
(1) Calculated pursuant to Rule 457(o) under the Securities Act of 1933.

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 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

 * Information contained herein is subject to completion or amendment. A *
 * registration statement relating to these securities has been filed *
 * with the Securities and Exchange Commission. These securities may not *
 * be sold nor may offers to buy be accepted prior to the time the *
 * registration statement becomes effective. This prospectus shall not *
 * constitute an offer to sell or the solicitation of an offer to buy *
 * nor shall there be any sale of these securities in any state in which *
 * such offer, solicitation or sale would be unlawful prior to *
 * registration or qualification under the securities laws of any such *
 * state. *

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED OCTOBER 24, 1996

PROSPECTUS

4,000,000 SHARES

[NATIONAL-OILWELL, INC. LOGO]

NATIONAL-OILWELL, INC.
 COMMON STOCK

All 4,000,000 shares of common stock, par value \$.01 per share (the "Common Stock"), offered hereby (the "Offering") are being sold by National-Oilwell, Inc. (the "Company"). The initial public offering price is expected to be between \$15.00 and \$17.00 per share.

Prior to the Offering, there has been no public market for the Common Stock of the Company. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price.

The Common Stock has been approved for listing, subject to official notice of issuance, on the New York Stock Exchange under the symbol "NOI."

SEE "RISK FACTORS" BEGINNING ON PAGE 8 FOR A DISCUSSION OF CERTAIN CONSIDERATIONS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | PRICE TO PUBLIC | UNDERWRITING DISCOUNT(1) | PROCEEDS TO COMPANY(2) |
|----------------|-----------------|--------------------------|------------------------|
| Per Share..... | \$ | \$ | \$ |
| Total(3)..... | \$ | \$ | \$ |

- (1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting expenses payable by the Company estimated at \$720,000.
- (3) The Company has granted to the several Underwriters an option, exercisable within 30 days after the date of this Prospectus, to purchase up to an additional 600,000 shares of Common Stock at the Price to Public, less Underwriting Discount, solely to cover over-allotments, if any. If such option is exercised in full, the Price to Public, Underwriting Discount and Proceeds to Company will be \$, \$ and \$, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York, on or about , 1996.

MERRILL LYNCH & CO.

GOLDMAN, SACHS & CO.

SIMMONS & COMPANY
INTERNATIONAL

The date of this Prospectus is

, 1996.

[Drawing of drilling rig and supporting equipment with certain components thereof manufactured by National-Oilwell highlighted with enlarged pictures.]

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Unless otherwise indicated, the information in this Prospectus assumes (i) exercise of the Warrant to purchase 282,392 shares of Common Stock and, assuming an initial public offering price of \$16.00 per share, (ii) all outstanding shares of the Company's Class A Common Stock are converted into 2,021,452 shares of Common Stock on the effective date of the Registration Statement of which this Prospectus is a part and (iii) 343,986 shares of Common Stock to be issued in connection with the Company's Value Appreciation Plans are issued and outstanding. Prospective purchasers of the Common Stock should carefully read this entire Prospectus and should consider, among other things, the matters set forth under "Risk Factors." Unless otherwise indicated, all information relating to the Company contained in this Prospectus assumes the over-allotment option described under "Underwriting" is not exercised. Certain capitalized terms which are used but not defined in this summary are defined elsewhere in this Prospectus.

THE COMPANY

National-Oilwell, Inc. (the "Company") is a worldwide leader in the design, manufacture and sale of machinery and equipment and in the distribution of maintenance, repair and operating ("MRO") products used in oil and gas drilling and production. The Company designs, manufactures and sells drawworks, mud pumps and power swivels (also known as "top drives"), which are the major mechanical components of rigs used to drill oil and gas wells. Many of these components are designed specifically for applications in offshore, extended reach and deep land drilling. These components are installed on new drilling rigs and used in the upgrade, refurbishment and repair of existing drilling rigs. A significant portion of the Company's business includes the sale of replacement parts for its own manufactured machinery and equipment. The Company estimates that approximately 65% of the mobile offshore rig fleet and the majority of the world's larger land rigs (2,000 horsepower and greater) manufactured in the last twenty years utilize certain drilling machinery components manufactured by the Company. In addition, the Company manufactures and sells a complete line of centrifugal and reciprocating pumps used in oilfield and industrial applications.

The Company provides distribution services through its network of 121 distribution service centers located near major drilling and production activity worldwide, but principally in the United States and Canada. These distribution service centers have historically provided MRO products, including valves, fittings, flanges, replacement parts and miscellaneous expendable items. As oil and gas companies and drilling contractors have refocused on their core competencies and emphasized efficiency initiatives to reduce costs and capital requirements, the Company's distribution services have evolved to offer outsourcing and alliance arrangements that include comprehensive procurement, inventory management and logistics support. These arrangements have resulted in the Company working more closely with its customers in return for a more exclusive oilfield distribution arrangement.

The Company's business is dependent on and affected by the level of worldwide oil and gas drilling and production activity, the aging worldwide rig fleet which was generally constructed prior to 1982, and the profitability and cash flow of oil and gas companies and drilling contractors. Drilling activity has recently increased in the offshore and deeper land markets both of which are particularly well served by the drilling machinery and equipment manufactured by the Company. As of June 30, 1996, the worldwide offshore mobile drilling rig utilization rate was over 90% and the number of active U.S. land rigs had increased approximately 15% compared to June 30, 1995. As drilling activity has increased, the Company has experienced increased demand for its manufactured products and distribution services as existing rigs are upgraded, refurbished and repaired, new rigs are constructed and expendable parts are used.

The Company's oilfield equipment business and distribution services business accounted for 56% and 44%, respectively, of the combined earnings before interest, taxes, depreciation and amortization ("EBITDA") for the six months ended June 30, 1996.

BUSINESS STRATEGY

Beginning in 1993, a new executive and operating team was assembled to manage the Company's business. In January 1996, that new management team, together with an investor group led by The Inverness Group Incorporated and First Reserve Corporation, purchased the business of the Company from its former owners, USX Corporation and Armco Inc. Since 1993, the business strategy of the Company has been to enhance its operating performance and build a platform for growth by focusing on markets in which its product lines are market leaders and which are believed by management to provide the most significant growth potential. As part of that strategy, the Company disposed of certain of its non-core equipment manufacturing businesses and product lines and reengineered its distribution business during the years 1993 through 1995. See "The Company." The completion of the redirection of the Company's business in 1995, combined with the increase in the level of worldwide oil and gas drilling activity, has resulted in a substantial improvement in the Company's performance, with EBITDA before special items increasing from \$6.2 million for the six months ended June 30, 1995 to \$15.3 million for the six months ended June 30, 1996. See "The Company."

The Company's current business strategy is to enhance its leading market positions and operating performance by:

Leveraging Its Market Leading Installed Base. The Company estimates that approximately 65% of the mobile offshore drilling rigs and the majority of the world's larger land drilling rigs operating today use certain drilling machinery components manufactured by the Company. The Company believes this market-leading installed base presents substantial opportunities to capture a significant portion of the increased level of expenditures by its customers for the construction of new drilling rigs as well as the upgrade and refurbishment of existing drilling rigs.

Capitalizing on Increasing Demand for Higher Horsepower Drilling Machinery. The Company believes the advanced age of the existing fleet of drilling rigs, coupled with increasing drilling activity involving greater water depths and extended reach, will increase the demand for new drilling rig construction and the upgrading and capacity enhancement of existing rigs. The Company's higher horsepower drawworks, mud pumps and power swivels provide, in many cases, the largest capacities currently available in the industry.

Building on Distribution Strengths. The Company has developed and implemented integrated information and process systems that are designed for more effective procurement, inventory management and logistics activities. A critical element of the Company's strategy has been to regionally centralize its procurement, inventory and logistics operations, thus gaining cost and inventory utilization efficiencies while retaining its responsiveness to local markets. In addition, the strategic integration of the Company's distribution expertise, extensive distribution network and growing base of customer alliances provides an increased opportunity for cost effective marketing of the Company's manufactured equipment.

Capitalizing on Alliance/Outsourcing Trends. As a result of efficiency initiatives, oil and gas companies and drilling contractors are frequently seeking alliances with suppliers, manufacturers and service providers, or outsourcing their procurement, inventory management and logistics requirements for equipment and supplies in order to achieve cost and capital improvements. The Company has entered into and is seeking alliance arrangements to better serve its customers, to better manage its own inventory, to increase the volume and scope of products sold to the customer without significantly increasing the Company's overhead costs, and to expand marketing opportunities to sell equipment manufactured by the Company. The Company believes that it is well positioned to provide broad procurement, inventory management and other services as a result of the Company's (i) large and geographically diverse network of distribution service centers in major oil and gas producing areas, (ii) purchasing leverage due to the volume of products sold, (iii) breadth of available product lines and (iv) information systems that offer customers enhanced online and onsite services.

THE OFFERING

| | |
|---|---|
| Common Stock Offered by the Company..... | 4,000,000 shares |
| Common Stock to be Outstanding After the Offering..... | 17,712,378 shares(1) |
| Use of Proceeds..... | To repay certain outstanding indebtedness, essentially all of which was incurred to fund the acquisition of the Company, and for other general corporate purposes. See "Use of Proceeds." |
| New York Stock Exchange Symbol..... | "NOI" |

- - - - -

(1) Subject to adjustment based on the initial public offering price as described in "Management -- Employee Benefit Plans and Arrangements" and "Description of Capital Stock -- Common Stock."

RISK FACTORS

Prospective purchasers of the Common Stock should carefully consider the factors set forth under the caption "Risk Factors." In particular, prospective purchasers should be aware of the Company's dependence on the oil and gas industry, the volatility of oil and gas prices and the effect of competition in the oilfield products and services industry.

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION AND OTHER DATA

The summary historical consolidated financial data presented below for the three years ended December 31, 1995 is derived from the audited consolidated financial statements of the Company. The summary consolidated financial information as of June 30, 1996 and for the six months ended June 30, 1996 and 1995 is derived from the Company's unaudited consolidated financial statements which, in the opinion of management, include all adjustments, consisting only of normal recurring accruals and adjustments, necessary for the fair presentation of the financial data for such periods.

The summary unaudited pro forma consolidated financial information is derived from the Unaudited Pro Forma Condensed Consolidated Financial Statements of the Company included elsewhere in this Prospectus. The unaudited pro forma consolidated financial data give effect to (i) the pro forma effect of completion of the Acquisition and (ii) the adjusted pro forma effect of completion of the Offering and the application of the estimated net proceeds therefrom as described elsewhere in this Prospectus. The pro forma financial data is not necessarily indicative of actual results of operations that would have occurred during those periods and is not necessarily indicative of future results of operations. The summary consolidated financial information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements of the Company and related Notes thereto and the Unaudited Pro Forma Condensed Consolidated Financial Statements and related Notes thereto included elsewhere in this Prospectus.

| | SUCCESSOR | | PREDECESSOR | | | | |
|--|------------------------------|-----------|-----------------------------------|--------------------------------------|-----------|-----------|------------|
| | SIX MONTHS ENDED JUNE 30, | | YEAR ENDED DECEMBER 31, | | | | |
| | 1996 | 1995 | PRO FORMA FOR OFFERING 1995 | PRO FORMA FOR ACQUISITION 1995 | 1995 | 1994 | 1993 |
| (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Revenues..... | \$ 294,643 | \$266,443 | \$545,803 | \$ 545,803 | \$545,803 | \$562,053 | \$627,281 |
| Cost of revenues..... | 254,556 | 231,556 | 474,791 | 474,791 | 474,791 | 482,423 | 547,401 |
| Gross profit..... | 40,087 | 34,887 | 71,012 | 71,012 | 71,012 | 79,630 | 79,880 |
| Selling, general and administrative..... | 26,681 | 30,903 | 57,231 | 58,231 | 57,231 | 64,422 | 79,391 |
| Special charges (credits)(1)... | -- | (7,500) | (8,458) | (8,458) | (8,458) | (13,916) | 8,565 |
| Operating income (loss)..... | 13,406 | 11,484 | 22,239 | 21,239 | 22,239 | 29,124 | (8,076) |
| Interest expense -- net..... | (6,418) | (1,063) | (5,935) | (12,817) | (1,261) | (4,731) | (7,276) |
| Other income (expense)..... | (321) | 161 | (1,563) | (1,563) | (1,401) | 528 | (240) |
| Income (loss) before taxes... | 6,667 | 10,582 | 14,741 | 6,859 | 19,577 | 24,921 | (15,592) |
| Provision for income taxes(2)..... | 2,667 | 1,204 | 5,408 | 2,413 | 1,937 | 1,041 | 1,871 |
| Net income (loss)..... | \$ 4,000 | \$ 9,378 | \$ 9,333 | \$ 4,446 | \$ 17,640 | \$ 23,880 | \$(17,463) |
| Net income per share(3)..... | \$.30 | | \$.53 | \$.33 | | | |
| Common shares outstanding(3)(4)..... | 13,368 | | 17,712 | 13,368 | | | |
| OTHER DATA: | | | | | | | |
| EBITDA before special items(5)..... | \$ 15,309 | \$ 6,156 | \$ 17,376 | \$ 16,376 | \$ 17,376 | \$ 21,235 | \$ 11,210 |
| Summary cash flow information | | | | | | | |
| Net cash provided (used) by operating activities..... | (10,552) | (3,816) | | | 41,670 | 37,551 | (14,489) |
| Net cash provided (used) by investing activities..... | (107,175) | 8,580 | | | 8,827 | 68,199 | 2,872 |
| Net cash provided (used) by financing activities..... | 122,239 | (1,918) | | | 7,210 | (101,753) | 12,338 |
| Depreciation and amortization..... | 1,903 | 2,172 | 3,595 | 3,595 | 3,595 | 6,027 | 10,721 |
| Capital expenditures..... | 849 | 2,031 | 4,764 | 4,764 | 4,764 | 3,604 | 1,967 |

AS OF JUNE 30, 1996

| | HISTORICAL | AS ADJUSTED(6) |
|--|------------|----------------|
| BALANCE SHEET DATA: | | |
| Working capital..... | \$125,580 | \$130,321 |
| Total assets..... | 259,481 | 258,732 |
| Long-term debt, less current maturities..... | 118,688 | 65,836 |
| Stockholders' equity..... | 33,982 | 84,259 |

(1) In 1995 and 1994, the Company recorded gains from the sales of certain non-core equipment manufacturing businesses, product lines and assets, net of other costs. In 1993, the Company recorded charges primarily related to the disposal of a product line. See Note 10 to the Consolidated Financial Statements included elsewhere in this Prospectus.

- (2) Prior to January 1, 1996, the Company was a general partnership and therefore not subject to U.S. federal and state income taxes. See Note 9 to the Consolidated Financial Statements included elsewhere in this Prospectus.
- (3) Historical net income (loss) per share and common shares outstanding are not presented for periods prior to January 1, 1996 because the Company was a general partnership during these periods.
- (4) Common shares outstanding assumes all outstanding shares of Class A Common Stock are converted into 2,021,452 shares of Common Stock (assuming an initial public offering price of \$16.00 per share) in connection with the Offering. In addition, the 1995 Pro Forma for Offering shares outstanding includes an additional 343,986 shares (assuming an initial public offering price of \$16.00 per share) issuable under the Value Appreciation Plans and 4,000,000 shares sold in connection with the Offering.
- (5) EBITDA before special items means operating income (loss) plus depreciation and amortization plus special charges (credits). The Company uses EBITDA along with a measurement of capital employed in the calculation of its annual bonus plan and in the evaluation of acquisition candidates. EBITDA is frequently used by security analysts in the evaluation of companies and is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. EBITDA before special items is not intended as an alternative to cash flow from operating activities as a measure of liquidity, an alternative to net income as an indicator of the Company's operating performance or any other measure of performance in accordance with generally accepted accounting principles.
- (6) Gives effect to the Offering and application of the assumed net proceeds described under "Use of Proceeds." Also reflects the Offering related adjustments described on the Unaudited Pro Forma Condensed Consolidated Balance Sheet.

RISK FACTORS

The following risk factors should be considered carefully in evaluating the Company and its business before purchasing shares of the Common Stock offered hereby in addition to the other information in this Prospectus.

DEPENDENCE ON OIL AND GAS INDUSTRY

The Company's business is substantially dependent upon the condition of the oil and gas industry and the industry's willingness to explore for and produce oil and gas. The degree of such willingness is generally dependent upon the prevailing view of future product prices, which are influenced by numerous factors affecting the supply and demand for oil and gas, including the level of drilling activity, worldwide economic activity, interest rates and the cost of capital, environmental regulation, tax policies, political requirements of national governments, coordination by the Organization of Petroleum Exporting Countries ("OPEC") and the cost of producing oil and gas. Similarly, any significant reduction in demand for drilling services, in cash flows of drilling contractors or in rig utilization rates below current levels could result in a drop in demand for products manufactured and sold by the Company. See "Business -- General."

VOLATILITY OF OIL AND GAS PRICES

Oil and gas prices and activity have been characterized by significant volatility over the last twenty years. Since 1986, domestic spot oil prices (West Texas Intermediate) have ranged from a low of approximately \$11 per barrel in July 1986 to a high of approximately \$40 per barrel in October 1991; domestic spot gas prices (Henry Hub) have ranged from a low of approximately \$0.90 per mcf of gas in January 1992 to a high of approximately \$2.69 per mcf in June 1996. These price changes have caused numerous shifts in the strategies of oil and gas companies and drilling contractors and their expenditure levels and patterns, particularly with respect to decisions to purchase major capital equipment of the type manufactured by the Company. No assurance can be given as to the future price levels of oil and gas or the volatility thereof or that the future price of oil and gas will be sufficient to support current levels of exploration and production-related activities.

HIGHLY COMPETITIVE INDUSTRY

The oilfield products and services industry is highly competitive. The Company's revenues and earnings can be affected by competitive actions such as price changes, introduction of new products or improved availability and delivery. Over the last several years the market for oilfield services and equipment has experienced overcapacity which has resulted in increased price competition in many areas of the Company's business. The Company competes with a large number of companies, some of which may offer certain more technologically advanced products or possess greater financial resources than the Company. See "Business -- Oilfield Equipment" and "Business -- Distribution Services."

