interim consolidated financial statements. Results for the interim periods are not necessarily indicative of the results to be expected for the full year.

The information is only a summary. You should read it along with National Oilwell s historical financial statements and related notes and the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations contained in National Oilwell s Annual Report on Form 10-K for the year ended December 31, 2003 and Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 on file with the Securities and Exchange Commission and incorporated by reference into this document. See Where You Can Find More Information.

	Six Months Ended June 30,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(In thousands, except per share data)						
Operating Data:							
Revenues	$1,029,760	$ 975,974	$2,004,920	$1,521,946	$1,747,455	$1,149,920	$ 839,648
Operating income(1)	64,035	78,606	158,988	134,323	189,277	48,456	1,325
Net income (loss)(2)	32,351	35,608	76,821	73,069	104,063	13,136	(9,385)
Net income (loss) per share							
Basic(2)	0.38	0.42	0.91	0.90	1.29	0.17	(0.13)
Diluted(2)	0.38	0.42	0.90	0.89	1.27	0.16	(0.13)
Other Data:							
Depreciation and amortization	20,703	18,690	39,182	25,048	38,873	35,034	25,541
Capital expenditures	14,127	15,641	32,378	24,805	27,358	24,561	17,547
Balance Sheet Data:							
Working capital	839,486	794,652	794,185	768,852	631,257	480,321	452,015
Total assets	2,256,024	2,114,219	2,242,736	1,977,228	1,471,696	1,278,894	1,005,715
Long-term debt	579,300	593,265	593,980	594,637	300,000	222,477	196,053
Stockholders equity	1,134,014	1,050,996	1,090,429	933,364	867,540	767,206	596,375

(1) In connection with the IRI International Corporation merger in 2000, National Oilwell recorded pre-tax charges of $14.1 million related to direct merger costs, personnel reductions, and facility closures and inventory write-offs of $15.7 million due to product line rationalization.

(2) National Oilwell adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), effective January 1, 2002. The effects of not amortizing goodwill and other intangible assets in periods prior to the adoption of SFAS 142 would have resulted in net income (loss) of $115.0 million, $23.1 million and $(4.0) million for the years ended December 31, 2001, 2000 and 1999, respectively; basic earnings (loss) per common share of $1.42, $0.29, and $(0.06) for the years ending December 31, 2001, 2000 and 1999, respectively; and diluted earnings (loss) per common share of $1.41, $0.29 and $(0.06) for the years ending December 31, 2001, 2000 and 1999, respectively.

Table of Contents

Selected Historical Consolidated Financial Data of Varco

Varco is providing the following information to aid in your analysis of the financial aspects of the merger. The following selected historical financial data for each of the years in the five year period ended December 31, 2003 has been generally derived from Varco s audited consolidated financial statements. The selected historical financial data for the six months ended June 30, 2004 and 2003 has been derived from Varco s unaudited consolidated financial statements. However, the revenue, operating profit and income from continuing operations information below for the three year period ended December 31, 2003 has been adjusted from the audited consolidated financial statements to reflect Varco s rig fabrication business as a discontinued operation. These adjustments were disclosed in Varco s Current Report on Form 8-K dated April 30, 2004. In the opinion of Varco s management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the interim consolidated financial statements. Results for the interim periods are not necessarily indicative of the results to be expected for the full year.

The information is only a summary. You should read it along with Varco s historical financial statements and related notes and the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Varco s Annual Report on Form 10-K for the year ended December 31, 2003 and Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 on file with the Securities and Exchange Commission and incorporated by reference into this document. See Where You Can Find More Information.

	Six Months Ended June 30,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(In thousands, except per share data)						
Statement of Income Data:							
Revenue(1)	$ 711,222	$ 717,349	$ 1,437,621	$ 1,322,366	$ 1,261,795	$ 866,615	$ 975,848
Operating profit(1)	77,967	80,968	166,036	58,174	157,969	60,911	67,348
Income from continuing operations	40,412	42,027	88,832	81,283	82,858	21,055	29,809
Net income(2)	28,670	36,049	67,243	79,807	82,968	21,055	29,809
Dilutive earnings per common share:							
Continuing operations(2)	0.41	0.43	0.90	0.83	0.86	0.22	0.32
Net income(2)	0.29	0.37	0.68	0.82	0.86	0.22	0.32
Other Data:							
Depreciation and amortization	36,173	32,564	67,199	59,246	67,900	56,518	57,180
Capital expenditures	22,460	21,492	67,092	49,377	65,834	45,463	30,729
Balance Sheet Data:							
Working capital	573,800	562,676	559,046	529,647	423,602	263,378	310,175
Total assets	1,782,300	1,712,310	1,764,339	1,661,060	1,429,110	1,076,982	1,131,313
Total debt	461,100	460,998	456,918	467,928	322,614	136,507	233,335
Common stockholders equity	1,021,800	971,382	994,242	920,282	828,314	731,983	694,245

(1) Revenue and operating profit represents results from continuing operations. Varco discontinued its rig fabrication business in the first quarter of 2004. The 1999 operating profit includes $7.8 million of transaction costs and write-offs associated with a terminated merger. The 2000 operating profit includes $26.5 million of consolidation and transaction costs associated with the May 2000 merger between Varco and Tuboscope. The 2001 operating profit includes $16.5 million of litigation costs. The 2002 operating profit includes $3.7 million associated with the acquisition of substantially all of the oilfield services business of ICO, Inc. and $2.8 million of severance costs related to the merger

Table of Contents

between Varco and Tuboscope. The 2003 operating profit includes an asset impairment charge of $11.2 million related to Varco s rig fabrication business.