POTENTIAL PRODUCT LIABILITY AND WARRANTY CLAIMS

Certain products of the Company are used in potentially hazardous drilling, completion and production applications that can cause personal injury or loss of life, damage to property, equipment or the environment and suspension of operations. The Company maintains insurance coverage in such amounts and against such risks as it believes to be in accordance with normal industry practice. Such insurance does not, however, provide coverage for all liabilities (including liabilities for certain events involving pollution), and there can be no assurance that such insurance will be adequate to cover all losses or liabilities that may be incurred by the Company in its operations. Moreover, no assurance can be given that the Company will, in the future, be able to maintain insurance at levels it deems adequate and at rates it considers reasonable or that any particular types of coverage will be available. Litigation arising from a catastrophic occurrence at a location where the Company's equipment and services are used may in the future result in the Company's being named as a defendant in product liability or other lawsuits asserting potentially large claims. The Company is a party to various legal and administrative proceedings which have arisen from ongoing and discontinued operations. No

assurance can be given with respect to the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the Company. See "Business -- Operating Risks and Insurance" and "Business -- Legal Proceedings."

IMPACT OF GOVERNMENTAL REGULATIONS

Many aspects of the Company's operations are affected by political developments and are subject to both domestic and foreign governmental regulation, including those relating to oilfield operations, worker safety and the protection of the environment. In addition, the Company depends on the demand for its services from the oil and gas industry and, therefore, is affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry generally. The adoption of laws and regulations curtailing exploration for or production of oil and gas for economic or other policy reasons could adversely affect the Company's operations. The Company cannot determine the extent to which its future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations. See "Business -- Governmental Regulation and Environmental Matters."

IMPACT OF ENVIRONMENTAL REGULATIONS

The Company's operations are affected by numerous foreign, federal, state and local environmental laws and regulations. The technical requirements of these laws and regulations are becoming increasingly expensive, complex and stringent. These laws may impose penalties or sanctions for damages to natural resources or threats to public health and safety. Such laws and regulations may also expose the Company to liability for the conduct of or conditions caused by others, or for acts of the Company that were in compliance with all applicable laws at the time such acts were performed. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Certain environmental laws provide for joint and several liability for remediation of spills and releases of hazardous substances. In addition, companies may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, as well as damage to natural resources. See "Business -- Governmental Regulation and Environmental Matters."

RISK OF CERTAIN FOREIGN MARKETS

Certain of the Company's revenues result from the sale of products to customers for ultimate destinations in the Middle East, Africa and other international markets and are subject to risks of instability of foreign economies and governments. Furthermore, the Company's sales can be affected by laws and regulations limiting exports to particular countries. Management estimates that during the first half of 1996 approximately 20% of its revenues were from products sold for delivery to destinations outside North America.

The Company attempts to limit its exposure to foreign currency fluctuations by limiting the amount of sales denominated in currencies other than United States dollars, Canadian dollars and British pounds. The Company has not engaged in and does not currently intend to engage in any significant hedging or currency trading transactions designed to compensate for adverse currency fluctuations among those or any other foreign currencies. See "Business -- Oilfield Equipment" and "Business -- Distribution Services."

NO PRIOR MARKET FOR THE COMMON STOCK; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to the Offering there has been no public market for the Common Stock. There can be no assurance that an active public market for the Common Stock will develop upon completion of the Offering or, if developed, that such market will be sustained. The initial public offering price of the Common Stock will be determined through negotiations between the Company and the representatives of the Underwriters and may bear no relationship to the market prices of the Common Stock after the Offering. Prices for the Common Stock after the Offering may be influenced by a number of factors, including the liquidity of the market for the Common Stock, investor perceptions of the Company and the oil and gas industry and general economic and other conditions. Sales of substantial amounts of Common Stock in the public market subsequent to the

Offering could adversely affect the market price of the Common Stock. For information relating to the factors to be considered in determining the initial public offering price, see "Underwriting."

POTENTIAL FUTURE SALE OF SHARES COULD AFFECT MARKET PRICE

Upon consummation of the Offering, the 4,000,000 shares of Common Stock offered hereby will be freely tradable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), except for shares sold by persons deemed to be "affiliates" of the Company or acting as "underwriters," as those terms are defined in the Securities Act. The 1,168,310 shares of Common Stock owned by two limited partnerships (the "Inverness Investors") for which Inverness/Phoenix LLC serves as managing general partner which were issued on July 15, 1995 are restricted from resale pursuant to Rule 144 under the Securities Act until after July 15, 1997. The remaining shares of Common Stock held by the Company's existing stockholders were issued in 1996 and are restricted from resale pursuant to Rule 144 until various dates in 1998. The parties to the Stockholders Agreement have waived their registration rights with respect to a Registration Statement filed by the Company with respect to the Offering. See "Certain Transactions -- Stockholders Agreement." The Company, its executive officers and directors and all existing stockholders of the Company have agreed not to offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, pledge, or otherwise dispose of or transfer any shares of Common Stock, with certain exceptions, for a period of 180 days commencing on the date of this Prospectus without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") as representative of the Underwriters. The holders of approximately 9,378,001 shares of Common Stock (assuming an initial public offering price of \$16.00 per share) will have demand registration rights following the expiration of 180 days after the completion of the Offering. Future sales of shares of Common Stock by existing stockholders and future option holders could adversely affect the market price of the Common Stock. See "Shares Eligible for Future Sale" and "Underwriting."

CREDIT FACILITY RESTRICTIONS; ASSET ENCUMBRANCES

The Company will enter into a new five-year Senior Secured Revolving Credit Facility (the "New Credit Facility") with General Electric Capital Corporation ("GE Capital") effective as of the closing of the Offering. The New Credit Facility provides for a \$120 million revolving loan ("the Revolver"), of which \$25 million may be used for letters of credit. The Revolver is subject to a borrowing base limitation of 60% of eligible inventory plus 85% of eligible accounts receivable plus various percentages of the book value of certain fixed assets, all of which would have totaled \$118.8 million as of June 30, 1996. The New Credit Facility is secured by substantially all of the Company's assets and contains certain financial covenants and ratios as well as a limitation on dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

CONTROL BY CERTAIN STOCKHOLDERS

Following completion of the Offering, the Company's existing stockholders, including the Inverness Investors, the First Reserve Investors, GE Capital and members of the Company's management, will collectively own an aggregate of 12,972,196 shares of Common Stock, representing 73.2% of the then outstanding shares (70.8% if the Underwriters' over-allotment option is exercised in full). As a result of such ownership, such stockholders could individually or collectively have the power to control the outcome of certain matters submitted to a vote of the Company's stockholders, including the election of the Board of Directors, and their interests may not reflect the interests of other stockholders. See "Principal Stockholders."

NO ANTICIPATED DIVIDENDS

The Company's board of directors does not currently anticipate authorizing the payment of dividends in the foreseeable future. In addition, the payment of dividends is limited by the terms of the Company's New Credit Facility. See "Dividend Policy."

BENEFITS OF THE OFFERING TO CURRENT STOCKHOLDERS

The existing stockholders of the Company, including management, will realize certain benefits as a result of the Offering, including the creation of a public market for the Common Stock. This may result in an increase in the value of shares held by existing stockholders. See "Certain Transactions."

DILUTION TO NEW STOCKHOLDERS

Investors in the Common Stock offered hereby will experience immediate and substantial dilution in net tangible book value per share of \$11.67 (assuming an initial public offering price of \$16.00 per share). See "Dilution."

CERTAIN ANTI-TAKEOVER PROVISIONS COULD DISCOURAGE UNSOLICITED ACQUISITION PROPOSALS

The Company's Amended and Restated Certificate of Incorporation and Bylaws contain certain provisions which may have the effect of delaying, deferring or preventing a change in control of the Company, including a classified board of directors, the removal of directors from office only for cause, the prohibition of stockholder action by written consent, advance notice requirements respecting stockholder nominations for director or any other matter, the number of directors being set by the board of directors, super majority voting provisions respecting amendments to the Company's Amended and Restated Certificate of Incorporation and limitation of persons who may call special stockholders' meetings. The Delaware General Corporation Law requires super majority voting thresholds to approve certain "business combinations" between interested stockholders and the Company which may render more difficult or tend to discourage attempts to acquire the Company. In addition, the Company's board of directors has the authority to issue shares of preferred stock ("Preferred Stock") in one or more series and to fix the rights and preferences of the shares of any such series without stockholder approval. Any series of Preferred Stock is likely to be senior to the Common Stock with respect to dividends, liquidation rights and, possibly, voting rights. The ability to issue Preferred Stock could also have the effect of discouraging unsolicited acquisition proposals, thus affecting the market price of the Common Stock and preventing stockholders from obtaining any premium offered by the potential buyer. See "Description of Capital Stock -- Preferred Stock" and "-- Certain Anti-Takeover and Other Provisions of the Amended and Restated Certificate of Incorporation."

THE COMPANY

In April 1987, Armco Inc., an Ohio corporation ("Armco") and USX Corporation, a Delaware corporation ("USX"), formed National-Oilwell, a Delaware partnership (the "Partnership"), to consolidate the oilfield equipment manufacturing and distribution operations of Armco and USX. The Partnership was owned 50% each by Armco and USX and was managed through a Management Committee composed of one representative each of Armco and USX. Prior to such consolidation, each of Armco's and USX's business operations had been a leader in the oilfield equipment and distribution businesses since the late 1800's. Beginning in 1993, a new executive and operating team, led by the Company's President and Chief Executive Officer, Joel V. Staff, was assembled to manage the Partnership's business. As a result of this change in management and a redirection of the Company's strategy, the Company sold various product lines, consolidated certain manufacturing facilities and concentrated its operations within two business segments: Oilfield Equipment and Distribution Services. In 1995, the new management team, together with an investor group led by The Inverness Group Incorporated and First Reserve Corporation, negotiated and entered into an agreement (the "Purchase Agreement") with Armco and USX to acquire the Partnership (the "Acquisition"), which acquisition was completed in January 1996. Prior to the Acquisition, The Inverness Group Incorporated and First Reserve Corporation were not affiliated with the Company or the Partnership. Pursuant to the terms of the Purchase Agreement the Company agreed to purchase the Partnership from USX and Armco for a consideration of \$180 million. The purchase price and related expenses were funded by new equity, existing Partnership cash, a new credit facility, a subordinated note, and promissory notes to Armco and USX totaling \$20 million (the "Seller Notes"). The new equity was provided by the Inverness Investors, the First Reserve Investors, GE Capital, and each of the executive officers of the Company. See "Capitalization" and "Business -- Distribution Services."

In connection with the Acquisition, the Company entered into a \$120 million revolving credit facility with GE Capital, borrowed \$30 million pursuant to term loans and issued a \$5 million subordinated note to GE Capital. In addition, GE Capital received a warrant to purchase 282,392 shares of Common Stock from the Company for a nominal price. Concurrent with the Offering, GE Capital will exercise its warrant, and the Company will enter into a new five-year senior secured revolving credit facility with GE Capital.

In connection with the Acquisition, the Company entered into a five year tubular distribution agreement with USX on generally the same terms that existed prior to the Acquisition. Other than the tubular distribution agreement, the Seller Notes and certain indemnification provisions of the Purchase Agreement, the Company has no continuing material relationship with the prior owners. See "Business -- Agreement with Previous Owners."

The Company is a Delaware corporation whose principal executive offices are located at 5555 San Felipe, Houston, Texas 77056, and its telephone number is (713) 960-5100. References herein to the Company refer to the predecessor partnership for periods prior to January 1, 1996 and to National-Oilwell, Inc. for subsequent periods.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby are estimated to be approximately \$58.8 million (approximately \$67.7 million if the Underwriters' over-allotment option is exercised in full) assuming an initial public offering price of \$16.00 per share, after deducting the estimated underwriting discount and offering expenses. The Company will use the net proceeds of the Offering to repay borrowings incurred to provide funds for the acquisition of the Company in January 1996 under the credit agreement dated as of December 29, 1995 (the "Credit Facility") and under a \$5 million subordinated note (the "Subordinated Note"), both with GE Capital. The Company will use approximately \$25.2 million of the estimated net proceeds to repay the entire remaining principal balance on the term notes portion of the Credit Facility and approximately \$5.1 million to repay the Subordinated Note and its deferred interest, and the remaining net proceeds of approximately \$28.5 million will be used to repay a portion of the revolving credit portion of the Credit Facility.

As of June 30, 1996, the outstanding indebtedness under the Credit Facility was \$96.1 million, consisting of \$70.9 million under a \$120 million revolving credit and letter of credit facility (the "Revolving Credit Facility") and \$12.4 million under Term Loan A and \$12.8 million under Term Loan B. Borrowings under the Revolving Credit Facility and Term Loans A and B generally bear interest at a London Interbank Offered Rate ("LIBOR") plus a margin of 2.75% on the Revolving Credit Facility, 3.0% on Term Loan A and 3.5% on Term Loan B, or GE Capital's prime rate plus a margin of 1.5% on the Revolving Credit Facility, 1.75% on Term Loan A and 2.25% on Term Loan B. At June 30, 1996, the effective interest rates applicable to borrowings under the Revolving Credit Facility and the Term Loans were 8.54%, 8.72% and 9.28%, respectively. Term Loan A requires quarterly principal payments of approximately \$500,000, with final maturity on December 31, 2000. Term Loan B requires quarterly principal payments of approximately \$62,500, with final maturity on December 31, 2001. Certain prepayments of the Term Loans from excess cash flow are also required. The Revolving Credit Facility has a term that expires on December 31, 2000. The Subordinated Note bears interest at GE Capital's prime rate plus a margin of 3.0% (11.25% at June 30, 1996) and is due December 31, 2002. Interest payments are deferred until Term Loans A and B are repaid and certain other operating performance requirements are satisfied. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." At the closing of the Offering, the Credit Facility will be replaced with the New Credit Facility.

DIVIDEND POLICY

The Company currently intends to retain earnings to finance the growth and development of its business and does not anticipate paying a cash dividend on the Common Stock in the foreseeable future. Any future change in the Company's dividend policy will be made at the discretion of the board of directors of the Company and will depend upon the Company's operating results, financial condition, capital requirements, general business conditions and such other factors as the board of directors deem relevant. Under certain circumstances, the New Credit Facility will require the consent of the lenders prior to any payment of cash dividends on the Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Description of Capital Stock."

DILUTION

After giving effect to the conversion of all of the outstanding shares of Class A Common Stock into shares of Common Stock, exercise of the Warrant, the expense related to and the issuance of Common Stock in connection with the Company's Value Appreciation Plans, the write-off of deferred financing costs and the cost of termination of the Management Services Agreement, and assuming an initial public offering price of \$16.00 per share (the midpoint of the estimated initial public offering price range), the pro forma net tangible book value (total assets less goodwill and other intangibles less liabilities) of the Company at June 30, 1996 was \$1.30 per share of Common Stock. See "Description of Capital Stock" and "Management -- Employee Benefit Plans and Arrangements." After giving effect to the receipt of an assumed \$58.8 million of net proceeds from the Offering (based on the sale of Common Stock pursuant to the Offering at an assumed initial public offering price of \$16.00 per share and net of estimated underwriting discounts and commissions and offering expenses), pro forma net tangible book value per share would have been \$4.33 per share of Common Stock outstanding after the Offering, representing an immediate increase in net tangible book value of \$3.03 per share of Common Stock to the existing stockholders and an immediate dilution of \$11.67 per share to the new investors purchasing Common Stock in the Offering. The following table illustrates the per share dilution:

| | | |
|---|--------|---------|
| Assumed initial public offering price per share..... | | \$16.00 |
| Net tangible book value per share before adjustments..... | \$1.55 | |
| Decrease in net tangible book value per share due to: | | |
| -- write-off of deferred financing costs and the cost of | | |
| termination of the Management Services Agreement..... | (.08) | |
| -- effect of Value Appreciation Plans..... | (.17) | |
| | | ----- |
| Net tangible book value per share before the Offering..... | 1.30 | |
| Increase in net tangible book value per share attributable to sale | | |
| of Common Stock by the Company in the Offering..... | 3.03 | |
| | | ----- |
| Pro forma net tangible book value per share after the Offering..... | | 4.33 |
| | | ----- |
| Dilution in pro forma net tangible book value per share to new investors... | | \$11.67 |
| | | ===== |

The following table sets forth, as of June 30, 1996, the number of shares of Common Stock purchased or to be purchased from the Company, the total consideration paid or to be paid to the Company and the average price per share paid or to be paid by existing stockholders, by Value Appreciation Plans recipients and by the public investors pursuant to the Offering, based on the assumed initial public offering price:

| | SHARES PURCHASED | | TOTAL CONSIDERATION | | AVERAGE PRICE PER SHARE |
|---|------------------|---------|---------------------|---------|-------------------------------|
| | NUMBER | PERCENT | AMOUNT | PERCENT | |
| Existing stockholders..... | 13,368,392 | 75.5% | \$ 30,178,860 | 30.3% | \$ 2.26 |
| Value Appreciation Plans recipients..... | 343,986 | 1.9 | 5,503,776 | 5.5 | 16.00 |
| | 13,712,378 | 77.4 | 35,682,636 | 35.8 | 2.60 |
| Public investors..... | 4,000,000 | 22.6 | 64,000,000 | 64.2 | 16.00 |
| | 17,712,378 | 100.0% | \$ 99,682,636 | 100.0% | |
| Total..... | ===== | ===== | ===== | ===== | |

CAPITALIZATION

The following table sets forth the unaudited consolidated short-term debt and capitalization of the Company as of June 30, 1996, and as adjusted to give effect (assuming an initial public offering price of \$16.00 per share) to the conversion of the Class A Common Stock into 2,021,452 shares of Common Stock, the exercise of the Warrant, the expense related to and the issuance of Common Stock in connection with the Company's Value Appreciation Plans, the write-off of deferred financing costs and the cost of termination of the Management Services Agreement and the Offering and the application of the net proceeds to the Company therefrom (assumed to be \$58.8 million) as described under "Use of Proceeds." The actual number of shares of Common Stock to be outstanding after the Offering is dependent upon the per share initial public offering price due to the terms of conversion of the Class A Common Stock and the issuance of Common Stock pursuant to the Value Appreciation Plans. See "Description of Capital Stock" and "Management -- Employee Benefit Plans and Arrangements." This table should be read in conjunction with the Consolidated Financial Statements of the Company and related Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Unaudited Pro Forma Condensed Consolidated Financial Statements and related Notes thereto included elsewhere in this Prospectus.

| | AS OF JUNE 30, 1996 | |
|--|------------------------|-------------|
| | HISTORICAL | AS ADJUSTED |
| | (DOLLARS IN THOUSANDS) | |
| Short-term debt: | | |
| Current maturities of long-term debt..... | \$ 2,500 | \$ -- |
| | ===== | ===== |
| Long-term debt (less current maturities): | | |
| Revolving Credit Facility..... | \$ 70,865 | \$ 45,836 |
| Term Notes..... | 22,705 | -- |
| Subordinated debt..... | 5,118 | -- |
| Seller Notes..... | 20,000 | 20,000 |
| | ----- | ----- |
| Total long-term debt..... | 118,688 | 65,836 |
| Stockholders' equity: | | |
| Class A Common Stock -- par value \$.01; 13,288 shares outstanding (historical), no shares outstanding (as adjusted)..... | -- | -- |
| Common Stock -- par value \$.01; 11,064,548 shares outstanding (historical), 17,712,378 shares outstanding (as adjusted)..... | 111 | 177 |
| Additional paid-in capital..... | 30,068 | 94,309 |
| Notes receivable from officers..... | (500) | -- |
| Cumulative translation adjustment..... | 303 | 303 |
| Retained earnings..... | 4,000 | (10,530) |
| | ----- | ----- |
| Total stockholders' equity..... | 33,982 | 84,259 |
| | ----- | ----- |
| Total capitalization..... | \$ 152,670 | \$ 150,095 |
| | ===== | ===== |

SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth selected historical consolidated financial data for the Company. The selected consolidated financial data as of and for each of the five years ended December 31, 1995 have been derived from the audited consolidated financial statements of the Company. The selected consolidated financial data as of and for each of the six months ended June 30, 1996 and 1995 have been derived from the Company's unaudited consolidated financial statements which, in the opinion of management, include all adjustments, consisting only of normal recurring accruals and adjustments, necessary for the fair presentation of the financial data for such periods. The results of operations for the six months ended June 30, 1996 should not be regarded as indicative of the results that may be expected for the full fiscal year. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related Notes thereto included elsewhere in this Prospectus.

| | SUCCESSOR | | PREDECESSOR | | | | | |
|---|------------------------------|--------------------|-------------------------|--------------|------------|------------|------------|-----------|
| | SIX MONTHS ENDED JUNE 30, | | YEAR ENDED DECEMBER 31, | | | | | |
| | 1996 | 1995 | 1995 | 1994 | 1993 | 1992 | 1991 | |
| (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT) | | | | | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | | |
| Revenues..... | \$ 294,643 | \$266,443 | \$545,803 | \$ 562,053 | \$627,281 | \$569,911 | \$802,862 | |
| Cost of revenues..... | 254,556 | 231,556 | 474,791 | 482,423 | 547,401 | 508,006 | 697,144 | |
| Gross profit..... | 40,087 | 34,887 | 71,012 | 79,630 | 79,880 | 61,905 | 105,718 | |
| Selling, general and administrative..... | 26,681 | 30,903 | 57,231 | 64,422 | 79,391 | 86,943 | 102,581 | |
| Special charges (credits)(1)..... | -- | (7,500) | (8,458) | (13,916) | 8,565 | 6,500 | 24,500 | |
| Operating income (loss)..... | 13,406 | 11,484 | 22,239 | 29,124 | (8,076) | (31,538) | (21,363) | |
| Interest expense -- net..... | (6,418) | (1,063) | (1,261) | (4,731) | (7,276) | (4,790) | (8,153) | |
| Other income (expense)..... | (321) | 161 | (1,401) | 528 | (240) | 941 | (277) | |
| Income (loss) before taxes..... | 6,667 | 10,582 | 19,577 | 24,921 | (15,592) | (35,387) | (29,793) | |
| Provision for income taxes(2)..... | 2,667 | 1,204 | 1,937 | 1,041 | 1,871 | 876 | 677 | |
| | 4,000 | 9,378 | 17,640 | 23,880 | (17,643) | (36,263) | (30,470) | |
| Cumulative benefit of net changes in accounting principles(3)..... | -- | -- | -- | -- | -- | 1,136 | -- | |
| Net income (loss)..... | \$ 4,000 | \$ 9,378 | \$ 17,640 | \$ 23,880 | \$(17,463) | \$(35,127) | \$(30,470) | |
| Common shares outstanding..... | 13,368 | | | | | | | |
| Net income per share..... | \$.30 | | | | | | | |
| OTHER DATA: | | | | | | | | |
| EBITDA before special items(4)..... | \$ 15,309 | \$ 6,156 | \$ 17,376 | \$ 21,235 | \$ 11,210 | \$(12,805) | \$ 16,157 | |
| Summary cash flow information | | | | | | | | |
| Net cash provided (used) by operating activities..... | (10,552) | (3,816) | 41,670 | 37,551 | (14,489) | 32,635 | 82,366 | |
| Net cash provided (used) by investing activities..... | (107,175) | 8,580 | 8,827 | 68,199 | 2,872 | (4,924) | (18,391) | |
| Net cash provided (used) by financing activities..... | 122,239 | (1,918) | 7,210 | (101,753) | 12,338 | (38,683) | (51,489) | |
| Depreciation and amortization..... | 1,903 | 2,172 | 3,595 | 6,027 | 10,721 | 12,233 | 13,020 | |
| Capital expenditures..... | 849 | 2,031 | 4,764 | 3,604 | 1,967 | 4,941 | 19,153 | |
| | JUNE 30, 1996 | JANUARY 1, 1996 | JUNE 30, 1995 | DECEMBER 31, | | | | |
| | | | | 1995 | 1994 | 1993 | 1992 | 1991 |
| BALANCE SHEET DATA: | | | | | | | | |
| Working capital..... | \$125,580 | \$121,272 | \$143,026 | \$177,365 | \$ 151,810 | \$171,632 | \$179,407 | \$239,369 |
| Total assets..... | 259,481 | 259,639 | 262,216 | 288,578 | 268,304 | 343,479 | 371,883 | 453,610 |
| Long-term debt, less current maturities..... | 118,688 | 121,128 | -- | 9,128 | -- | 69,816 | 56,467 | 94,850 |
| Owners' equity..... | 33,982 | 29,369 | 171,242 | 178,012 | 161,888 | 170,676 | 192,546 | 235,754 |

(1) In 1995 and 1994, the Company recorded gains from the sales of certain non-core equipment manufacturing businesses, product lines and assets, net of other costs. In 1993, 1992 and 1991, the Company recorded charges primarily related to the disposal of manufacturing facilities and a product line. See Note 10 to the Consolidated Financial Statements included elsewhere in this Prospectus.

(2) Prior to January 1, 1996, the Company was a general partnership and therefore not subject to U.S. federal and state income taxes. See Note 9 to the Consolidated Financial Statements included elsewhere in this Prospectus.

(3) The Company changed its methods of accounting for income taxes and

post-retirement benefits other than pensions effective January 1, 1992.

- (4) EBITDA before special items means operating income (loss) plus depreciation and amortization plus special charges (credits). The Company uses EBITDA along with a measurement of capital employed in the calculation of its annual bonus plan and in the evaluation of acquisition candidates. EBITDA is frequently used by security analysts in the evaluation of companies and is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. EBITDA before special items is not intended as an alternative to cash flow from operating activities as a measure of liquidity, an alternative to net income as an indicator of the Company's operating performance or any other measure of performance in accordance with generally accepted accounting principles.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated balance sheet as of June 30, 1996 and unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 1996 and for the year ended December 31, 1995 give effect to (i) the Pro Forma effect of completion of the Acquisition and (ii) the Adjusted Pro Forma effect of completion of the Offering and the application of the estimated net proceeds therefrom as described elsewhere in this Prospectus, as if each had occurred, in the case of the balance sheet data, on June 30, 1996, and in the case of the statement of operations data, on January 1, 1995. The June 30, 1996 balance sheet data has been adjusted only for the effect of completion of the Offering as the Acquisition adjustments are already reflected therein.

The following unaudited pro forma condensed consolidated financial data does not necessarily reflect the actual results that would have been achieved nor is such data necessarily indicative of future results for the Company. The following unaudited pro forma condensed consolidated information should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in the Prospectus.

The number of shares of Common Stock outstanding on a pro forma basis is dependent upon the per share initial public offering price due to the terms of conversion of the Class A Common Stock and the issuance of Common Stock pursuant to the Value Appreciation Plans. See "Description of Capital Stock -- Common Stock" and "Management -- Employee Benefit Plans and Arrangements."

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

ASSETS

| | HISTORICAL | OFFERING | ADJUSTED PRO FORMA |
|---|------------|----------------|--------------------------|
| | ----- | ----- | ----- |
| Current assets: | | | |
| Cash..... | \$ 4,512 | \$ | \$ 4,512 |
| Receivables..... | 86,282 | | 86,282 |
| Inventories..... | 121,907 | | 121,907 |
| Other..... | 7,073 | | 7,073 |
| | ----- | ----- | ----- |
| Total current assets..... | 219,774 | | 219,774 |
| Property, plant and equipment, net..... | 17,916 | | 17,916 |
| Goodwill..... | 6,408 | | 6,408 |
| Deferred financing costs..... | 6,916 | (6,916) (C) | 1,200 |
| | | 1,200 (C) | |
| Other assets..... | 8,467 | 1,815 (B) | 13,434 |
| | | 3,152 (D) | |
| | ----- | ----- | ----- |
| Total assets..... | \$ 259,481 | \$ (749) | \$258,732 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of long-term debt..... | \$ 2,500 | \$ (2,500) (A) | \$ -- |
| Accounts payable..... | 67,576 | | 67,576 |
| Other accrued liabilities..... | 24,118 | 1,000 (B) | 21,877 |
| | | (2,628) (C) | |
| | | (613) (D) | |
| | ----- | ----- | ----- |
| Total current liabilities..... | 94,194 | (4,741) | 89,453 |
| Long-term debt..... | 118,688 | (56,300) (A) | 65,836 |
| | | 1,200 (C) | |
| | | 2,751 (D) | |
| | | (500) (E) | |
| | | (3) (F) | |
| Other liabilities..... | 12,617 | 3,775 (B) | 19,184 |
| | | 2,792 (D) | |
| | ----- | ----- | ----- |
| Total liabilities..... | 225,499 | (51,026) | 174,473 |
| Stockholders' equity: | | | |
| Common stock..... | 111 | 40 (A) | 177 |
| | | 4 (D) | |
| | | 22 (F) | |
| Additional paid-in capital..... | 30,068 | 58,760 (A) | 94,309 |
| | | 5,500 (D) | |
| | | (19) (F) | |
| Notes receivable from officers..... | (500) | 500 (E) | -- |
| Cumulative translation adjustment..... | 303 | | 303 |
| Retained earnings..... | 4,000 | (2,960) (B) | (10,530) |
| | | (4,288) (C) | |
| | | (7,282) (D) | |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 33,982 | 50,277 | 84,259 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$ 259,481 | \$ (749) | \$258,732 |
| | ===== | ===== | ===== |

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (DOLLARS, EXCEPT PER SHARE AMOUNTS, IN THOUSANDS):

- A -- To record the issuance of shares of Common Stock pursuant to the Offering and the application of the assumed net proceeds of \$58,800 (4,000,000 shares at \$16.00 per share less underwriting discount and expenses estimated at \$5,200) to repay debt as described under "Use of Proceeds."
- B -- To record the expense of \$4,775 (after tax cost of \$2,960) due to the termination of the Management Services Agreement as described under "Certain Transactions" which will be paid in quarterly payments of \$250 through March 31, 2001, subject to certain accelerating events.
- C -- To record the write-off of \$6,916 in deferred financing costs (after tax cost of \$4,288) associated with the Credit Facility that will be replaced at the time of the Offering and the incurrence of an estimated \$1,200 of deferred financing costs that will result from the New Credit Facility.
- D -- To record the effect of the Company's Value Appreciation Plans, based on the assumed \$16.00 per share initial public offering price, of an expense of \$11,745 (after tax cost of \$7,282), payable by a cash payment of \$2,751, liability for future cash payments of \$3,490 and the issuance of 343,986 shares of Common Stock valued at \$5,504 as follows:

| | | |
|--------------------------|---------|---------|
| Retained earnings..... | \$7,282 | |
| Deferred tax asset..... | 3,152 | |
| Taxes payable..... | 1,311 | |
| Long-term debt..... | | \$2,751 |
| Current liability..... | | 698 |
| Long-term liability..... | | 2,792 |
| Common stock..... | | 4 |
| Paid-in capital..... | | 5,500 |

- E -- To record the mandatory repayment of promissory notes to the Company.
- F -- To record the exercise of the Warrant and the conversion of the Class A Common Stock.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | HISTORICAL | ACQUISITION | PRO FORMA FOR ACQUISITION | OFFERING | ADJUSTED PRO FORMA |
|---|------------|-------------|------------------------------|-----------|-----------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Revenues..... | \$294,643 | \$ | \$ 294,643 | \$ | \$294,643 |
| Cost of revenues..... | 254,556 | | 254,556 | | 254,556 |
| | ----- | ---- | ----- | ----- | ----- |
| Gross profit..... | 40,087 | | 40,087 | | 40,087 |
| Selling, general and administrative..... | 26,681 | | 26,681 | (500) (B) | 26,181 |
| Special charges (credits)..... | -- | | | | |
| | ----- | ---- | ----- | ----- | ----- |
| Operating income (loss)..... | 13,406 | | 13,406 | 500 | 13,906 |
| Interest and financial costs, net... | (6,418) | (650) (A) | (7,068) | 3,268 (C) | (3,800) |
| Other income (expense)..... | (321) | | (321) | | (321) |
| | ----- | ---- | ----- | ----- | ----- |
| Income (loss) before income taxes... | 6,667 | (650) | 6,017 | 3,768 | 9,785 |
| Provision for income taxes..... | 2,667 | (247) (D) | 2,420 | 1,431 (D) | 3,851 |
| | ----- | ---- | ----- | ----- | ----- |
| Net income (loss)..... | \$ 4,000 | \$(403) | \$ 3,597 | \$2,337 | \$ 5,934 |
| | ===== | ===== | ===== | ===== | ===== |
| Average shares outstanding..... | 13,368 (E) | | 13,368 (E) | | 17,712 (F) |
| | ===== | | ===== | | ===== |
| Net income per share..... | \$.30 | | \$.27 | | \$.34 |
| | ===== | | ===== | | ===== |

- - - - -

- A -- To record the estimated increase in interest expense that would have been incurred related to the Acquisition had the funding of the loans occurred on January 1, 1996.
- B -- To record elimination of management fees as a result of the termination of the Management Services Agreement in connection with the Offering.
- C -- To eliminate interest expense and adjust amortization of deferred financing costs related to debt that will be repaid with proceeds from the Offering.
- D -- To reflect the income tax expense associated with the above adjustments.
- E -- Reflects 11,346,940 shares of Common Stock after exercise of the Warrant and 2,021,452 shares of Common Stock issuable upon the conversion of the Class A Common Stock at the assumed \$16.00 per share initial public offering price.
- F -- Reflects an additional 343,986 shares of Common Stock issuable under the Value Appreciation Plans based upon the assumed \$16.00 per share initial public offering price plus the issuance of 4,000,000 shares pursuant to the Offering.

Note -- The above adjustments do not consider the one-time expenses described at footnotes B, C and D on the Unaudited Pro Forma Condensed Consolidated Balance Sheet related to the expense to terminate the Management Services Agreement, the write-off of financing costs or the expense associated with the Value Appreciation Plans.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1995
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | HISTORICAL | ACQUISITION | PRO FORMA FOR ACQUISITION | OFFERING | ADJUSTED PRO FORMA |
|--|------------|--------------|------------------------------|-------------|-----------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Revenues..... | \$545,803 | \$ | \$ 545,803 | \$ | \$545,803 |
| Cost of revenues..... | 474,791 | | 474,791 | | 474,791 |
| | ----- | ----- | ----- | ----- | ----- |
| Gross profit..... | 71,012 | | 71,012 | | 71,012 |
| Selling, general and administrative... | 57,231 | 1,000 (A) | 58,231 | (1,000) (D) | 57,231 |
| Special charges (credits)..... | (8,458) | | (8,458) | | (8,458) |
| | ----- | ----- | ----- | ----- | ----- |
| Operating income (loss)..... | 22,239 | (1,000) | 21,239 | 1,000 | 22,239 |
| Interest and financial costs, net..... | (1,261) | (11,556) (B) | (12,817) | 6,882 (E) | (5,935) |
| Other income (expense)..... | (1,401) | (162) (C) | (1,563) | | (1,563) |
| | ----- | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes..... | 19,577 | (12,718) | 6,859 | 7,882 | 14,741 |
| Provision for income taxes..... | 1,937 | 476 (F) | 2,413 | 2,995 (F) | 5,408 |
| | ----- | ----- | ----- | ----- | ----- |
| Net income (loss)..... | \$ 17,640 | \$ (13,194) | \$ 4,446 | \$ 4,887 | \$ 9,333 |
| | ===== | ===== | ===== | ===== | ===== |
| Average shares outstanding..... | 13,368 (G) | | 13,368 (G) | | 17,712 (H) |
| | ===== | | ===== | | ===== |
| Net income per share..... | \$ 1.32 | | \$.33 | | \$.53 |
| | ===== | | ===== | | ===== |

A -- To record management fees incurred as a result of the Acquisition.

B -- To record the estimated increase in interest expense and amortization of deferred financing costs related to the long-term debt that would have been incurred because of the Acquisition.

C -- To record amortization of goodwill.

D -- To record elimination of management fees as a result of the termination of the Management Services Agreement in connection with the Offering.