(2) Varco adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), effective January 1, 2002. The effects of not amortizing goodwill and other intangible assets in periods prior to the adoption of SFAS 142 would have resulted in net income of $93.4 million, $29.5 million and $38.2 million for the years ended December 31, 2001, 2000 and 1999, respectively; basic earnings per common share of $.98, $.32 and $0.42 for the years ended December 31, 2001, 2000 and 1999, respectively; and diluted earnings per common share of $.97, $0.31 and $0.41 for the years ended December 31, 2001, 2000 and 1999, respectively.

Table of Contents

Selected Unaudited Pro Forma Condensed Combined Financial and Other Data

The merger will be accounted for under the purchase method of accounting, which means that the assets and liabilities of Varco will be recorded, as of completion of the merger, at their fair values and added to those of National Oilwell.

We have presented below selected unaudited pro forma condensed combined financial information that is intended to provide you with a better picture of what the businesses might have looked like had National Oilwell and Varco actually been combined. The unaudited pro forma combined balance sheet combines the historical consolidated balance sheets of National Oilwell and Varco as of June 30, 2004, giving effect to the merger as if it occurred on June 30, 2004. The unaudited pro forma combined statements of income combine the historical consolidated statements of income of National Oilwell and Varco for the year ended December 31, 2003 and the six months ended June 30, 2004, giving effect to the merger as if it occurred on January 1, 2003. The selected unaudited pro forma condensed combined financial information does not reflect the effect of asset dispositions, if any, or cost savings that may result from the merger.

You should not rely on the selected unaudited pro forma condensed combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the merger. The condensed combined financial information would have been different, perhaps materially, had the companies actually been combined during the period presented. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial statements and related notes included elsewhere in this document.

	Six Month Ended June 30, 2004	Year Ended December 31, 2003
	(In millions, except per share data)	
Statement of Operations Data:		
Revenues	$1,734.5	$3,426.4
Income from continuing operations	$ 69.4	$ 158.9
Income from continuing operations per share:		
Basic	$ 0.42	$ 0.96
Diluted	$ 0.41	$ 0.95
Balance Sheet Data:		
Working capital	$1,403.3	
Total assets	$5,630.9	
Long-term debt	$1,036.6	
Stockholders equity	$3,563.2	

Table of Contents

COMPARATIVE PER SHARE DATA

The following table presents:

historical per share data for National Oilwell;

pro forma per share data of the combined company after giving effect to the merger; and

historical and equivalent pro forma per share data for Varco.

The pro forma amounts included in the table below are presented as if the merger had been effective for the periods presented, have been prepared in accordance with accounting principles generally accepted in the United States and are based on the purchase method of accounting. The pro forma amounts in the table below do not, however, give consideration to the impact, if any, of asset dispositions or cost savings that may result from the merger or any non-recurring charges directly attributable to the merger.

You should read this table together with the historical consolidated financial statements of National Oilwell and Varco that are filed with the Securities and Exchange Commission and incorporated by reference into this document and the unaudited pro forma condensed consolidated financial statements and accompanying discussions and notes beginning on page 86 of this document. See Where You Can Find More Information. The pro forma amounts presented in the table below are presented for informational purposes only. You should not rely on the pro forma per share data as being indicative of actual results of the combined company had the merger occurred prior to the dates indicated below. The combined financial information as of and for the periods presented may have been different had the companies actually been combined as of or during those periods.

	At and for the Six Months Ended June 30, 2004			
			Varco	
	National Oilwell Historical	Combined Company Pro Forma(1)	Historical	Equivalent Pro Forma(2)
Earnings from continuing operations per share:				
Basic	$ 0.38	$ 0.42	$ 0.42	$ 0.35
Diluted	0.38	0.41	0.41	0.35
Cash dividends per share				
Book value per share	13.16	21.32	10.43	17.83

	At and for the Year Ended December 31, 2003			
			Varco	
	National Oilwell Historical	Combined Company Pro Forma(1)	Historical	Equivalent Pro Forma(2)
Earnings from continuing operations per share:				
Basic	$ 0.91	$ 0.96	$ 0.91	$ 0.80
Diluted	0.90	0.95	0.90	0.80
Cash dividends per share				
Book value per share	12.83	21.04	10.12	17.60

(1) The combined company s pro forma data includes the effect of the merger on the basis described in the notes to the unaudited pro forma combined financial information included elsewhere in this document.