E -- To eliminate interest expense and adjust amortization of deferred financing costs related to debt that will be repaid with proceeds from the Offering.

F -- To reflect the income tax expense associated with the above adjustments and to record the increase in tax expense that would have resulted had the Company been subject to U.S. federal and state income tax during 1995.

G -- Reflects 11,346,940 shares of Common Stock after exercise of Warrant and 2,021,452 shares of Common Stock issuable upon the conversion of the Class A Common Stock at the assumed \$16.00 per share initial public offering price.

H -- Reflects an additional 343,986 shares of Common Stock issuable under the Value Appreciation Plans based upon the assumed \$16.00 per share initial public offering price plus the issuance of 4,000,000 shares pursuant to the Offering.

Note -- The above adjustments do not consider the one-time expenses described at footnotes B, C and D on the Unaudited Pro Forma Condensed Consolidated Balance Sheet related to the expense to terminate the Management Services Agreement, the write-off of deferred financing costs or the expense associated with the Value Appreciation Plans.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Effective as of January 1, 1996, all of the Company's operations were acquired from subsidiaries of Armco Inc. and USX Corporation for \$180 million plus approximately \$12 million in transaction costs (the "Acquisition"). The Acquisition was funded from the sale of \$30 million in equity, incurrence of \$114 million of debt and the use of \$48 million of acquired cash. In connection with the Acquisition, all assets and liabilities were recorded at their fair market values, resulting in no significant change from the historical net carrying values. The Acquisition resulted in deferred financing costs of \$7.7 million and goodwill of \$6.5 million. References herein to the Company refer to the predecessor partnership for periods prior to January 1, 1996 and to National-Oilwell, Inc. for subsequent periods.

The Company's revenues are directly related to the level of worldwide oil and gas drilling and production activities and the profitability and cash flow of oil and gas companies and drilling contractors, which in turn are affected by current and anticipated prices of oil and gas. While the price of oil and gas is generally a function of supply and demand, additional influences include costs of exploration and production, worldwide political and economic influences, environmental factors and governmental regulation.

As a result of a change in management and a redirection of the Company's strategy which began in 1993, the Company sold various product lines, consolidated certain manufacturing facilities and concentrated its operations within two business segments: Oilfield Equipment and Distribution Services.

RESULTS OF OPERATIONS

The following table and the financial information in the discussion of the Oilfield Equipment and Distribution Services segments provide certain information that segregates the results of operations of previously sold product lines and businesses in order to focus on ongoing operations:

| | SIX MONTHS ENDED | | YEAR ENDED DECEMBER 31, | | |
|--------------------------------|-----------------------|---------|-------------------------|---------|----------|
| | JUNE 30, | | | | |
| | 1996 | 1995 | 1995 | 1994 | 1993 |
| | (UNAUDITED) | | | | |
| | (DOLLARS IN MILLIONS) | | | | |
| Revenues | | | | | |
| Oilfield Equipment..... | \$ 81.0 | \$ 78.9 | \$146.5 | \$187.9 | \$179.7 |
| Distribution Services..... | 237.3 | 203.5 | 432.3 | 415.7 | 450.4 |
| Eliminations..... | (23.7) | (16.0) | (33.0) | (60.0) | (67.7) |
| | ----- | ----- | ----- | ----- | ----- |
| Ongoing Operations..... | 294.6 | 266.4 | 545.8 | 543.6 | 562.4 |
| Disposed Businesses..... | -- | -- | -- | 18.5 | 64.9 |
| | ----- | ----- | ----- | ----- | ----- |
| Total..... | \$294.6 | \$266.4 | \$545.8 | \$562.1 | \$627.3 |
| | ===== | ===== | ===== | ===== | ===== |
| Operating Income | | | | | |
| Oilfield Equipment..... | \$ 8.1 | \$ 3.1 | \$ 7.2 | \$ 7.0 | \$.1 |
| Distribution Services..... | 7.3 | 2.5 | 9.4 | 9.0 | 13.9 |
| Corporate..... | (2.0) | (1.6) | (2.9) | (2.9) | (2.3) |
| | ----- | ----- | ----- | ----- | ----- |
| Ongoing Operations..... | 13.4 | 4.0 | 13.7 | 13.1 | 11.7 |
| Disposed Businesses..... | -- | -- | -- | 2.1 | (11.2) |
| Special Charges (Credits)..... | -- | (7.5) | (8.5) | (13.9) | 8.6 |
| | ----- | ----- | ----- | ----- | ----- |
| Total..... | \$ 13.4 | \$ 11.5 | \$ 22.2 | \$ 29.1 | \$ (8.1) |
| | ===== | ===== | ===== | ===== | ===== |

Oilfield Equipment

The Oilfield Equipment segment designs and manufactures a large line of proprietary products, including drawworks, mud pumps, power swivels and reciprocating pumps. A substantial installed base of these products

results in a recurring replacement parts and maintenance business. In addition, a full line of drilling pump expendable products are sold for maintenance of the Company's and other manufacturers' equipment.

Sales of new equipment manufactured by the Company can result in large fluctuations in volume between periods depending on the size and timing of the shipment of orders. Individual orders of machinery and equipment by foreign national oil companies can be particularly large (in excess of \$10 million each). The Company recorded large sales of this nature in each of 1993 and 1994 but has not made similar sales in 1995 or in the first half of 1996.

Revenues and operating profits have been negatively impacted over the last several years by excess industry capacity that has prevented or reduced price increases. Accordingly, the Company has concentrated on controlling and reducing its costs by consolidating operations and streamlining selling and administrative functions. The Company believes it will benefit from any increased industry demand as additional activity can be achieved through its existing facilities.

During the second quarter of 1996, the Company experienced a significant increase in demand for its capital equipment, especially from offshore drilling contractors. Sales from orders already received will result in increased capital equipment revenues in the second half of 1996 as compared to the first six months. The Company believes that offshore drillers have begun to experience higher demand for and cash flows from their services that allow them to upgrade and repair machinery and equipment on existing rigs. Improvements to the existing fleet have been deferred for many years due to low cash flows caused by an excess supply of rigs relative to demand, and the need for such upgrades and repairs may be large. If utilization rates of the offshore mobile rig fleet remain above 90%, new demand for the construction of rigs could result in a further increase in demand for machinery and equipment manufactured by the Company.

Revenues during the first six months of 1996 increased \$2.1 million (3%) over the comparable 1995 period as the increased demand for expendable and replacement parts more than offset the lack of sales to foreign national oil companies similar to the total of \$9.5 million of such revenues recorded during the first six months of 1995. Revenues in 1995 were down \$41.4 million (22%) from 1994, in large part due to the absence of \$33 million in revenues associated with an international rig package that was sold in 1994. As compared to 1993, revenues in 1994 increased \$8.2 million (5%) due to increased sales of drilling capital equipment and related spare parts.

Operating income for the Oilfield Equipment segment increased \$5.0 million in the first half of 1996 as compared to the prior year as a result of higher revenues, improved product mix and the consolidation in late 1995 of the Company's United Kingdom manufacturing facility into its Houston location, thereby resulting in lower costs and a more efficient manufacturing process. Operating income increased slightly in 1995 in spite of the revenue decline primarily as a result of the consolidation of facilities and other cost reduction initiatives. In 1994, operating income increased substantially as compared to the prior year due to the increase in revenues and the cost reduction efforts initiated by new management.

Distribution Services

Distribution Services revenues result primarily from the sale of MRO products from the Company's network of 121 distribution service centers and from the sale of well casing and production tubing. These products are purchased from numerous manufacturers and vendors, including the Company's Oilfield Equipment segment. While the Company has increased revenues and improved its operating income by entering into alliances and outsourcing arrangements, improvements in operating results remain primarily dependent on attaining increased volumes of activity through its distribution service centers while controlling the fixed costs associated with numerous points of sale. Pricing is a lesser consideration on operating income from distribution services as most cost increases or reductions from the Company's suppliers are passed on to the customer.

Revenues for the six months ended June 30, 1996 increased by \$33.8 million (17%) over the comparable 1995 period due to an overall increase in market activity, including a \$16.0 million increase in tubular products sales and a \$12.7 million increase in MRO products sales. Distribution Services' revenues in 1995 were ahead

of the 1994 level by \$16.6 million (4%) due to improved general market conditions in North America. As compared to 1993, revenues in 1994 decreased \$34.7 million (8%), primarily due to significantly lower revenues from tubular products.

Operating income increased \$4.8 million during the first six months of 1996 as compared to the same period in 1995 due to the higher revenue levels. Operating income increased in 1995 as compared to 1994 by only \$0.4 million due to a change in product mix, as revenues from lower margin tubular products increased as a percentage of segment revenues. A decrease in operating income of \$4.9 million occurred in 1994 from 1993 as a result of the lower revenues.

Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. These costs were \$2.9 million in each of 1995 and 1994, up from the 1993 level due to the addition of new executive personnel and costs necessary to refocus the direction of the Company. Corporate costs were up \$0.5 million during the first six months of 1996 as compared to the first six months of 1995 due to the expense of the management fee paid pursuant to the Management Services Agreement that will be terminated in connection with the Offering.

Special Charges (Credits)

Special charges (credits) primarily relate to the sale of businesses and product lines in connection with a major restructuring and redirection of the Company that was completed in 1995. During 1995, the Company recorded gains of \$8.5 million (\$7.5 million of which were recorded in the first half of the year) from the sale of a non-oilfield centrifugal pump and switch valve product line and from the sale of excess property and equipment of closed manufacturing facilities in the United Kingdom and Canada. A net gain of \$13.9 million was recorded in 1994 from the sales of several production equipment product lines offset in part by costs associated with the closure of the United Kingdom facility. In 1993 the Company recorded a net loss of \$8.6 million primarily representing the loss on the sale of its wellhead business and related assets.

Interest Expense

Interest expense increased substantially during the first half of 1996 due to debt incurred in connection with the Acquisition. Prior to 1996, interest expense had declined in each of 1995 and 1994 as compared to the prior year due to reductions in debt made possible by operating profits and proceeds from the dispositions of various businesses, product lines and assets that generated over \$75 million in cash.

Income Taxes

Due to its partnership status, the Company was not subject to U.S. federal or state income taxes prior to 1996 and accordingly the tax provision during such periods relates to foreign income taxes as computed under Statement of Financial Accounting Standard ("SFAS") No. 109. Beginning in 1996, the Company is subject to U.S. federal and state taxes and currently estimates the combined U.S. federal, state and foreign tax rate will approximate 40% of income before taxes for 1996 although actual taxes paid may be lower as a result of realization of deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1996, the Company had working capital of \$126 million, a decrease of \$52 million from December 31, 1995, primarily due to the use of cash in connection with the Acquisition. Working capital had increased by \$26 million at December 31, 1995 from the prior year end primarily due to the retention of income from operations and proceeds of \$6.9 million from the sale of a non-oilfield pumping product line.

Due to the size of the Company's distribution services business, significant components of the Company's assets are accounts receivable and inventories. Accounts receivable increased during the first six months of 1996 due to higher revenues during the period. Inventories also increased due to higher activity levels. Since

1993, the Company has focused significant internal attention and emphasis on accelerating the collection of accounts receivable and improving the Company's return on capital employed.

The Company's business has not required large expenditures for capital equipment. Total capital expenditures were \$0.8 million during the first six months of 1996, \$4.8 million in 1995, \$3.6 million in 1994 and \$2.0 million in 1993. Enhancements to data processing and inventory control systems represent a large portion of recent capital expenditures. Increases in capital expenditures of as much as an aggregate of \$6 million are anticipated over the next three years to further enhance the Company's information systems. The Company believes it has sufficient existing manufacturing capacity to meet current and anticipated demand for its products and services. Significant increases in demand for oilfield equipment products, to the extent qualified subcontracting and outsourcing are not available, could result in increases in capital expenditures.

The Company believes that cash generated from operations and amounts available under the New Credit Facility will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations. The Company also believes any significant increase in capital expenditures caused by any need to increase manufacturing capacity can be funded from operations or debt financing.

In connection with the Acquisition, the Company entered into a fully secured, five-year credit agreement (the "Credit Facility") with GE Capital which provides for revolving credit borrowings of up to \$120 million and long-term debt of \$30 million. At June 30, 1996, borrowings under the revolving portion of the Credit Facility were \$70.9 million, plus the Company had incurred additional usage of \$12.6 million for outstanding letters of credit, leaving \$25.3 million of borrowing availability. The long-term portion of the Credit Facility was reduced from \$30 million to \$25.2 million at June 30, 1996, primarily due to the collection of proceeds from an insurance claim that existed at the time of the Acquisition. Long-term debt at June 30, 1996 also included a \$5.1 million subordinated note and \$20 million of debt financed by the sellers in connection with the Acquisition, neither of which requires current cash payments of principal or interest. In connection with the Credit Agreement, GE Capital received a warrant to purchase 282,392 shares of Common Stock from the Company for a nominal price (the "Warrant"). Concurrent with the Offering, the Warrant will be exercised. Debt obligations are more fully described in Note 5 to the Consolidated Financial Statements.

The Company plans to use the net proceeds from the Offering to repay the \$25.2 million in term loans under the Credit Facility and the \$5.1 million subordinated note. The remaining net proceeds of \$28.5 million will be used to reduce the revolving credit facility. The Company does not currently plan to repay the \$20 million in seller notes from the net proceeds of the Offering. The seller notes bear interest at 9%, and at the Company's option, interest payments through January 16, 2003 may be deferred. One-half of the sum of the principal and any deferred interest is payable on January 16, 2004, and the balance is payable on January 16, 2005. The notes are subject to prepayment in certain events, including the sale of significant assets by the Company or the sale by the stockholders at the time of the Acquisition of more than 50% of their aggregate shares. Partial prepayments are also required in connection with certain sales of the Company's stock owned by the Inverness Investors or the First Reserve Investors.

Effective as of the closing of the Offering, the Company will enter into a new five-year senior secured revolving credit facility (the "New Credit Facility") with GE Capital that will be available for acquisitions and general corporate purposes. The New Credit Facility provides for a \$120 million revolving loan ("the Revolver"), of which \$25 million may be used for letters of credit. The Revolver is subject to a borrowing base limitation of 60% of eligible inventory plus 85% of eligible accounts receivable plus various percentages of the book value of certain fixed assets, all of which would have totaled \$118.8 million as of June 30, 1996.

The Revolver will bear interest at prime plus .75% or LIBOR plus 2.0%, subject to adjustment based on the Company's total funded debt and operating profit. Depending on the Company's financial performance, the interest rate could be prime plus .25%, .75% or 1.25% or LIBOR plus 1.5%, 2.0% or 2.5%. The New Credit Facility is secured by substantially all of the Company's assets and contains certain financial covenants and ratios as well as a limitation on dividends.

The Company will pay GE Capital a fee of \$900,000 on the closing of the New Credit Facility and is obligated to pay an unused facility fee of .375% per annum. The unused facility fee will be adjusted to .25% or .50% based upon the ratio of funded debt to operating profit.

Although the Company is not currently pursuing any specific acquisition candidates, from time to time the Company may identify acquisition candidates for investigation and may in the future pursue such acquisition opportunities. The timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. The Company expects to fund future acquisitions primarily through cash flow from operations and borrowings, including the unborrowed portion of the New Credit Facility, as well as issuances of additional equity. There can be no assurance that additional financing for acquisitions will be available at terms acceptable to the Company.

Inflation has not had a significant effect on the Company's operating results or financial condition in recent years.

OFFERING RELATED EXPENSES

The Company will incur certain one-time expenses in connection with the Offering, as follows: (i) the Management Services Agreement will be terminated at a cost of \$4.8 million (\$3.0 million after tax) and will be paid in quarterly installments of \$250,000 through March 31, 2001, subject to certain accelerating events; (ii) the Credit Facility will be replaced by the New Credit Facility, resulting in the write-off of \$6.9 million in deferred financing costs related to the existing agreement (after tax cost of \$4.3 million) and the incurrence of approximately \$1.2 million in deferred financing costs related to the New Credit Facility; and (iii) expenses and payout under the Company's Value Appreciation Plans. The Value Appreciation Plans are affected by the final offering price, and assuming an initial public offering price of \$16.00 per share, the Company would incur an expense of \$11.7 million (\$7.3 million after tax) and would make a cash payment at the time of closing of \$2.8 million, make future annual cash payments of \$.7 million for five years beginning January 17, 1997 and issue 343,986 shares of restricted Common Stock valued at \$5.5 million.

RECENTLY ISSUED ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The methodology required by SFAS No. 121 is not materially different from the Company's past practice and its adoption on January 1, 1996 did not have a material impact on the Company's consolidated financial statements.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 establishes alternative methods of accounting and disclosure for employee stock-based compensation arrangements. The Company has elected to continue the use of the intrinsic value based method of accounting for its employee stock option plan which does not result in the recognition of compensation expense when employee stock options are granted if the exercise price of the option equals or exceeds the fair market value of the stock at the date of grant. The Company will provide pro forma disclosure of net income and earnings per share in the notes to the consolidated financial statements as if the fair value based method of accounting had been applied.

FORWARD-LOOKING STATEMENTS

Certain statements contained herein are not based on historical facts, but are forward-looking statements that are based upon numerous assumptions about future conditions that could prove not to be accurate. Such forward-looking statements include, without limitation, the statements regarding the trends in the industry set forth in the Prospectus Summary and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's anticipated future financial results and position. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in this Prospectus, including but not limited to the matters described in "Risk Factors."

BUSINESS

GENERAL

The Company is a worldwide leader in the design, manufacture and sale of machinery and equipment and in the distribution of MRO products used in oil and gas drilling and production. The Company designs, manufactures and sells drawworks, mud pumps and power swivels (also known as "top drives"), which are the major mechanical components of rigs used to drill oil and gas wells. Many of these components are designed specifically for applications in offshore, extended reach and deep land drilling. These components are installed on new drilling rigs and used in the upgrade, refurbishment and repair of existing drilling rigs. A significant portion of the Company's business includes the sale of replacement parts for its own manufactured machinery and equipment. The Company estimates that approximately 65% of the mobile offshore rig fleet and the majority of the world's larger land rigs (2,000 horsepower and greater) manufactured in the last twenty years utilize certain drilling machinery components manufactured by the Company. In addition, the Company manufactures and sells a complete line of centrifugal and reciprocating pumps used in oilfield and industrial applications.

The Company provides distribution services through its network of 121 distribution service centers located near major drilling and production activity worldwide, but principally in the United States and Canada. These distribution service centers have historically provided MRO products, including valves, fittings, flanges, replacement parts and miscellaneous expendable items. As oil and gas companies and drilling contractors have refocused on their core competencies and emphasized efficiency initiatives to reduce costs and capital requirements, the Company's distribution services have evolved to offer outsourcing and alliance arrangements that include comprehensive procurement, inventory management and logistics support. These arrangements have resulted in the Company working more closely with its customers in return for a more exclusive oilfield distribution arrangement.

The Company's business is dependent on and affected by the level of worldwide oil and gas drilling and production activity, the aging worldwide rig fleet which was generally constructed prior to 1982, and the profitability and cash flow of oil and gas companies and drilling contractors. Drilling activity has recently increased in the offshore and deeper land markets both of which are particularly well served by the drilling machinery and equipment manufactured by the Company. As of June 30, 1996, the worldwide offshore mobile drilling rig utilization rate was over 90% and the number of active U.S. land rigs had increased approximately 15% compared to June 30, 1995. As drilling activity has increased, the Company has experienced increased demand for its manufactured products and distribution services as existing rigs are upgraded, refurbished and repaired, new rigs are constructed and expendable parts are used.

The Company's oilfield equipment business and distribution services business accounted for 56% and 44%, respectively, of the Company's combined EBITDA for the six months ended June 30, 1996.

BUSINESS STRATEGY

Beginning in 1993, a new executive and operating team was assembled to manage the Company's business. In January 1996, that new management team, together with an investor group led by The Inverness Group Incorporated and First Reserve Corporation, purchased the business of the Company from its former owners, USX Corporation and Armco Inc. Since 1993, the business strategy of the Company has been to enhance its operating performance and build a platform for growth by focusing on markets in which its product lines are market leaders and which are believed by management to provide the most significant growth potential. As part of that strategy, the Company disposed of certain of its non-core equipment manufacturing businesses and product lines and reengineered its distribution business during the years 1993 through 1995. The completion of the redirection of the Company's business in 1995, combined with the increase in the level of worldwide oil and gas drilling activity, has resulted in a substantial improvement in the Company's performance, with EBITDA before special items increasing from \$6.2 million for the six months ended June 30, 1995 to \$15.3 million for the six months ended June 30, 1996.

The Company's current business strategy is to enhance its leading market positions and operating performance by:

Leveraging Its Market Leading Installed Base. The Company estimates that approximately 65% of the mobile offshore drilling rigs and the majority of the world's larger land drilling rigs manufactured in the last twenty years use drilling machinery manufactured by the Company. The Company believes this market-leading installed base presents substantial opportunities to capture a significant portion of the increased level of expenditures by its customers for the construction of new drilling rigs as well as the upgrade and refurbishment of existing drilling rigs.

Capitalizing on Increasing Demand for Higher Horsepower Drilling Machinery. The Company believes the advanced age of the existing fleet of drilling rigs, coupled with increasing drilling activity involving greater water depths and extended reach, will increase the demand for new drilling rig construction and the upgrading and capacity enhancement of existing rigs. The Company's higher horsepower drawworks, mud pumps and power swivels provide, in many cases, the largest capacities currently available in the industry.

Building on Distribution Strengths. The Company has developed and implemented integrated information and process systems that are designed for more effective procurement, inventory management and logistics activities. A critical element of the Company's strategy has been to regionally centralize its procurement, inventory and logistics operations, thus gaining cost and inventory utilization efficiencies while retaining its responsiveness to local markets. In addition, the strategic integration of the Company's distribution expertise, extensive distribution network and growing base of customer alliances provides an increased opportunity for cost effective marketing of the Company's manufactured equipment.

Capitalizing on Alliance/Outsourcing Trends. As a result of efficiency initiatives, oil and gas companies and drilling contractors are frequently seeking alliances with suppliers, manufacturers and service providers, or outsourcing their procurement, inventory management and logistics requirements for equipment and supplies in order to achieve cost and capital improvements. The Company has entered into and is seeking alliance arrangements to better serve its customers, to better manage its own inventory, to increase the volume and scope of products sold to the customer without significantly increasing the Company's overhead costs, and to expand marketing opportunities to sell equipment manufactured by the Company. The Company believes that it is well positioned to provide broad procurement, inventory management and other services as a result of the Company's (i) large and geographically diverse network of distribution service centers in major oil and gas producing areas, (ii) purchasing leverage due to the volume of products sold, (iii) breadth of available product lines and (iv) information systems that offer customers enhanced online and onsite services.

OILFIELD EQUIPMENT

The Company's oilfield equipment business consists of the design, manufacture, sale and service of drilling and pumping products.

Products

The Company's line of drilling machinery and equipment includes drawworks, mud pumps, power swivels (also known as "top drives"), traveling equipment and rotary tables. This machinery constitutes the majority of the components involved in the primary functions of the drilling of oil and gas wells which consist of pumping fluids and hoisting, supporting and rotating the drill string. In addition to the manufacture of new drilling equipment and related spare parts, the Company also refurbishes used drilling machinery and equipment. The Company also services, refurbishes and manufactures spare parts for a line of proprietary marine equipment products.

Drilling machinery and equipment can be purchased as individual components or as a complete drilling rig package. The Company utilizes subcontractors for certain machine shop and fabrication work.

The Company is also a major designer and manufacturer of centrifugal and reciprocating pumps and pumping systems, as well as a wide variety of fluid-end accessories and expendable pump parts for oil and gas

drilling and oil production. The Company estimates that over 20,000 reciprocating pumps manufactured by the Company have been installed throughout the world.

Mission-Fluid King(R) centrifugal pumps are utilized in various oil and gas drilling applications including drilling mud mixing, low pressure fluid transport and charging reciprocating pumps. The Company also manufactures and sells a wide variety of fluid-end accessories for all major manufacturers' pumps under its Mission-Fluid King(R) brand name. Fluid-end accessories are expendables consumed on reciprocating mud pumps during the drilling and production process and include replacement parts such as liners, valves, seats, pistons, piston rods and packing accessories. These products are typically replaced at regular intervals and are essential to drilling and production operations.

Reciprocating pumps are used in a variety of artificial lift, oil transfer and industrial applications. A sizable aftermarket for repair parts for these pumps exists and the Company also provides fluid-end expendables under the Mission-Fluid King(R) name to this market. Most of the pumps sold are incorporated into systems (which generally consist of a reciprocating pump, a power source, piping, valves, meters and other fabricated parts installed on a skid) thereby providing the Company with an opportunity to offer the customer a complete turnkey package. The Company also sells reciprocating pumps to the refining, petrochemical, mining and steel industries.

Marketing of Company Products

Substantially all of the Company's drilling machinery, equipment and spare parts sales, and a large portion of the Company's pumps and parts, are sold through the Company's direct sales force and through the Company's distribution service centers. The Company also markets its pumps and parts through distribution networks not owned by the Company. Sales to foreign state-owned oil companies are typically made in conjunction with agent or representative arrangements. During the first half of 1996, management estimates that approximately 40% of oilfield equipment revenues was from products sold for delivery to destinations located outside North America.

The Company believes it is able to leverage its position as a manufacturer of market-leading oilfield products by marketing those products through the Company's distribution services business. During 1995, approximately 25% of oilfield equipment revenues was from products sold through the Company's established network of distribution service centers. Management believes that the Company has an advantage over its competitors in the oilfield equipment markets by virtue of its extensive distribution network making such products readily available from numerous locations.

Competition

The oilfield equipment industry is highly competitive and the Company's revenues and earnings can be affected by price changes, introduction of new products and improved availability and delivery. Over the last several years the market for oilfield services and equipment has experienced overcapacity in some services and products provided by the Company, which has resulted in increased price competition in certain areas of the Company's business. The Company competes with a large number of companies some of which may offer certain more technologically advanced products or possess greater financial resources than the Company. Competition for drilling systems and machinery comes from Continental Emsco Company, Maritime Hydraulics U.S. Inc., Varco International, Inc. and Dreco Energy Services Ltd. The principal competitors with the Company's Mission-Fluid King(R) product line are Harrisburg/Woolley, Inc. and Southwest Oilfield Products, Inc. Competition for the Company's reciprocating pumps comes primarily from Wheatley-Gaso Inc. and Gardner Denver Machinery Inc.

Manufacturing and Backlog

Sales of the Company's products are made on the basis of written orders and oral commitments. In accordance with industry practice, such orders and commitments may not be considered firm backlog because they may generally be cancelled without significant penalty to the customer. The Company estimates that the value of its orders for new oilfield equipment (excluding spare parts orders) was approximately \$26 million as

of June 30, 1996 as compared to orders of \$8 million as of June 30, 1995. Of the \$26 million of unfilled orders at June 30, 1996, the Company expects approximately one-half will be shipped during the remainder of 1996 and the balance during 1997. The total level of orders varies from time to time as work is completed and orders are received.

The Company's principal manufacturing facilities are located in Houston, Texas and McAlester, Oklahoma. See "-- Facilities." The Company also outsources the manufacture of parts or purchases components in finished form from qualified subcontractors.

The Company's manufacturing operations require a variety of components, parts and raw materials which the Company purchases from multiple commercial sources. The Company has not experienced nor expects any significant delays in obtaining deliveries of essential components, parts and raw materials.

Engineering

The Company maintains a staff of engineers and technicians to (i) design and test new products, components and systems for use in drilling and pumping applications, (ii) enhance the capabilities of existing products and (iii) assist the Company's sales organization and customers with special projects. The Company's product engineering efforts focus on developing technology to improve the economics and safety of drilling and pumping processes. The Company has recently developed a 750 ton capacity power swivel to complement its existing 650 ton, 500 ton and 350 ton capacity models. The Company has also introduced a 4,000 horsepower drawworks to increase customer efficiencies when drilling at extended depths and during horizontal drilling. A disc brake system for drawworks has been developed which can be operated remotely and provides higher braking torque capabilities than previous systems. The disc brake system can be adapted to upgrade drawworks previously sold by the Company.

Patents and Trademarks

The Company owns or has a license to use a number of patents covering a variety of products. Although in the aggregate these patents are of importance to the Company, the Company does not consider any single patent to be of a critical or essential nature. In general, the Company depends on technological capabilities, manufacturing quality control and application of its expertise rather than patented technology in the conduct of its business. The Company enjoys product name brand recognition, principally through its National-Oilwell(R), National(R), Oilwell(R) and Mission-Fluid King(R) trademarks, and considers such trademarks to be important to its business.

DISTRIBUTION SERVICES

The Company is a market leader in providing comprehensive services for the procurement, inventory management and logistics support of oilfield products to the oil and gas industry. The Company markets and distributes its products and services through several channels, including its network of oilfield distribution service centers, a direct sales force and sales representatives and agents. The Company's distribution services network includes 114 facilities located throughout the major oil and gas producing regions of the United States and Canada. In addition, the Company has international distribution service points in seven locations in the United Kingdom, South America and the Pacific Rim. The Company's distribution services customers are primarily major and large independent oil companies and drilling contractors. Since January 1, 1995, the Company's distribution services business has sold products to approximately 5,000 customers. Due to the nature of its distribution services business, the Company does not maintain a backlog for such operations.

The Company is able to leverage its position as a leading provider of distribution services by marketing products manufactured by the Company. For the twelve month period ended December 31, 1995, approximately \$43 million of the Company's distribution services revenues resulted from the sale of the Company's oilfield equipment products. Management believes that the Company has a competitive advantage in the distribution services business by virtue of its ability to distribute market-leading products manufactured by the Company's oilfield equipment business.

Products

Maintenance, Repair and Operating Supplies and Equipment. The maintenance, repair and operating ("MRO") supplies and equipment stocked by the Company's distribution service centers vary by location. Each distribution point generally offers a complete line of oilfield products including valves, fittings, flanges, spare parts for oilfield equipment and miscellaneous expendable items. Most drilling contractors and oil and gas companies typically buy such supplies and equipment pursuant to non-exclusive contracts, which normally specify a discount from the Company's list price for each product or product category for a one-year period. As of June 30, 1996, the Company had approximately 1,300 active contracts for maintenance, repair and operating supplies and equipment with customers primarily located in North America. The sales volume of an individual distribution service center is dependent principally upon the level of oil and gas exploration and production activity in the area. Because of the strong service orientation of the distribution services business, Company personnel at distribution service centers generally provide customers with 24-hour per day availability.

As a result of efficiency initiatives that are taking place in the oil and gas industry, drilling contractors and oil and gas companies are more frequently seeking strategic alliances and outsourcing their procurement and inventory management requirements. These strategic alliances constitute a growing percentage of the Company's business and differ from standard agreements for MRO supplies and equipment in that the Company becomes the customer's primary supplier of those items. In addition, the Company may assume responsibility for procurement, inventory management and product delivery for the customer, in some cases by working directly out of the customer's facilities.

Oil Country Tubular Goods. The Company's tubular business is focused on the procurement, inventory management and delivery of oil country tubular goods manufactured by third parties. Tubular goods primarily consist of well casing and production tubing used in the drilling, completion and production of oil and gas wells. Well casing is used to line the walls of a wellbore to provide structural support. Production tubing provides the conduit through which the oil or gas will be brought to the surface upon completion of the well. Historically, sales of tubular goods have been concentrated in North America, although the Company makes occasional sales for shipment to foreign destinations. Substantially all of the Company's sales of tubular goods are made through the Company's direct sales force.

In response to customer demands for improved efficiency in tubular procurement and distribution, the Company has developed strategic alliances between the Company and its customers. These strategic alliances enable the Company to more efficiently source tubular goods for its customers, while decreasing the capital and personnel requirements of the customer. These alliance relationships currently constitute a majority of the Company's tubular sales. Since alliances provide additional consistency and predictability to the procurement process, the Company has also benefitted from improved utilization of its assets and from an increase in the turnover rate of its tubular inventory.

Competition

The oilfield distribution services business is highly competitive. The Company's revenues and earnings can be affected by competitive actions such as price changes, improved delivery and other actions by competitors. In addition, there are few barriers to entry for competitors to enter the distribution services business. The Company's principal competitors in the United States distribution services business include Continental Emsco Company, Wilson Supply Company, Red Man Pipe & Supply Co. and McJunkin Corporation. CE Franklin Ltd. and DOSCO Supply are major competitors of the Company's distribution services business in the Canadian market. The Company also competes with a number of regional or local oilfield supply stores in each geographic market. In the international markets, the Company's distribution services business competes with some of the above-named competitors as well as a number of regional or local suppliers. The Company's North American tubular goods distribution business competes with Vinson Supply Company, Sooner Pipe & Supply Corporation, Red Man Pipe & Supply Co., Continental Emsco Company and Wilson Supply Company as well as a number of regional distributors.

Suppliers

The Company obtains the MRO products it distributes from a number of suppliers. The Company does not believe that any one supplier of MRO products is material to the Company. For the year ended December 31, 1995 and for the six months ended June 30, 1996, the Company purchased approximately 36% and 28%, respectively, of its tubular requirements from the U.S. Steel Group of USX Corporation, and its remaining requirements from various suppliers. In connection with the Acquisition, in January 1996 the Company entered into a five year distribution agreement with the U.S. Steel Group on an arms length basis on generally the same terms that existed prior to the Acquisition. The Company is not obligated to purchase any minimum amount of tubular goods under the agreement with the U.S. Steel Group. The Company has not experienced and does not foresee experiencing a shortage in MRO products or tubular goods sold by the Company.

FACILITIES

The Company owned or leased 129 facilities worldwide as of August 25, 1996, of which the following are its principal manufacturing and administrative facilities:

| LOCATION | APPROXIMATE BUILDING SPACE (SQ. FT.) | DESCRIPTION | STATUS |
|--------------------------|--|---|--------|
| Houston, Texas..... | 217,000 | Manufactures drilling machinery and equipment | Leased |
| McAlester, Oklahoma..... | 117,000 | Manufactures pumps and expendable parts | Owned |
| Houston, Texas..... | 116,000 | Administrative offices | Leased |

The manufacturing facilities listed above are used in the Company's oilfield equipment business. The Company also has five satellite repair and manufacturing facilities that refurbish and manufacture new equipment and parts. These facilities are strategically located to meet customer needs in Houston, Texas; Odessa, Texas; New Iberia, Louisiana; Aberdeen, Scotland and Singapore. The Company believes that the capacity of its manufacturing and repair facilities is suitable to meet demand for the foreseeable future.

The Company owns or leases approximately 121 distribution service centers worldwide to operate its distribution services business. No individual facility is significant to the distribution services business. The Company also leases space at a number of tubular storage locations for use in its tubular goods distribution business.

EMPLOYEES

As of August 31, 1996, the Company had a total of 1,384 employees, 1,158 of whom were salaried and 226 of whom were paid on an hourly basis. Of the Company's workforce, 316 of the employees are employed by the Company's foreign subsidiaries and are located outside the United States. As of August 31, 1996, the Company was a party to one collective bargaining agreement which applied to six employees located in Singapore. The Company considers its relationship with its employees to be good.

OPERATING RISKS AND INSURANCE

The Company's operations are subject to the usual hazards inherent in manufacturing products and providing services for the oil and gas industry. These hazards can cause personal injury and loss of life, business interruptions, property and equipment damage and pollution or environmental damage. The Company maintains comprehensive insurance covering its assets and operations at levels which management believes to be appropriate and in accordance with industry practice. However, no assurance can be given that insurance coverage will be adequate in all circumstances or against all hazards, or that the Company will be able to maintain adequate insurance coverage in the future at commercially reasonable rates or on acceptable terms.