(2) Varco s equivalent pro forma amounts have been calculated by multiplying the combined company s pro forma earnings from continuing operations, cash dividends and book value per share amounts by the exchange ratio of 0.8363 of a share of National Oilwell common stock

for each share of Varco common stock.

Table of Contents

COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Shares of National Oilwell common stock are traded on the New York Stock Exchange under the symbol NOI and shares of Varco common stock are traded on the New York Stock Exchange under the symbol VRC. The following table sets forth, for the periods indicated, the range of high and low sales prices per share for National Oilwell common stock and Varco common stock, on the New York Stock Exchange composite tape.

	Shares of National Oilwell Common Stock		Shares of Varco Common Stock	
	High	**Low**	**High**	**Low**
2002				
First Quarter	$26.25	$16.43	$20.10	$13.00
Second Quarter	28.81	20.91	22.00	17.21
Third Quarter	21.29	15.55	19.00	12.85
Fourth Quarter	23.31	17.69	18.96	14.50
2003				
First Quarter	23.85	19.15	19.71	15.93
Second Quarter	24.85	20.48	22.44	17.15
Third Quarter	21.92	17.71	20.34	16.12
Fourth Quarter	23.44	17.50	21.38	16.12
2004				
First Quarter	31.08	21.66	22.94	17.47
Second Quarter	31.74	25.42	21.94	17.80
Third Quarter (through September 15, 2004)	32.43	31.24	26.37	25.43

Neither National Oilwell nor Varco has paid cash dividends. The payment of dividends by National Oilwell Varco in the future will depend on business conditions, National Oilwell Varco s financial condition, earnings, capital requirements and other factors.

Recent Closing Prices

The following table shows the closing sales prices per share of National Oilwell and Varco common stock on August 11, 2004 (the last full trading day before National Oilwell and Varco announced the proposed merger) and , 2004, the most recent practicable date prior to the mailing of this document to National Oilwell and Varco stockholders. The Varco common stock pro forma equivalent price per share reflects the value of Varco common stock relative to the value of National Oilwell common stock on those dates, as determined by multiplying the closing sale price of National Oilwell common stock by 0.8363, the exchange ratio in the merger.

Date	National Oilwell Common Stock	Varco Common Stock	Varco Common Stock Pro Forma Equivalent
August 11, 2004	$30.85	$23.62	$25.80
, 2004	$	$	$

The above tables show only historical comparisons. Because the market prices of National Oilwell common stock and Varco common stock will likely fluctuate prior to the merger, these comparisons may not provide meaningful information to National Oilwell stockholders or Varco stockholders in determining whether to adopt the merger agreement. National Oilwell and Varco stockholders are encouraged to obtain current market quotations for National Oilwell and Varco common stock and to review carefully the other information contained in this document or incorporated by reference into this document when considering whether to adopt the merger agreement. See the section entitled Where You Can Find More Information.

Table of Contents

RISK FACTORS

In addition to the other information included in this document, including the matters addressed in Information Regarding Forward-Looking Statements, you should carefully consider the following risks before deciding whether to vote for adoption of the merger agreement. In addition, you should read and consider the risks associated with each of the businesses of National Oilwell and Varco because these risks will also affect the combined company. These risks can be found in our respective Annual Reports on Form 10-K for the year ended December 31, 2003, which are filed with the SEC and incorporated by reference into this document.

Risks Related to the Merger and the Related Transactions

We may not be able to successfully integrate the operations of the two companies and realize the anticipated benefits of the merger.

Achieving the benefits we expect from the merger will depend in large part on integrating our technology, operations and personnel in a timely and efficient manner to minimize the impact on customers, employees and management. Integration of the two previously independent companies will be a complex, time consuming and costly process. Failure to timely and successfully integrate these companies may have a material adverse effect on the combined company s business, financial condition and results of operations. The difficulties of combining the companies will present challenges to the combined company s management, including:

- operating a significantly larger combined company with operations in more geographic areas and with more business lines;
- integrating personnel with diverse backgrounds and organizational cultures;
- coordinating sales and marketing functions;
- retaining key employees, customers or suppliers;
- preserving the research and development, collaboration, distribution, marketing, promotion and other important relationships of National Oilwell and Varco;
- establishing the internal controls and procedures that the combined company will be required to maintain under the Sarbanes-Oxley Act of 2002; and
- consolidating other corporate and administrative functions.

The combined company will also be exposed to other risks that are commonly associated with transactions similar to the merger, such as unanticipated liabilities and costs, some of which may be material, and diversion of management s attention. As a result, we cannot assure you that we will realize any of the anticipated benefits of the merger, including anticipated cost savings, and failure to do so could adversely affect the business of the combined company after the merger.

The costs of the merger could adversely affect combined financial results.

We expect the total merger-related costs, exclusive of employee benefit costs, to be approximately $10.0 million, consisting primarily of financial advisory, legal and accounting fees, financial printing costs and other related charges. The amount of these expenses is a preliminary estimate and is subject to change. In addition, the combined company will incur certain integration costs, including costs associated with consolidating administrative functions and the closure of certain facilities. If the benefits of the merger do not exceed the costs associated with the merger, including any dilution to the stockholders of both companies resulting from the issuance of shares in connection with the merger, the combined company s financial results, including earnings per share, could be adversely affected.

Table of Contents

The exchange ratio for National Oilwell common stock to be received in the merger is fixed and will not be adjusted in the event of any change in stock price.

Upon completion of the merger, each share of Varco common stock will be exchanged for 0.8363 of a share of National Oilwell common stock. This conversion number is fixed and will not be adjusted as a result of any change in the price of National Oilwell common stock or Varco common stock. In addition, neither National Oilwell nor Varco may terminate the merger agreement solely because of changes in the market price of either company s common stock. Therefore, if the value of National Oilwell common stock declines prior to the completion of the merger, the value of the merger consideration to be received by Varco stockholders will decline. The share prices of National Oilwell common stock and Varco common stock are by nature subject to the general price fluctuations in the market for publicly traded equity securities and have experienced significant volatility, and we cannot predict or give any assurances as to the market prices of National Oilwell common stock and Varco common stock on the date of the special stockholders meetings, the date of the completion of the merger or at any time after the completion of the merger. Stockholders of National Oilwell and Varco are encouraged to obtain current market price quotations for National Oilwell and Varco common stock before voting their shares at the special meetings.

National Oilwell stockholders will be diluted by the merger.

The merger will dilute the ownership position of the present stockholders of National Oilwell. Based on the number of shares of Varco common stock outstanding as of August 31, 2004, National Oilwell will issue to Varco stockholders approximately 81,503,785 shares of National Oilwell common stock in the merger. As a result, Varco stockholders and National Oilwell stockholders will hold approximately 49% and 51%, respectively, of the combined company s common stock outstanding after the completion of the merger, based on the common stock of National Oilwell and Varco outstanding as of August 31, 2004.

Failure to complete the merger or delays in completing the merger could negatively impact National Oilwell s and Varco s stock prices and future business and operations.

If the merger is not completed for any reason, National Oilwell and Varco may be subject to a number of material risks, including the following:

- the individual companies will not realize the benefits expected from becoming part of a combined company, including potentially enhanced financial and competitive position;
- National Oilwell or Varco may be required to pay the other a termination fee of $75 million or reimburse the other party for up to $5 million in merger related expenses;
- the price of National Oilwell common stock or Varco common stock may decline to the extent that the current market price of the common stock reflects a market assumption that the merger will be completed; and
- some costs related to the merger, such as legal, accounting and financial advisor fees, must be paid even if the merger is not completed.

In addition, in response to the announcement of the merger, National Oilwell s or Varco s customers may delay or defer purchasing decisions. Any delay or deferral of purchasing decisions by customers could negatively affect the business and results of operations of National Oilwell and Varco, regardless of whether the merger is ultimately completed. Similarly, current and prospective employees of National Oilwell and Varco may experience uncertainty about their future roles with the companies until after the merger is completed or if the merger is not completed. This may adversely affect the ability of National Oilwell and Varco to attract and retain key management, marketing and technical personnel.

Table of Contents

Furthermore, while the merger agreement is in effect, subject to certain limited exceptions, National Oilwell and Varco are prohibited from soliciting, initiating or encouraging or entering into any extraordinary transactions, such as a merger, sale of assets or other business combination, with any third party, subject to exceptions set forth in the merger agreement. As a result of these limitations, National Oilwell or Varco may lose opportunities to enter into a more favorable transaction. Finally, if the merger is terminated and the National Oilwell or Varco board of directors determines to seek another merger or business combination, we cannot assure you that it will be able to find a transaction providing as much stockholder value as this merger.

National Oilwell and Varco could be required to divest, hold separate or license assets to complete the merger.

We cannot complete the merger until the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 has expired or is otherwise terminated. As a prerequisite to obtaining the expiration or termination of this waiting period, or to avoid an injunction by the Department of Justice or another governmental entity, whether foreign or domestic, National Oilwell, Varco or both companies may be required to divest, hold separate or license certain assets. Although each of National Oilwell and Varco have agreed to use their reasonable best efforts to obtain the expiration or termination of this waiting period and to obtain any other governmental clearance or approvals under federal, state or foreign antitrust laws, neither National Oilwell nor Varco is required to divest, hold separate or license any of their respective businesses, product lines or assets, take or agree to take any other action or agree to any limitation, that would reasonably be expected to have a material adverse effect on the financial condition, results of operations or prospects of National Oilwell or Varco.

Divestitures or licensing of assets can be time consuming and may delay completion of the proposed merger. Because there may be a limited number of potential buyers or licensees for the assets subject to divestiture or license and because potential buyers will likely be aware of the circumstances of the sale or license, these assets could be sold or licensed at prices or rates lower than their fair market values or the prices National Oilwell or Varco paid for these assets. Asset divestitures or licenses of National Oilwell s or Varco s assets could also significantly reduce the value of the combined company, eliminate potential cost savings opportunities or lessen the anticipated benefits of the merger.

Some of the directors and executive officers of National Oilwell and Varco have interests that differ in several respects from their respective stockholders.