GOVERNMENTAL REGULATION AND ENVIRONMENTAL MATTERS

The Company's operations are subject to regulations by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over its foreign operations. Environmental laws and regulations have changed substantially and rapidly over the last 20 years, placing more restrictions and limitations on activities that may impact the environment, such as emissions of pollutants, generation and disposal of wastes and use and handling of chemical substances. Although compliance with various governmental laws and regulations has not materially adversely affected the Company's financial condition or results of operations, no assurance can be given that compliance with such laws or regulations will not have a material adverse impact on the Company's business in the future.

The Company has conducted a number of environmental audits of its major facilities to identify and categorize potential environmental exposures and to ensure compliance with applicable environmental laws, regulations and permit requirements. This effort has required and may continue to require operational modifications to the Company's facilities, including installation of pollution control devices and cleanups. The costs incurred to date by the Company in connection with the performance of environmental audits and operational modifications to its facilities have not been material, although the Company can provide no assurance that such costs may not increase in the future.

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release of a hazardous substance into the environment. These persons include the owner and operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at such site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

The Company currently owns or leases, and has in the past owned or leased, numerous properties that for many years have been used for the manufacture and storage of products and equipment containing or requiring oil and/or hazardous substances. Although the Company has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by the Company or on or under other locations where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under the Company's control. These properties and the wastes disposed thereon may be subject to CERCLA, the Resource Conservation and Recovery Act and analogous state laws. Under such laws, the Company would be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), property contamination (including groundwater contamination) or to perform remedial operations to prevent future contamination.

The Company and approximately 250 other potentially responsible parties ("PRPs") have received notices from the Environmental Protection Agency (the "EPA") that each is a PRP under CERCLA in connection with a waste oil recycling facility operated in the State of Texas by Voda Petroleum. It is alleged that the Company and its predecessors generated waste which was transported to a site operated by Voda Petroleum and that Voda Petroleum improperly disposed of the waste. The EPA has conducted a preliminary assessment of the site and determined that the contamination consists primarily of oil that is subject to the requirements of Oil Pollution Act of 1990 ("OPA") which subjects owners of facilities to strict joint and several liability for all containment and cleanup costs and certain other damages arising from an oil spill including, but not limited to, the costs of responding to a release of oil to surface waters. Liability under OPA is generally limited to the party responsible for the facility from which the spill or release actually occurred. The EPA also has determined that a portion of the contamination at the site consists of hazardous substances that are subject to the provisions of CERCLA. The EPA has indicated that it intends to remediate the Voda site and has established an initial site cleanup estimate of approximately \$2 million. Management of the

Company believes that the Company's liability, if any, to the extent not otherwise provided for, should not have a material adverse effect on the Company's consolidated financial statements.

Although the Company believes that it is in substantial compliance with existing laws and regulations, there can be no assurance that substantial costs for compliance will not be incurred in the future. Moreover, it is possible that other developments, such as stricter environmental laws, regulations and enforcement policies thereunder, could result in additional, presently unquantifiable, costs or liabilities to the Company.

AGREEMENT WITH PREVIOUS OWNERS

The Purchase Agreement entered into among the Company, USX Corporation and Armco Inc. in connection with the Acquisition of the Partnership from them provides that the Company will be responsible for (i) all of the liabilities, including environmental costs, disclosed and undisclosed, created after April 1, 1987 with respect to the business operations of the predecessor partnership as they were being conducted on the closing date ("Continuing Operations"), (ii) disclosed liabilities created after April 1, 1987 with respect to operations of the Partnership discontinued or sold prior to the closing date ("Discontinued Operations"), (iii) disclosed liabilities for environmental costs for conditions in existence as of April 1, 1987 ("Pre-1987 Environmental Costs"), (iv) fifty percent of the first \$8.0 million of the aggregate of undisclosed Pre-1987 Environmental Costs and undisclosed liabilities related to Discontinued Operations and (v) taxes other than United States federal income taxes. While there can be no assurance as to undisclosed liabilities, the Company's financial statements reflect appropriate reserves for all material liabilities under items (i), (ii), (iii) and (v) which were disclosed prior to the acquisition of the Partnership or identified subsequently by the Company. It is not possible to estimate the aggregate liability of the Company for undisclosed liabilities under items (i), (iv) and (v), but the Company's exposure under item (iv) is limited to a maximum of \$4 million.

LEGAL PROCEEDINGS

There are pending or threatened against the Company various claims, lawsuits and administrative proceedings, all arising from the ordinary course of business, with respect to commercial, product liability and employee matters which seek remedies or damages. Although no assurance can be given with respect to the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the Company, management believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for, will not have a material adverse effect on the Company's consolidated financial statements.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

Set forth below are the Company's executive officers and directors, together with their positions and ages.

| NAME | AGE | POSITION WITH THE COMPANY | DIRECTOR'S TERM EXPIRING |
|---------------------------|-----|---|--------------------------|
| Joel V. Staff(1) | 52 | Chairman of the Board, President and Chief Executive Officer | 1999 |
| C. R. Bearden | 50 | Executive Vice President, President of Distribution Services and Director | 1998 |
| Lynn L. Leigh | 71 | Senior Vice President -- Marketing | -- |
| Steven W. Krablin | 46 | Vice President and Chief Financial Officer | -- |
| James J. Fasnacht | 41 | Vice President and General Manager of Pumping Systems | -- |
| Merrill A. Miller, Jr. | 46 | Vice President and General Manager of Drilling Systems | -- |
| Jerry N. Gauche | 48 | Vice President -- Organizational Effectiveness | -- |
| Paul M. Nation | 42 | Vice President, Secretary and General Counsel | -- |
| W. McComb Dunwoody(1) | 51 | Director | 1999 |
| William E. Macaulay(1)(3) | 51 | Director | 1999 |
| Howard I. Bull(2)(3) | 56 | Director | 1998 |
| James T. Dresher(2) | 77 | Director | 1997 |
| James C. Comis III | 32 | Director | 1998 |
| Bruce M. Rothstein | 44 | Director | 1997 |

(1) Member of Executive Committee.

(2) Member of Audit Committee.

(3) Member of Compensation Committee.

The Amended and Restated Certificate of Incorporation of the Company classifies the board of directors into three classes having staggered terms of three years each. The number of directors is fixed from time to time by resolution of the board of directors and consists of not less than three directors. The board of directors is currently set at eight members. The executive officers named above were elected to serve in such capacities until the next annual meeting of the board of directors, or until their respective successors have been duly elected and qualified, or until their earlier death, resignation, disqualification or removal from office.

Set forth below is a brief description of the business experience of the executive officers and directors of the Company.

Joel V. Staff has served as the President and Chief Executive Officer of the Company since July 1993 and Chairman of the Board since January 1996. Prior to joining the Company, Mr. Staff served as a Senior Vice President of Baker Hughes Incorporated, a worldwide diversified oil services company, from October 1983 to May 1993. Mr. Staff also serves as a director of Destec Energy Inc., an independent power company.

C. R. Bearden has served as Executive Vice President of the Company and President of Distribution Services since January 1995 and as a Director since January 1996. Mr. Bearden served in various executive capacities including President and Chief Executive Officer of Chiles Offshore Corporation from 1979 until that company's 1994 acquisition by a subsidiary of Noble Drilling Corporation, an offshore drilling contractor, where he served as President and Chief Operating Officer until joining the Company.

Lynn L. Leigh has served as a Senior Vice President since October 1993. Prior to joining the Company, Mr. Leigh served as the President and Chief Executive Officer of Hydril Company, a manufacturer of oilfield drilling equipment, from January 1992 to July 1993. Prior thereto, he provided consulting and project management support services to Grasso Oilfield Services, Inc. from March 1989 to December 1991 and served as President of Unit Rig and Equipment Company from November 1987 to February 1989. From July 1993 to October 1993, Mr. Leigh was self-employed managing his personal investments. Mr. Leigh also serves as a director of Global Marine, Inc., a marine drilling contractor.

Steven W. Krablin has served as Vice President and Chief Financial Officer since January 1996. Mr. Krablin served in various capacities including Vice President-Finance and Chief Financial Officer of Enterra Corporation, a NYSE-listed, international oilfield service company, from 1986 to January 1996.

James J. Fasnacht has served as Vice President and General Manager of Pumping Systems since November 1993, as Human Resources Manager from 1991 to November 1993 and in various other capacities since joining the Company in 1979.

Merrill A. Miller, Jr. has served as Vice President and General Manager of Drilling Systems since July 1996 and as Vice President of Marketing, Drilling Systems from February 1996 to July 1996. Prior thereto, Mr. Miller was President of Anadarko Drilling Company, a drilling contractor, from January 1995 to February 1996. From May 1980 to January 1995, Mr. Miller served in various capacities including Vice President/U.S. Operations of Helmerich & Payne International Drilling Co., a drilling contractor.

Jerry N. Gauche has served as Vice President -- Organizational Effectiveness since joining the Company in January 1994. Prior thereto, Mr. Gauche was employed by BP Exploration, Inc., an oil and gas exploration and production company, where he served as General Manager of Central Services from January 1990 to September 1992 and Director of Public Affairs and Executive Coordination from May 1988 to December 1989. From October 1992 to January 1994, Mr. Gauche was self-employed managing his personal investments.

Paul M. Nation has served as Secretary and General Counsel of the Company since 1987 and Vice President since 1994.

W. McComb Dunwoody has served as a Director of the Company since January 1996. Mr. Dunwoody has been Chief Executive Officer since 1981 of The Inverness Group Incorporated, which sponsors and invests in private equity transactions. Additionally, he has served as President and Chief Executive Officer of Inverness/Phoenix LLC since 1994.

William E. Macaulay has served as a Director of the Company since January 1996. Mr. Macaulay has been the President and Chief Executive Officer of First Reserve Corporation, a corporate manager of private investments focusing on the energy and energy-related sectors, since 1983. Mr. Macaulay serves as a director of Weatherford Enterra, Inc., an oilfield service company, Maverick Tube Corporation, a manufacturer of steel pipe and casing, Transmontaigne Oil Company, an oil products distribution and refining company, Hugoton Energy Corporation, an independent oil and gas exploration and production company, and Cal Dive International, Inc., a provider of subsea services in the Gulf of Mexico.

Howard I. Bull has served as a Director of the Company since January 1996. Since April 1994, Mr. Bull has been President, Chief Executive Officer and a director of Dal-Tile International, Inc. which is the largest tile manufacturer and distributor in North America. Prior to joining Dal-Tile International, Inc., Mr. Bull spent 10 years with Baker Hughes Incorporated, a worldwide diversified oil services company, where he became Chief Executive Officer for Baker Hughes Drilling Equipment Company. Additionally, he served York International Corporation, a worldwide manufacturer and distributor of air conditioner and refrigeration equipment, as President of its Applied Systems Division and Air Conditioning Business Group. Mr. Bull also serves as a director of Marine Drilling Companies, Inc., an offshore drilling contractor.

James T. Dresher has served as a Director of the Company since January 1996. Mr. Dresher has been Chairman/Chief Executive Officer and principal owner of Unidata, Inc., a Denver-based software company, since December 1991 and has been Chairman and owner of Glenangus, a residential real estate development company, since 1972. In addition, Mr. Dresher served as Chairman/CEO of York International Corporation

from 1988 to 1993. Prior thereto, Mr. Dresher served as a director, Chief Financial Officer and Executive Vice President of Baker International Corporation.

James C. Comis III has served as a Director of the Company since January 1996. Mr. Comis has served as Managing Director of Inverness/Phoenix LLC since August 1994. From August 1990 to August 1994, Mr. Comis was engaged in sponsoring and investing in private equity transactions with Mr. Dunwoody.

Bruce M. Rothstein has served as a Director of the Company since May 1996. Mr. Rothstein is Vice President of First Reserve Corporation, which he joined in 1991. Prior to joining First Reserve, he served as Treasurer and Chief Accounting Officer of Computer Factory, Inc.

APPOINTMENT OF DIRECTORS

All of the existing members of the Company's board of directors were designated and elected pursuant to the terms of the Stockholders Agreement. Messrs. Staff and Bearden were designated to serve as directors pursuant to the Stockholders Agreement because they serve as the Company's Chief Executive Officer and Executive Vice President, respectively. Messrs. Dunwoody, Bull, Dresher and Comis were designated to serve as directors pursuant to the Stockholders Agreement by DPI Oil Service Partners Limited Partnership for which Inverness/Phoenix LLC serves as the managing general partner. Messrs. Macaulay and Rothstein were designated to serve as directors pursuant to the Stockholders Agreement by the partnerships for which First Reserve Corporation serves as the managing general partner. The terms of the Stockholders Agreement concerning rights to designate members of the board of directors will terminate automatically upon the completion of the Offering and will not be replaced by any agreement among the stockholders.

COMMITTEES

The Company has the following standing committees of the board of directors:

Executive Committee. The Executive Committee consists of Messrs. Dunwoody, Staff and Macaulay, with Mr. Dunwoody serving as Chairman. The Executive Committee has the full power and authority to exercise all the powers of the board of directors in the management of the business except the power to fill vacancies in the board of directors and the power to amend the Bylaws.

Audit Committee. The Audit Committee consists of Messrs. Dresher and Bull, with Mr. Dresher serving as Chairman. The Audit Committee has responsibility for, among other things, (i) recommending the selection of the Company's independent accountants, (ii) reviewing and approving the scope of the independent accountants' audit activity and extent of non-audit services, (iii) reviewing with Management and the independent accountants the adequacy of the Company's basic accounting systems and the effectiveness of the Company's internal audit plan and activities, (iv) reviewing with Management and the independent accountants the Company's financial statements and exercising general oversight of the Company's financial reporting process and (v) reviewing the Company's litigation and other legal matters that may affect the Company's financial condition and monitoring compliance with the Company's business ethics and other policies.

Compensation Committee. The Compensation Committee consists of Messrs. Bull and Macaulay, with Mr. Bull serving as Chairman. This committee has general supervisory power over, and the power to grant options under, the Stock Award and Long-Term Incentive Plan and the Value Appreciation Plans. The Compensation Committee has responsibility for, among other things, (i) reviewing the recommendations of the Chief Executive Officer as to appropriate compensation of the Company's principal executive officers and certain other key personnel and establishing the compensation of such key personnel and the Chief Executive Officer, (ii) examining periodically the general compensation structure of the Company and (iii) supervising the welfare and pension plans and compensation plans of the Company.

DIRECTOR COMPENSATION

Directors who are full-time employees of the Company do not receive a retainer or fees for service on the board of directors or on committees of the board. Members of the board of directors who are not full-time

employees of the Company receive an annual fee of \$15,000, a fee of \$1,000 for attendance at each meeting of the board of directors and at each meeting of its committees or any special committee established by the board, and a fee of \$1,000 per day for any special assignments. The chairmen of the audit and compensation committees receive a fee of \$1,250 for attendance at each meeting of the committee they chair. In addition, directors of the Company (including directors who are not full-time employees of the Company) are eligible for grants of stock options and other awards, although no grants have been made, pursuant to the Stock Award and Long-Term Incentive Plan.

EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth certain information concerning the compensation payable by the Company to its Chief Executive Officer and its other most highly compensated executive officers for the year ended December 31, 1995 and includes executive officers who joined the Company in 1996.

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | ANNUAL COMPENSATION | | ALL OTHER COMPENSATION |
|---|---------------------|-------|---------------------------|
| | SALARY | BONUS | |
| Joel V. Staff..... Chairman, President and Chief Executive Officer | \$275,016 | -- | -- |
| C. R. Bearden..... Executive Vice President | 215,625 | -- | -- |
| Lynn L. Leigh..... Senior Vice President | 195,000 | -- | -- |
| Steven W. Krablin(1)..... Vice President and Chief Financial Officer | -- | -- | -- |
| Merrill A. Miller, Jr.(1) Vice President | -- | -- | -- |

(1) Messrs. Krablin and Miller joined the Company in January 1996 and February 1996, respectively.

EMPLOYMENT AND COMPENSATION ARRANGEMENTS

Effective as of January 1, 1996, the Company entered into an employment agreement with each of the executive officers providing for a base salary, participation in the Company's Incentive Plan and employee benefits as generally provided to all employees for a continuing term of two years for Mr. Staff and one year for each of the other executive officers. The Company is not obligated to pay any amounts pursuant to the employment agreements upon (i) voluntary termination; (ii) termination for cause (as defined); (iii) death; (iv) long-term disability; or (v) employee's refusal to accept comparable employment with a successor corporation. If the employment relationship is terminated by the Company for any other reason, or by the employee due to an uncorrected material breach of the employment agreement by the Company, the employee is entitled to receive his base salary and current year targeted bonus amount either as a lump sum payment or over the one or two year term, as applicable, as determined by the employment agreement under the circumstances. The employment agreements with executive officers provide for the following base salaries for 1996: Joel V. Staff -- \$300,000; C. R. Bearden -- \$240,000; Lynn L. Leigh -- \$195,000; Steven W. Krablin -- \$150,000; and Merrill A. Miller, Jr. -- \$150,000. The executive officers are entitled to bonuses as provided in the Company's 1996 Employee Incentive Plan. See "-- Employee Benefit Plans and Arrangements -- Employee Incentive Plan." The named executive officers are also entitled to certain benefits upon termination pursuant to the Stock Incentive Plan and Value Appreciation Plans, as described herein. Termination payments to each of the named executive officers would be as follows: Joel V. Staff -- \$727,500; C. R. Bearden -- \$324,000; Lynn L. Leigh -- \$263,250; Steven W. Krablin -- \$202,500; and Merrill A. Miller, Jr. -- \$202,500. During the period of employment and for a period after termination of two years for Mr. Staff and one year for each of the other executive officers, the employees are generally prohibited from

competing or assisting others to compete with the Company in its existing or recent business, or inducing any other employee to terminate employment with the Company.