In considering the recommendation of each of the boards of directors of National Oilwell and Varco to adopt the merger agreement, the stockholders of National Oilwell and Varco should consider that some of their respective directors and executive officers have interests that differ from, or are in addition to, their interests as stockholders of National Oilwell and Varco generally. These interests include the expectation of being elected a director or appointed an officer of the combined company and the benefits that such directors and officers may receive in connection with any acceleration of the vesting of their outstanding options as a result of the merger, and the potential payments that certain officers of Varco and National Oilwell may receive as a result of the merger. As a result, these officers and directors may be more likely to vote to adopt the merger agreement than if they did not hold these interests. You should consider whether these interests may have influenced these officers and directors to support or recommend the merger. For a detailed discussion of the interests of the directors and executive officers of National Oilwell and Varco, please read The Merger Interests of Certain Persons in the Merger.

If National Oilwell or Varco fails to obtain all required consents and waivers, third parties may terminate or alter existing contracts.

Varco is required to obtain the consent of, and certain waivers from, its lenders under its primary bank credit facility in connection with the merger. If the approvals and waivers are not obtained, the credit facility could be declared in default and the borrowings under the credit facility would become immediately due and payable. As a result, Varco or the combined company must refinance or amend the

Table of Contents

facility at or before the closing of the merger. If that facility is not refinanced or amended prior to closing, the resulting default would have a material adverse effect on the combined company. In addition, certain other agreements with suppliers, customers, licensors or other business partners may require National Oilwell or Varco to obtain the approval or waiver of these other parties in connection with the merger. National Oilwell and Varco have agreed to use reasonable efforts to secure the necessary approvals and waivers. However, we cannot assure you that National Oilwell and/or Varco will be able to obtain all of the necessary approvals and waivers, and failure to do so could have a material adverse effect on the business of the combined company after the merger.

Risks Related to the Combined Company s Business

National Oilwell and Varco are dependent upon the oil and gas industry, which may be volatile.

The oil and gas industry in which National Oilwell and Varco participate historically has experienced significant volatility. Demand for our services and products depends primarily upon the number of oil rigs in operation, the number of oil and gas wells being drilled, the depth and drilling conditions of these wells, the volume of production, the number of well completions and the level of workover activity. Drilling and workover activity can fluctuate significantly in a short period of time, particularly in the United States and Canada. The willingness of oil and gas operators to make capital expenditures to explore for and produce oil and natural gas will continue to be influenced by numerous factors over which we have no control, including:

- the ability of the members of the Organization of Petroleum Exporting Countries, or OPEC, to maintain price stability through voluntary production limits, the level of production by non-OPEC countries and worldwide demand for oil and gas;
- level of production from known reserves;
- cost of exploring for and producing oil and gas;
- level of drilling activity;
- worldwide economic activity;
- national government political requirements;
- development of alternate energy sources; and
- environmental regulations.

If there is a significant reduction in demand for drilling services, in cash flows of drilling contractors or production companies or in drilling or well servicing rig utilization rates, then demand for the products and services of the combined company after the merger will decline.

Volatile oil and gas prices affect demand for our products.

Oil and gas prices have been volatile since 1990. In general, oil prices approximated $18-22 per barrel from 1991 through 1997, experienced a decline into the low teens in 1998 and 1999, and have generally ranged between $25-45 per barrel since 2000. Spot gas prices generally ranged between $1.80-2.60 per mmbtu of gas from 1991 through 1999, then experienced severe spikes into the $10 range in 2001 and 2003. Absent occasional spikes and dips due to imbalances in supply and demand, prices have generally ranged between $4.00-6.00 per mmbtu during the last two years.

Expectations for future oil and gas prices cause many shifts in the strategies and expenditure levels of oil and gas companies and drilling contractors, particularly with respect to decisions to purchase major capital equipment of the type we manufacture. Industry activity and our revenues have responded slowly to the higher commodity prices that have existed since the second quarter of 2002, presumably due to concerns that these prices will not continue in the current range. Oil and gas prices, which are determined

Table of Contents

by the marketplace, may fall below a range that is acceptable to our customers, which could reduce demand for our products.

Competition in our industry could ultimately lead to lower revenues and earnings.

The oilfield products and services industry is highly competitive. National Oilwell and Varco both compete with national, regional and foreign competitors in each of their current major product lines. These competitors may have greater financial, technical, manufacturing and marketing resources than National Oilwell or Varco, even on a combined basis, and may be in a better competitive position. The following competitive actions can each affect our revenues and earnings:

- price changes;
- new product and technology introductions; and
- improvements in availability and delivery.

In addition, certain foreign jurisdictions and government-owned petroleum companies located in some of the countries in which National Oilwell and Varco operate have adopted policies or regulations which may give local nationals in these countries competitive advantages over National Oilwell and Varco and which could impact the operations of the combined company after the merger.

We cannot assure you that the competitive environment in which National Oilwell and Varco operate will not have an adverse effect on the combined company after the merger. Competition in our industry could lead to lower revenues and earnings.

National Oilwell and Varco have each aggressively expanded their businesses, and the combined company intends to maintain an aggressive growth strategy after the merger.

National Oilwell and Varco have aggressively expanded and grown their businesses during the past several years, primarily through acquisitions. We anticipate that the combined company will continue to pursue an aggressive growth strategy following the merger; however, we cannot assure you that attractive acquisitions will be available to us after the merger, at reasonable prices or at all. In addition, we cannot assure you that we will successfully integrate the operations and assets of any acquired business with our own or that our management will be able to manage effectively the increased size of the combined company or operate any new lines of business. Any inability on the part of management to integrate and manage acquired businesses and their assumed liabilities could adversely affect our business and financial performance. In addition, after the merger, we may need to incur substantial indebtedness to finance future acquisitions. We cannot assure you that we will be able to obtain this financing on terms acceptable to us or at all. Future acquisitions may result in increased depreciation and amortization expense, increased interest expense, increased financial leverage or decreased operating income for the combined company, any of which could cause our business to suffer.

Both National Oilwell s and Varco s operating results have fluctuated during recent years and these fluctuations may continue for the combined company after the merger.

Both National Oilwell and Varco have experienced in the past, and the combined company may experience in the future, fluctuations in quarterly operating results. We cannot assure you that the combined company will realize expected earnings growth or that earnings in any particular quarter will not fall short of either a prior fiscal quarter or investors expectations. The following factors, in addition to others not listed, may affect the combined company s quarterly operating results in the future:

- fluctuations in the oil and gas industry;
- competition;
- the ability to effectively and efficiently integrate the operations and businesses of National Oilwell and Varco;

the ability to service the debt obligations of the combined company;

the ability to identify strategic acquisitions at reasonable prices;

the ability to manage and control operating costs of the combined company;

fluctuations in political and economic conditions in the United States and abroad; and

the ability to protect National Oilwell s and Varco s intellectual property rights.

There are risks associated with National Oilwell s and Varco s presence in international markets, including political or economic instability and currency restrictions.

Approximately 49% of National Oilwell s revenues and 52% of Varco s revenues in 2003 were derived from operations outside the United States. National Oilwell s foreign operations include significant operations in the Middle East, Africa, Southeast Asia, South America and other international markets. Varco has significant foreign operations in the United Kingdom, the Netherlands, Europe, Latin America, Canada, China, Latin America, Europe, the Far East and Singapore. Both companies revenues and operations are subject to the risks normally associated with conducting business in foreign countries, including uncertain political and economic environments, which may limit or disrupt markets, restrict the movement of funds or result in the deprivation of contract rights or the taking of property without fair compensation. Government-owned petroleum companies located in some of the countries in which National Oilwell or Varco operates have adopted policies, or are subject to governmental policies, giving preference to the purchase of goods and services from companies that are majority-owned by local nationals. As a result of these policies, National Oilwell and Varco rely on joint ventures, license arrangements and other business combinations with local nationals in these countries. In addition, political considerations may disrupt the commercial relationships between National Oilwell and Varco and government-owned petroleum companies. Although neither National Oilwell nor Varco has experienced any significant problems in foreign countries arising from nationalistic policies, political instability, economic instability or currency restrictions, we cannot assure you that these problems will not arise in the future.

An impairment of goodwill could reduce the combined company s earnings.

National Oilwell had recorded approximately $592.1 million of goodwill on its consolidated balance sheet as of June 30, 2004. National Oilwell currently expects to record approximately $1,513.0 million of goodwill upon completion of the merger, but that estimate is subject to change based upon the final number of shares of National Oilwell common stock issued at the time of closing and the final valuation of Varco s identified assets and liabilities. Consequently, following the merger, we expect that approximately $2,105.1 million, representing approximately 37% of the combined company s consolidated assets on a pro forma as adjusted basis, may be recorded as goodwill. Goodwill is recorded when the purchase price of a business exceeds the fair market value of the tangible and separately measurable intangible net assets. Generally accepted accounting principles will require the combined company to test goodwill for impairment on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. If the combined company were to determine that any of its remaining balance of goodwill was impaired, it would record an immediate charge to earnings with a corresponding reduction in stockholders equity and increase in balance sheet leverage as measured by debt to total capitalization.

We could be adversely affected if we fail to comply with any of the numerous federal, state and local laws, regulations and policies that govern environmental protection, zoning and other matters applicable to our businesses.

The businesses of National Oilwell and Varco are subject to numerous federal, state and local laws, regulations and policies governing environmental protection, zoning and other matters. These laws and regulations have changed frequently in the past and it is reasonable to expect additional changes in the future. If existing regulatory requirements change, we may be required to make significant unanticipated

Table of Contents

capital and operating expenditures. We cannot assure you that our operations will continue to comply with future laws and regulations. Governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits for failure to comply with applicable laws and regulations. Under these circumstances, we might be required to reduce or cease operations or conduct site remediation or other corrective action which could adversely impact our operations and financial condition.

Our businesses expose us to potential environmental liability.

Our businesses expose us to the risk that harmful substances may escape into the environment, which could result in:

- personal injury or loss of life;
- severe damage to or destruction of property; or
- environmental damage and suspension of operations.