LONG-TERM STOCK INCENTIVE PLAN

In 1996, the Company adopted a Stock Award and Long-Term Incentive Plan ("Stock Incentive Plan"), which provides for the award of restricted stock, incentive stock options, stock appreciation rights, performance share awards, stock value equivalent awards or any combination of the above, to certain key employees of the Company (the "Employee Plan Participants"). Awards are granted to Employee Plan Participants by the Compensation Committee of the board of directors of the Company. The Stock Incentive Plan authorizes the issuance of up to an aggregate of 1,941,303 shares of Common Stock of the Company to the Employee Plan Participants. As of August 31, 1996, 941,303 shares of Common Stock of the Company had been awarded as restricted stock to seven recipients, each of whom is an executive officer of the Company, pursuant to Restricted Stock Agreements. Those Restricted Stock Agreements provide for the purchase of Common Stock of the Company for \$.001 per share (the "Restricted Stock"). Any of the 941,303 shares of Restricted Stock which are forfeited can be reawarded to new participants by the Company. The Restricted Stock is subject to forfeiture restrictions, which prohibit the stock from being sold, assigned, pledged, exchanged or otherwise transferred until the forfeiture restrictions have lapsed. The Restricted Stock Agreements also provide that the Restricted Stock must be resold to the Company for \$.001 per share if the recipients' employment with the Company is terminated for any reason prior to the lapse of the forfeiture restrictions. The forfeiture restrictions lapse each year on 20% of the total number of shares of Restricted Stock awarded to each Employee Plan Participant and on an additional twenty percent of the Restricted Stock awarded to an Employee Plan Participant upon an involuntary termination of employment without cause. The Stock Incentive Plan is administered by the Compensation Committee.

Under certain circumstances, the accelerated lapsing of the forfeiture provisions of the Restricted Stock might be deemed an "excess parachute payment" for purposes of the golden parachute tax provisions of Section 280G of the Internal Revenue Code. To the extent it is so considered, the Company may be denied a tax deduction. In addition, the Restricted Stock Agreements provide for the Company to pay the Employee Plan Participants a bonus which is equal to two-thirds of the amount of any excess parachute tax payments which may be made by the Employee Plan Participants (the "Parachute Bonuses"), plus an additional amount equal to the additional income taxes to be paid by the participants related to the Parachute Bonuses.

EMPLOYEE BENEFIT PLANS AND ARRANGEMENTS

The following are descriptions of certain of the Company's employee benefit plans and arrangements under which employees, officers and directors of the Company may participate.

Employee Incentive Plan. In 1996, the Company established the 1996 National-Oilwell Employee Incentive Plan (the "Employee Incentive Plan") in which all employees, including executive officers, are eligible to receive cash bonus payments. The amount of the bonus payment is determined by the Company's performance objectives based on measures of EBITDA and the ratio of EBITDA to capital employed. A minimum performance level must be achieved by the Company before any bonus is earned, and higher levels of achievement are rewarded with increasing bonus payments based upon an established progression. A participant's bonus opportunity varies depending upon the level of his or her position. The maximum bonus opportunity for the President is approximately 65% of annual base salary and for the other executive officers is approximately 50%. The board of directors may adjust the award by as much as 25% of the target award.

Value Appreciation and Incentive Plan A. The Company has adopted an incentive plan, the Value Appreciation and Incentive Plan A ("VAP A"), which provides for certain key employees of the Company ("VAP A Participants") to qualify for an award upon the occurrence of certain events, including an initial public offering. The Company grants VAP A Participants awards in the form of Value Appreciation Units ("VAUs"), of which a maximum of 80 can be awarded under VAP A. As of August 31, 1996 there were 27 key employees and managers (of whom only Mr. Leigh is an executive officer of the Company) participating in VAP A, and 63 of the 80 VAUs available had been awarded to those VAP A Participants. In the event of

an initial public offering, the maximum amount to be awarded to VAP A Participants (the "Maximum VAP A Award"), which assumes all 80 VAUs have been awarded, is calculated by multiplying the value of the total number of issued and outstanding shares of Common Stock of the Company immediately prior to the Offering (valued at the initial public offering price, less underwriters' discount) times 0.04.

The amount of the award to be distributed to an individual VAP A Participant (an "Individual Distribution Award") is calculated by multiplying the Maximum VAP A Award by a fraction, the numerator of which is the number of VAUs awarded to the individual VAP A Participant, and the denominator of which is 80. Plan A Participants will receive one-third of their Base Distribution Amount in cash within 30 days of the initial public offering. The remainder of the Base Distribution Amount will be paid by distribution of a number of shares of Common Stock of the Company determined by dividing the dollar value of such remainder by the per share initial public offering price, with one-half of such shares of Common Stock being distributed on the first anniversary of the initial public offering and with the remainder of such shares of Common Stock being distributed on January 17, 1999. The right of a participant to retain the stock can not be forfeited unless the participant is terminated for cause before the distribution of such Common Stock.

Under certain circumstances, the amounts payable under VAP A might be deemed an "excess parachute payment" for purposes of the golden parachute tax provisions of Section 280G of the Internal Revenue Code. To the extent it is so considered, the Company may be denied a tax deduction. In addition, VAP A provides for the Company to pay the VAP A Participants a bonus which is equal to two-thirds of the amount of any excess parachute tax payments which may be made by the VAP A Participants (the "VAP A Parachute Bonuses"), plus an additional amount equal to the additional income taxes to be paid by the VAP A Participants related to the VAP A Parachute Bonuses.

Value Appreciation and Incentive Plan B. The Company has adopted another incentive plan, the Value Appreciation and Incentive Plan B ("VAP B", and collectively with VAP A, the "Value Appreciation Plans"), which provides for certain executive officers of the Company to qualify for an award upon the occurrence of certain events, including an initial public offering. Only executive officers who have received an award of restricted stock under the Company's Stock Incentive Plan as of the date of an initial public offering ("VAP B Participants") participate in VAP B. As of August 31, 1996 there were seven participants in VAP B. Awards to VAP B Participants consist of a Pool A Award and a Pool B Award. The total Pool A Award is calculated by multiplying the value of the total number of issued and outstanding shares of Common Stock of the Company immediately prior to the public offering (valued at the initial public offering price, less underwriters' discount) times 0.01. The total Pool B Award is \$3,490,000.

The portion of the Pool A Award to be distributed to an individual VAP B Participant is calculated by multiplying the Pool A Award by a fraction, the numerator of which is the number of shares of stock of the Company awarded to the individual VAP B Participant, and the denominator of which is the total number of shares of stock of the Company awarded to all VAP B Participants. Plan B Participants will receive one-third of their Base Distribution Amount in cash within 30 days of the initial public offering. The remainder of the Base Distribution Amount will be paid by distribution of a number of shares of Common Stock of the Company determined by dividing the dollar value of such remainder by the per share initial public offering price, with one-half of such shares of Common Stock being distributed on the first anniversary of the initial public offering and with the remainder of such shares of Common Stock being distributed on January 17, 1999. The right of a participant to retain the stock can not be forfeited unless the participant is terminated for cause before the distribution of such Common Stock.

The portion of the Pool B Award to be distributed to an individual VAP B Participant is calculated by multiplying the Pool B Award by a fraction, the numerator of which is the number of shares of restricted stock of the Company awarded to the individual VAP B Participant under the Company's Stock Incentive Plan, and the denominator of which is the total number of shares of restricted stock of the Company awarded to all VAP B Participants under the Company's Stock Incentive Plan. The timing of the distribution of the Pool B Awards is tied to the date upon which an initial public offering occurs, but if such event occurs prior to January 1, 1997, the Pool B Award will be paid in five equal installments on January 17 in 1997, 1998, 1999, 2000 and 2001. Pool B Awards are payable in cash. The right of a participant to receive the Pool B Award of

VAP B can not be forfeited unless the participant is terminated for cause before the receipt of the Pool B Award.

Under certain circumstances, the amounts payable under VAP B might be deemed an "excess parachute payment" for purposes of the golden parachute tax provisions of Section 280G of the Internal Revenue Code. To the extent it is so considered, the Company may be denied a tax deduction. In addition, VAP B provides for the Company to pay the VAP B Participants a bonus which is equal to two-thirds of the amount of any excess parachute tax payments which may be made by the VAP B Participants (the "VAP B Parachute Bonuses"), plus an additional amount equal to the additional income taxes to be paid by the VAP B Participants related to the VAP B Parachute Bonuses.

Supplemental Savings Plan. The Supplemental Savings Plan is a non-qualified deferred compensation plan, which permits certain employees (31 as of June 30, 1996) to defer receipt of regular and/or incentive compensation. Participants are not entitled to receive any deferred amounts prior to termination of employment, at which time payments will be made in a lump sum or in monthly payments over a prespecified period not to exceed 10 years.

The Supplemental Savings Plan also provides for the Company to make contributions on behalf of the participants whose contributions to the Company's Retirement and Thrift Plan are limited by various Internal Revenue Code regulations. The Supplemental Savings Plan assets are held in a trust whose assets may be reached by creditors, but which are unavailable to the Company. Shares of the Company's Common Stock held in trust pursuant to this plan are voted by a party unaffiliated with the Company or the trustee of the plan.

CERTAIN TRANSACTIONS

STOCKHOLDERS AGREEMENT

The Company and the holders of 100% of the Company's Class A Common Stock and Common Stock outstanding prior to the Offering have entered into a Stockholders Agreement dated January 16, 1996, as amended (the "Stockholders Agreement"). The Stockholders Agreement contains provisions for management of the Company, voting of shares, election of directors and restrictions on transfer of shares. Among other things, the Stockholders Agreement provides that four members of the Company's board of directors would be designated by DPI Oil Service Partners Limited Partnership (of which Inverness/Phoenix LLC serves as the managing general partner), two members of the board would be designated by partnerships of which First Reserve Corporation serves as the managing general partner, and the Chief Executive Officer and Executive Vice President would serve as the remaining two directors of the Company's eight member board of directors. All of the existing members of the Company's board of directors were designated and elected pursuant to the terms of the Stockholders Agreement. The terms of the Stockholders Agreement concerning rights to designate members of the board of directors, management of the Company, and restrictions on transfer of shares all will terminate automatically upon the completion of the Offering. In addition, the Stockholders Agreement provides the Inverness Investors and the First Reserve Investors, after the Offering, the right on four occasions to require the Company to register all or part of their registerable shares under the Securities Act, and the Company is required to use its best efforts to effect such registration, subject to certain conditions and limitations. The Stockholders Agreement also provides all the parties to the Stockholders Agreement with piggyback registration rights on any offering by the Company of any of its securities to the public except a registration on Forms S-4 or S-8. The Company will bear the expenses of all registrations under the Stockholders Agreement. The parties to the Stockholders Agreement have waived their registration rights with respect to a Registration Statement filed by the Company with respect to the Offering.

FEE AGREEMENTS

The Company entered into a Management Services Agreement dated January 16, 1996 (the "Management Services Agreement") with Inverness/Phoenix LLC, a Connecticut limited liability company. This agreement will be terminated and replaced with a Deferred Fee Agreement immediately prior to the Offering.

The Management Services Agreement provides that Inverness/Phoenix LLC perform management services as directed by the Company's board of directors, including (i) assisting executive management; (ii) identifying and negotiating acquisitions and dispositions for the Company; (iii) negotiating and analyzing financing alternatives in connection with acquisitions, capital expenditures, and refinancings; (iv) financial modeling and analysis; (v) assisting in executive searches and (vi) other services as agreed with the Company's board of directors.

The Management Services Agreement provides that Inverness/Phoenix LLC receive fees of \$1,000,000 per year, payable quarterly commencing in January 1996 and a transaction fee in connection with each acquisition or disposition by the Company of an existing business of 1% of the aggregate transaction value of each such transaction.

Prior to the Offering, the Management Services Agreement will be terminated and replaced by a Deferred Fee Agreement with Inverness/Phoenix LLC and First Reserve Corporation. Under the terms of the Deferred Fee Agreement, Inverness/Phoenix LLC will be paid \$250,000 in advance quarterly beginning on the first day of the calendar quarter following the Offering through December 31, 1999. In addition, Inverness/Phoenix LLC and First Reserve Corporation will be paid fees aggregating \$1,050,000 and \$225,000, respectively, on the first date and to the extent such payment would not be an event of default under the Seller Notes. The Seller Notes provide that an event of default would occur if aggregate management or similar fees are paid to Inverness/Phoenix LLC and First Reserve Corporation in any calendar year in excess of \$1,000,000, or if transaction fees in excess of 1% of the aggregate transaction value of any merger, acquisition, consolidation or divestiture involving the Company (a "transaction") are paid to Inverness/Phoenix LLC and/or First Reserve Corporation. If a transaction occurs prior to January 1, 2000, a portion of the \$1,275,000 shall be considered, and paid as, a transaction fee to the extent that such payment does not cause an event of default under the Seller Notes. With respect to the \$1,275,000, all amounts remaining unpaid as of January 1, 2000, shall be considered as a management or similar fee and shall be payable quarterly in advance in the aggregate amount of \$250,000 (proportionally to Inverness/Phoenix LLC and First Reserve Corporation) beginning on January 1, 2000, until the remaining unpaid portion of the \$1,275,000 has been paid.

For its assistance in the Acquisition of the Partnership in January 1996, Inverness/Phoenix LLC was paid a transaction fee of \$1,800,000. In connection with the Acquisition of the Partnership in January 1996, the Company paid First Reserve Corporation a \$1,200,000 transaction fee. In connection with the Acquisition of the Partnership, GE Capital provided the Credit Facility, Subordinated Note and equity capital and received transaction fees totalling \$4.7 million.

MANAGEMENT NOTES

In connection with the Acquisition, four of the Company's executive officers issued promissory notes (the "Officer Notes") to the Company in an aggregate amount of approximately \$500,000 in exchange for Class A Common Stock of the Company. The Officer Notes bear interest until maturity at 1.5% above the prime interest rate, payable annually, and the principal is due on January 15, 2001 unless extended at the option of the Company. The Officer Notes were issued by the following executive officers: James J. Fasnacht -- \$150,000; Paul M. Nation -- \$199,999; C. R. Bearden -- \$100,000; and Lynn L. Leigh -- \$49,999. In accordance with their terms, the Officer Notes will be prepaid immediately prior to the Offering.

RECENT SALES OF COMMON STOCK

On July 15, 1995, the Company sold an aggregate of 1,168,310 shares of Common Stock at \$.001 per share to DPI Oil Service Partners Limited Partnership and DPI Partners II, two limited partnerships for which Inverness/Phoenix LLC serves as managing general partner, in connection with the initial capitaliza-

tion of the Company. On January 16, 1996, the Company sold an aggregate of 8,806,479 shares of Common Stock at \$.011 per share, 753,049 shares of Common Stock at \$.001 per share, an aggregate of 13,085.6 shares of Class A Common Stock at \$2,264 per share to the Inverness Investors, the First Reserve Investors, GE Capital and members of management, including Messrs. Staff, Bearden, Leigh, Nation and Gauche, in connection with the closing of the Acquisition, and the Company issued a warrant to GE Capital to purchase 282,392 shares of Common Stock for \$.011 per share in connection with the Credit Facility. On July 24, 1996, the Company received the funds for and completed the previously committed sale of an aggregate of 148,456 shares of Common Stock at \$.011 per share, 282,381 shares of Common Stock at \$.001 per share and an aggregate of 202.4 shares of Class A Common Stock at \$2,264 per share to Messrs. Fasnacht, Krablin and Miller in connection with the Acquisition which occurred in January 1996.

PRINCIPAL STOCKHOLDERS

The following table sets forth the beneficial ownership of Common Stock by (i) each beneficial owner of more than five percent of the Company's Common Stock, (ii) each director of the Company, (iii) each of the executive officers of the Company named in the Summary Compensation Table and (iv) all executive officers and directors of the Company as a group. At June 30, 1996, there were 13,368,392 shares of Common Stock outstanding, after giving effect to the issuance of 282,392 shares upon the exercise of the Warrant.

| NAME OF BENEFICIAL OWNER | BENEFICIAL OWNERSHIP BEFORE OFFERING | | BENEFICIAL OWNERSHIP AFTER OFFERING(1) | |
|---|---|------------|---|------------|
| | SHARES | PERCENTAGE | SHARES | PERCENTAGE |
| The Inverness Investors(2)..... 666 Steamboat Road Greenwich, Connecticut 06830 | 5,150,033 | 38.5% | 5,150,033 | 29.7% |
| The First Reserve Investors(3)..... 475 Steamboat Road Greenwich, Connecticut 06830 | 4,227,968 | 31.6 | 4,227,968 | 24.3 |
| GE Capital..... 105 W. Madison Street, Suite 1600 Chicago, Illinois 60602 | 1,607,289 | 12.0 | 1,607,289 | 9.3 |
| Joel V. Staff..... | 369,296 | 2.7 | 369,296 | 2.1 |
| Staff Trust(4)..... | 528,814 | 4.0 | 528,814 | 3.0 |
| C. R. Bearden..... | 422,059 | 3.2 | 422,059 | 2.4 |
| Steven W. Krablin..... | 172,062 | 1.3 | 172,062 | 1.0 |
| Lynn L. Leigh..... | 155,870 | 1.2 | 155,870 | * |
| Merrill A. Miller, Jr..... | 94,127 | * | 94,127 | * |
| W. McComb Dunwoody..... | 5,150,033(5) | 38.5 | 5,150,033(5) | 29.7 |
| William E. Macaulay..... | 4,227,968(6) | 31.6 | 4,227,968(6) | 24.3 |
| Howard I. Bull..... | -- | -- | -- | -- |
| James T. Drescher..... | -- | -- | -- | -- |
| James C. Comis III..... | 5,150,033(7) | 38.5 | 5,150,033 | 29.7 |
| Bruce M. Rothstein..... | -- | -- | -- | -- |
| All directors and executive officers as a group (14 persons)(5)(6)(7)... | 11,232,289 | 84.0 | 11,232,289 | 64.7 |

* Less than 1%.

(1) Excludes shares of Common Stock issuable pursuant to the Company's Value Appreciation Plans (343,986 shares of Common Stock based on an assumed initial public offering price of \$16.00 per share).

(2) The "Inverness Investors" consist of two limited partnerships, DPI Oil Service Partners Limited Partnership and DPI Partners II, of which Inverness/Phoenix LLC, is, in each case, the managing general partner.