Our current and past activities, as well as the activities of our former divisions and subsidiaries, could result in our facing substantial environmental, regulatory and other liabilities. These could include the costs of cleanup of contaminated sites and site closure obligations. These liabilities could also be imposed on the basis of one or more of the following theories:

- negligence;
- strict liability;
- breach of contract with customers; or
- as a result of our contractual agreement to indemnify our customers in the normal course of our business, which is normally the case.

We may not have adequate insurance for potential environmental liabilities.

While National Oilwell and Varco maintain liability insurance, this insurance is subject to coverage limits. In addition, certain policies do not provide coverage for damages resulting from environmental contamination. We face the following risks with respect to our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;
- we may be faced with types of liabilities that will not be covered by our insurance;
- our insurance carriers may not be able to meet their obligations under the policies; or
- the dollar amount of any liabilities may exceed our policy limits.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on our consolidated financial statements.

Table of Contents

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This document and the documents incorporated by reference contain various forward-looking statements and information that are based on the beliefs of National Oilwell and Varco, as well as assumptions made by National Oilwell and Varco and information currently available to us. When used in this document, words such as anticipate, project, expect, plan, goal, forecast, intend, could, believe, may, and s and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Forward-looking statements in this document also include:

- statements relating to the cost savings that National Oilwell and Varco anticipate from the merger;
- statements with respect to various actions to be taken or requirements to be met in connection with completing the merger or integrating National Oilwell and Varco; and
- statements relating to revenue, income and operations of the combined company after the merger is completed.

These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following factors, among others, including those discussed in the Risk Factors section of this document, could cause actual results to differ materially from those described in the forward-looking statements:

- expected cost savings from the merger may not be fully realized or realized within the expected time frame;
- revenue of the combined company following the transaction may be lower than expected;
- costs or difficulties related to obtaining regulatory approvals for completing the merger and, following the transaction, to the integration of the businesses of National Oilwell and Varco, may be greater than expected;
- general economic conditions, either internationally or nationally or in the jurisdictions in which National Oilwell or Varco is doing business, may be less favorable than expected;
- the potential for rapid and significant changes in technology and their effect on the combined company s operations;
- inability to retain key personnel after the merger; and
- operating, legal and regulatory risks.

Except for its ongoing obligations to disclose material information as required by the federal securities laws, neither National Oilwell nor Varco has any intention or obligation to update these forward-looking statements after it distributes this document.

Although we believe that such expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risk factors described under Risk Factors in this document and incorporated by reference into this document.

Table of Contents

THE COMPANIES

National Oilwell s Business

This section summarizes information from National Oilwell s Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference. For a more detailed discussion of National Oilwell s business, please read National Oilwell s Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference.

Business Segments

National Oilwell s business has two reportable segments:

Products and Technology; and

Distribution Services.

Products and Technology

National Oilwell s Products and Technology segment designs and manufactures complete land drilling and workover rigs, as well as drilling related systems on offshore rigs. Technology has increased the desirability of one vendor assuming responsibility for the entire suite of components used in the drilling process, as mechanical and hydraulic components are replaced by or augmented with integrated computerized systems. In addition to traditional components such as drawworks (the hoisting winch used to raise and lower drill pipe), mud pumps (used to circulate drilling fluids), top drives (used to turn drill pipe), derricks, cranes, jacking and mooring systems (used to raise, lower and anchor offshore jackup drilling rigs), and other structural components, National Oilwell provides automated pipehandling, control and electrical power systems. National Oilwell has also developed new technology for drawworks and mud pumps applicable to the highly demanding offshore markets.

Non-capital revenue sources within our Products and Technology segment include drilling motors and specialized downhole tools that are sold or rented, spare parts and service on the large installed base of our equipment, expendable parts for mud pumps and other equipment, and smaller downhole, progressive cavity and transfer pumps.

Distribution Services

National Oilwell s Distribution Services segment provides maintenance, repair and operating supplies and spare parts to drill site and production locations throughout North America and to offshore contractors worldwide. Increasingly, this business also is expanding to locations outside North America, including the Middle East, Southeast Asia, and South America. Using its information technology platforms and processes, National Oilwell can provide complete procurement, inventory management, and logistics services to its customers.

Varco s Business

This section summarizes information from Varco s Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference. For a more detailed discussion of Varco s business, please read Varco s Annual Report on Form 10-K for the year ended December 31, 2003 and its other filings incorporated into this document by reference.

Business Segments

Varco s business activities are segregated into four distinct operating segments:

the Drilling Equipment group;

Table of Contents

- the Tubular Services group;
- the Drilling Services group; and
- the Coiled Tubing & Wireline Products group.

For information relating to revenues from external customers, operating income and total assets of each segment, please read the financial statements incorporated by reference into this document.

Drilling Equipment Group

The Drilling Equipment group manufactures and sells integrated systems and equipment for rotating and handling pipe on offshore and land drilling rigs, including conventional drilling rig tools and equipment; pipe handling tools; hoisting and rotary equipment; pressure control and motion compensation equipment; and flow devices. The group also provides after-market service and sales of spare parts for its drilling equipment. The Drilling Equipment group sells directly to drilling contractors, rig fabricators, national oil companies and major and independent oil and gas companies. Demand for its products is strongly dependent upon capital spending plans by oil and gas companies and drilling contractors, and the level of oil and gas well drilling activity.

Tubular Services Group

Varco s Tubular Services group provides a variety of tubular services to oil and gas producers, national oil companies, drilling contractors, well-remediation service companies, pipeline operators, and tubular processors, manufacturers and distributors. The Tubular Services group provides inspection and reclamation services for drill pipe, casing, production tubing, sucker rods and line pipe at drilling and workover rig locations, at yards owned by its customers, at steel mills and processing facilities that manufacture tubular goods, and at facilities which it owns. The Tubular Services group also provides for the internal coating of tubular goods. Varco also conducts tubular coating operations through licensees in certain locations. Additionally, Varco designs, manufactures and sells high pressure fiberglass and composite tubulars for use in corrosive applications, and provides in-place inspection of oil, gas and product transmission pipelines through its application of instrumented survey tools which it engineers, manufactures and operates.

Drilling Services Group

Varco s Drilling Services group is engaged in the provision of highly-engineered equipment, products and services which separate and manage drill cuttings produced by the drilling process. Drill cuttings are usually contaminated with petroleum or drilling fluids, and must be disposed of in an environmentally sound manner. Additionally, efficient separation of drill cuttings enables the re-use of often costly drilling fluids. The Drilling Services group also rents and sells proprietary drilling rig instrumentation packages and drilling rig control systems which monitor various processes throughout the drilling operation. The group s Rig Instrumentation packages collect and analyze data through both analog and digital media, enabling rig personnel to maintain safe and efficient drilling operations. The group s customers for Drilling Services include major and independent oil and gas companies, national oil companies, and drilling contractors. Varco s Drilling Services group operates in highly competitive markets.

Coiled Tubing & Wireline Products Group

Varco s Coiled Tubing & Wireline Products group sells and rents capital equipment, and sells spare parts, repair services and consumables, to oilfield service providers who use Varco s products to remediate, workover and, to a lesser extent, drill oil and gas wells. Varco also manufactures steel coiled tubing used by well remediation contractors and oil and gas producers. Demand for the group s Coiled Tubing & Wireline Products is strongly dependent upon the capital spending plans of coiled tubing and wireline service companies, and the general level of well completion and remediation activity.

Table of Contents

THE SPECIAL MEETINGS

This document is being provided to the stockholders of National Oilwell and Varco as part of a solicitation of proxies by each of National Oilwell s and Varco s board of directors for use at their respective special meetings. This document provides stockholders of National Oilwell and Varco with the information they need to know to be able to vote or instruct their vote to be cast at their respective special meetings.

Date, Time and Place of Special Meetings

The special meetings are scheduled to be held as follows:

For National Oilwell stockholders:	For Varco Stockholders:
, 2004, : a.m., C.T.	, 2004, : a.m., C.T.
[Address]	[Address]
Houston, Texas	Houston, Texas

Purpose of the Special Meetings

National Oilwell Special Meeting

The National Oilwell special meeting of stockholders is being held for the following purposes:

To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc., a Delaware corporation, and Varco International, Inc., a Delaware corporation, as amended prior to the special meeting. Adoption of the merger agreement will also constitute approval of the issuance of shares of National Oilwell common stock in the merger and an amendment to National Oilwell s certificate of incorporation increasing the authorized number of shares of common stock to 500 million, eliminating the class of special voting stock and changing the company s name to National Oilwell Varco, Inc.;

To consider and vote on the approval of the National Oilwell Varco Long-Term Incentive Plan;

To consider and vote on any proposal to adjourn the special meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor or the foregoing proposals; and

To transact any other business that properly comes before the special meeting or any adjournments or postponements of the special meeting.

Varco Special Meeting

The Varco special meeting of stockholders is being held for the following purposes:

To consider and vote on the adoption of the Amended and Restated Agreement and Plan of Merger, effective as of August 11, 2004, between National-Oilwell, Inc., a Delaware corporation, and Varco International, Inc., a Delaware corporation, as amended prior to the special meeting, pursuant to which Varco will be merged with and into National Oilwell and each outstanding share of Varco common stock will be converted into 0.8363 of a share of National Oilwell common stock;

To consider and vote on any proposal to adjourn the special meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor or the foregoing proposal; and

To transact any other business that properly comes before the special meeting or any adjournments or postponements of the special meeting.

26

Table of Contents

Recommendation of Boards of Directors

Recommendation of National Oilwell s Board of Directors

National Oilwell s board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of National Oilwell and its stockholders, and has approved the merger agreement and merger.

National Oilwell s board of directors has also approved the Long-Term Incentive Plan.

National Oilwell s board of directors unanimously recommends that you vote FOR the adoption of the merger agreement, FOR the approval of the Long-Term Incentive Plan and FOR any proposa