- (3) The "First Reserve Investors" consist of three limited partnerships, First Reserve Fund V, Limited Partnership, First Reserve Fund V-2 and First Reserve Fund VI, Limited Partnership, of which First Reserve Corporation is, in each case, the managing general partner.
- (4) These shares are owned by the trust created by that certain Trust Agreement dated April 12, 1989 by and among Joel V. Staff and Mary Martha Staff, as Trustors, and Richard Staff, as Trustee. Mr. Staff does not vote nor exercise investment power over these shares.
- (5) Represents shares owned by the Inverness Investors. Mr. Dunwoody serves on the investment committee of Inverness/Phoenix LLC, which is the managing general partner of the partnerships that are the record owners of the shares owned by the Inverness Investors. The investment committee has sole power to vote and dispose of the investments of Inverness/Phoenix LLC.
- (6) This figure equals all shares beneficially owned by the First Reserve Investors. First Reserve Corporation, of which Mr. Macaulay is the President and Chief Executive Officer, is the managing general partner of the limited partnerships comprising the First Reserve Investors. Mr. Macaulay disclaims beneficial ownership as to all such shares.
- (7) Represents shares owned by the Inverness Investors. Mr. Comis serves on the investment committee of Inverness/Phoenix LLC, which is the managing general partner of the partnerships that are the record owners of the shares owned by the Inverness Investors. The investment committee has sole power to vote and dispose of the investments of Inverness/Phoenix LLC.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 40,000,000 shares of common stock and 10,000,000 shares of preferred stock, par value \$.01 per share ("Preferred Stock").

COMMON STOCK

As of June 30, 1996, the Company's outstanding Common Stock consisted of 11,064,548 shares of Common Stock and 13,288 shares of the Company's Class A Common Stock. All outstanding shares of Class A Common Stock will have been automatically converted into shares of Common Stock on the effective date of the Registration Statement of which this Prospectus is a part. Upon completion of the Offering, 17,712,378 shares of Common Stock will be outstanding after giving effect to (i) the mandatory conversion of all outstanding shares of Class A Common Stock into 2,021,452 shares of Common Stock, (ii) the exercise of the Warrant to purchase 282,392 shares of Common Stock and (iii) the issuance of 343,986 shares of Common Stock under the Company's Value Appreciation Plans (assuming an initial public offering price of \$16.00 per share).

The holders of Common Stock are entitled to one vote per share on all matters voted on by the stockholders, including the election of directors. Holders of Common Stock are not entitled to cumulate their votes in elections of directors. Common stockholders have no preemptive rights or other rights to subscribe for additional shares.

Upon the effectiveness of the Registration Statement of which this Prospectus is a part, each share of Class A Common Stock will be automatically converted into shares of Common Stock pursuant to the Company's Charter. Each holder of Class A Common Stock will be entitled to receive the number of shares of Common Stock equal to the Original Cost divided by the net public offering price per share of the Common Stock being sold in the Offering (152.13 shares for each share of Class A Common Stock, based on an assumed initial public offering price of \$16.00 per share). Pursuant to the Charter, the number of shares of Common Stock issuable upon conversion of the Class A Common Stock is determined by dividing \$30,079,200 by the initial public offering price per share, less underwriting discount. Based on the range of the estimated initial public offering price of \$15.00 per share to \$17.00 per share (less estimated underwriting discount), the total number of shares of Common Stock which will be issued upon conversion of Class A Common Stock will range from 2,156,215 shares of Common Stock to 1,902,543 shares of Common Stock. At the conclusion of the Offering no shares of Class A Common Stock will remain outstanding.

After retirement of the Class A Common Stock upon consummation of the Offering, holders of Common Stock will have an equal and ratable right to receive dividends when, as and if declared by the board of directors out of funds legally available therefor subject only to any payment requirements or other restrictions imposed by any series of Preferred Stock that may be issued in the future. See "Dividend Policy."

The transfer agent and registrar for the Common Stock is American Stock Transfer & Trust Company.

PREFERRED STOCK

The board of directors of the Company, without any action by the stockholders of the Company, is authorized to issue up to 10,000,000 shares of Preferred Stock, in one or more series and to determine the voting rights (including the right to vote as a series on particular matters), preferences as to dividends and in liquidation and the conversion and other rights of each such series. There are no shares of Preferred Stock outstanding. See "Certain Anti-Takeover and Other Provisions of the Amended and Restated Certificate of Incorporation -- Preferred Stock."

CERTAIN ANTI-TAKEOVER AND OTHER PROVISIONS OF THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

The Amended and Restated Certificate of Incorporation (the "Charter") and the Bylaws of the Company contain provisions that could have an anti-takeover effect. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors of the Company and in the policies formulated by the board of directors and to discourage certain types of transactions which may involve an actual or threatened change of control of the Company. The provisions are designed to reduce the vulnerability of the Company to an unsolicited proposal for a takeover of the Company that does not contemplate the acquisition of all of its outstanding shares or an unsolicited proposal for the restructuring or sale of all or part of the Company. The provisions are also intended to discourage certain tactics that may be used in proxy fights. The board of directors believes that, as a general rule, such takeover proposals would not be in the best interest of the Company and its stockholders. Set forth below is a description of such provisions in the Charter and the Bylaws. The description of such provisions set forth below discloses, in the opinion of the Company's management, all material elements of such provisions, is intended only as a summary and is qualified in its entirety by reference to the pertinent sections of the Charter and the Bylaws, forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The board of directors has no current plans to formulate or effect additional measures that could have an anti-takeover effect.

Classified Board of Directors. The classification of directors will have the effect of making it more difficult for stockholders to change the composition of the board of directors. At least two annual meetings of stockholders generally will be required to effect a change in a majority of the board of directors. Such a delay may help ensure that the Company's directors, if confronted by a stockholder attempting to force a proxy contest, a tender or exchange offer or an extraordinary corporate transaction, would have sufficient time to review the proposal as well as any available alternatives to the proposal and to act in what they believe to be the best interests of the stockholders. The classification provisions will apply to every election of directors, however, regardless of whether a change in the composition of the board of directors would be beneficial to the Company and its stockholders and whether a majority of the Company's stockholders believes that such a change would be desirable. Pursuant to the Charter, the provisions relating to the classification of directors may only be amended by the affirmative vote of eighty percent of the then outstanding shares of capital stock entitled to vote thereon ("Voting Stock").

Removal of Directors Only for Cause. Pursuant to the Charter, directors can be removed from office, only for cause (as defined therein), by the affirmative vote of eighty percent of the Voting Stock, other than at the expiration of their term of office. Vacancies on the board of directors may be filled only by the remaining directors and not by the stockholders.

Number of Directors. The Charter provides that the entire board of directors will consist of not less than three members, the exact number to be set from time to time by resolution of the board of directors. Accordingly, the board of directors, and not the stockholders, has the authority to determine the number of directors and could delay any stockholder from obtaining majority representation on the board of directors by

enlarging the board of directors and filling the new vacancies with its own nominees until the next stockholder election.

No Written Consent of Stockholders. The Charter also provides that any action required or permitted to be taken by the stockholders of the Company must be taken at a duly called annual or special meeting of stockholders and may not be taken by written consent. In addition, special meetings may only be called by (i) the Chairman of the Board, (ii) the President or (iii) the board of directors pursuant to a resolution adopted by a majority of the then-authorized number of directors.

Charter and Bylaws. The Charter provides that the board of directors, by a majority vote, may adopt, alter, amend or repeal provisions of the Bylaws.

Business Combinations under Delaware Law. The Company is subject to section 203 of the Delaware General Corporation Law ("DGCL"), which prohibits certain transactions between a Delaware corporation and an "interested stockholder," which is defined as a person who, together with any affiliates and/or associates of such person, beneficially owns, directly or indirectly, 15% or more of the outstanding voting shares of a Delaware corporation. This provision prohibits certain business combinations (defined broadly to include mergers, consolidations, sales or other dispositions of assets having an aggregate value in excess of 10% of the consolidated assets of the corporation, and certain transactions that would increase the interested stockholder's proportionate share ownership in the corporation) between an interested stockholder and a corporation for a period of three years after the date the interested stockholder acquired its stock, unless (i) the business combination is approved by the corporation's board of directors prior to the date the interested stockholder acquired shares; (ii) the interested stockholder acquired at least 85% of the voting stock of the corporation in the transaction in which it became an interested stockholder; or (iii) the business combination is approved by a majority of the board of directors and by the affirmative vote of two-thirds of the votes entitled to be cast by disinterested stockholders at an annual or special meeting.

Preferred Stock. The Charter authorizes the board of directors of the Company, without any action by the stockholders of the Company, to issue up to 10,000,000 shares of Preferred Stock, in one or more series and to determine the voting rights (including the right to vote as a series on particular matters), preferences as to dividends and in liquidation and the conversion and other rights of each such series. Because the terms of the preferred stock may be fixed by the board of directors of the Company without stockholder action, the preferred stock could be issued quickly with terms designed to make more difficult a proposed takeover of the Company or the removal of its management, thus affecting the market price of the Common Stock and preventing stockholders from obtaining any premium offered by the potential buyer. The board of directors will make any determination to issue such shares based on its judgment as to the best interests of the Company and its stockholders.

LIABILITY OF OFFICERS AND DIRECTORS -- INDEMNIFICATION

Delaware law authorizes corporations to limit or eliminate the personal liability of officers and directors to corporations and their stockholders for monetary damages for breach of officers' and directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, officers and directors must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by Delaware law, officers and directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Delaware law enables corporations to limit available relief to equitable remedies such as injunction or rescission. The Charter limits the liability of officers and directors of the Company to the Company or its stockholders to the fullest extent permitted by Delaware law. Specifically, officers and directors of the Company will not be personally liable for monetary damages for breach of an officer's or director's fiduciary duty in such capacity, except for liability (i) for any breach of the officers and directors duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL, or (iv) for any transaction from which the officer and director derived an improper personal benefit.

The inclusion of this provision in the Charter may have the effect of reducing the likelihood of derivative litigation against officers and directors, and may discourage or deter stockholders or management from bringing a lawsuit against officers and directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefitted the Company and its stockholders. Both the Company's Charter and Bylaws provide indemnification to the Company's officers and directors and certain other persons with respect to certain matters to the maximum extent allowed by Delaware law as it exists now or may hereafter be amended. These provisions do not alter the liability of officers and directors under federal securities laws and do not affect the right to sue (nor to recover monetary damages) under federal securities laws for violations thereof.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the Offering, 17,712,378 shares of Common Stock will be outstanding. The shares of Common Stock sold in the Offering will be freely tradeable without restriction or further registration under the Securities Act, except for any shares purchased by an "affiliate" of the Company (as that term is defined under the Securities Act), which will be subject to the resale limitations of Rule 144 under the Securities Act. The remaining shares of Common Stock, which are held by the Company's current stockholders, will be "restricted securities" (within the meaning of Rule 144) and, therefore, will not be eligible for sale to the public unless they are sold in transactions registered under the Securities Act or pursuant to an exemption from registration, including pursuant to Rule 144 or an offshore transaction pursuant to Regulation S under the Securities Act. The 1,168,310 shares of Common Stock beneficially owned by the Inverness Investors that were issued on July 15, 1995 are restricted from resale pursuant to Rule 144 under the Securities Act until July 15, 1997. The remaining shares of Common Stock, held by the Company's existing stockholders, were issued in 1996 and are restricted from resale under Rule 144 until various dates in 1998. The Stockholders Agreement provides the Inverness Investors and the First Reserve Investors four demand registrations after the Offering and provides the parties to the Stockholders Agreement with piggyback registration rights. Such stockholders have waived their registration rights with respect to a Registration Statement filed by the Company with respect to the Offering. See "Certain Transactions -- Stockholders Agreement."

The Company intends to file a registration statement on Form S-8 under the Securities Act to register the shares of Common Stock reserved or to be available for issuance pursuant to the Stock Incentive Plan. Shares of Common Stock issued pursuant to such plan generally will be available for sale in the open market by holders who are not affiliates of the Company and, subject to the volume and other limitations of Rule 144, by holders who are affiliates of the Company.

In general, under Rule 144 as currently in effect, if a minimum of two years has elapsed since the later of the date of acquisition of the restricted securities from the issuer or from an affiliate of the issuer, a person (or persons whose shares of Common Stock are aggregated), including persons who may be deemed "affiliates" of the Company, would be entitled to sell within any three-month period a number of shares of Common Stock that does not exceed the greater of (i) 1% of the then outstanding shares of Common Stock (i.e., 177,100 shares immediately after consummation of the Offering) and (ii) the average weekly trading volume during the four calendar weeks preceding the date on which notice of the sale is filed with the Commission. Sales under Rule 144 are also subject to certain provisions as to the manner of sale, notice requirements, and the availability of current public information about the Company. In addition, under Rule 144(k), if a period of at least three years has elapsed since the later of the date restricted securities were acquired from the Company or the date they were acquired from an affiliate of the Company, a stockholder who is not an affiliate of the Company at the time of sale and has not been an affiliate for at least three months prior to the sale would be entitled to sell shares of Common Stock in the public market immediately without compliance with the foregoing requirements under Rule 144. Rule 144 does not require the same person to have held the securities for the applicable periods. The foregoing summary of Rule 144 is not intended to be a complete description thereof. The Commission has proposed an amendment to Rule 144 that would shorten the three- and two-year holding periods described above to two years and one year, respectively.

The Company, each of its directors and executive officers and all existing stockholders have agreed with the Underwriters that they will not offer, sell, contract to sell, sell any option or contract to purchase any

option or contract to sell, grant any option, right or warrant for the sale of, pledge, or otherwise dispose of or transfer any shares of Common Stock, with certain exceptions, for a period of 180 days after the date of this Prospectus without the prior written consent of Merrill Lynch, as representative of the Underwriters. See "Underwriting."

Prior to the Offering, there has been no public market for the Common Stock, and no prediction can be made of the effect, if any, that sales of Common Stock or the availability of shares for sale will have on the market price prevailing from time to time. Following the Offering, sales of substantial amounts of Common Stock in the public market or otherwise, or the perception that such sales could occur, could adversely affect the prevailing market price for the Common Stock.

UNDERWRITING

Subject to the terms and conditions set forth in the Purchase Agreement (the "Purchase Agreement") among the Company and each of the underwriters named below (the "Underwriters"), the Company has agreed to sell to each of the Underwriters, and each of the Underwriters, for whom Merrill Lynch, Goldman, Sachs & Co. and Simmons & Company International are acting as representatives (the "Representatives"), has severally agreed to purchase from the Company the number of shares of Common Stock set forth below opposite their respective names. The Underwriters are committed to purchase all of such shares if any are purchased. Under certain circumstances, the commitments of non-defaulting Underwriters may be increased as set forth in the Purchase Agreement.

| UNDERWRITERS | NUMBER OF SHARES |
|--|---------------------|
| Merrill Lynch, Pierce, Fenner & Smith Incorporated..... | |
| Goldman, Sachs & Co. | |
| Simmons & Company International..... | |
| Total..... | 4,000,000 ===== |

The Representatives have advised the Company that the Underwriters propose to offer the shares of Common Stock to the public initially at the public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of \$ per share. The Underwriters may allow, and such dealers may reallow, a discount not in excess of \$ per share on sales to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The Company has granted the Underwriters an option, exercisable by the Representatives, to purchase up to 600,000 additional shares of Common Stock at the initial public offering price, less the underwriting discount. Such option, which expires 30 days after the date of this Prospectus, may be exercised solely to cover over-allotments. To the extent that the Representatives exercise such option, each of the Underwriters will be obligated, subject to certain conditions, to purchase approximately the same percentage of the option shares that the number of shares to be purchased initially by that Underwriter bears to the total number of shares to be purchased initially by the Underwriters.

Prior to the Offering, there has been no public market for the Common Stock. The initial public offering price of the Common Stock will be determined through negotiations between the Company and the Representatives and may bear no relationship to the market prices of the Common Stock after this offering. The factors considered in determining the initial public offering price of the Common Stock, in

addition to prevailing market conditions, will be current and historical conditions in the supply and demand for the Company's products (which conditions may be influenced by oil and gas prices), business prospects of the Company and the prospects in general for the industries in which the Company operates, management of the Company, the earnings and cash flow multiples of the market prices of common stock of other publicly traded companies in industries in which the Company operates and the Company's cash flow and earnings prospects. There can be no assurance that an active market for the Common Stock will develop upon completion of the Offering or, if developed, that such market will be sustained. Prices for the Common Stock after the Offering may be influenced by a number of factors, including the depth and liquidity of the market for the Common Stock, investor perceptions of the Company and the oil and gas industry in general, and general economic and other conditions.

At the request of the Company, the Underwriters have reserved 200,000 shares of Common Stock for sale at the initial public offering price to employees of the Company. The number of shares of Common Stock available for sale to the general public will be reduced to the extent such employees purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the Underwriters to the general public on the same basis as the other shares offered hereby.

The Company has agreed to indemnify the Underwriters against certain liabilities including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

In connection with the Offering, the Company's directors and officers and certain of its stockholders have agreed that, during a period of 180 days from the date of this Prospectus, such holders will not, without the prior written consent of the Representatives, offer, sell, contract to sell, sell any option or contract to purchase any option or contract to sell, grant any option, right or warrant for the sale of, pledge, or otherwise dispose of or transfer any shares of Common Stock. In addition, the Company will not, without the prior written consent of Merrill Lynch, as representative of the Underwriters, directly or indirectly, offer, contract to sell, sell, grant any option with respect to, pledge, hypothecate or otherwise dispose of any shares of Common Stock except for (i) sales of the shares of Common Stock offered hereby, (ii) issuances pursuant to the exercise of outstanding warrants, stock options and convertible securities, (iii) grants of options or shares of Common Stock pursuant to the Stock Incentive Plan, (iv) bona fide gifts by stockholders to certain donees who agree to be bound by a similar agreement, (v) certain transfers in private transactions to affiliates of such stockholder who agree to be bound by a similar agreement, (vi) pledges by certain officers in connection with loans for the repayment of the Officer Notes to the Company and (vii) issuances of capital stock by the Company in connection with acquisitions of businesses, provided such shares issuable pursuant to acquisitions shall not be transferable prior to the end of the 180-day period.

Goldman, Sachs & Co. was paid ordinary and customary fees by the Company for its services as syndication agent under the Credit Facility.

LEGAL MATTERS

The validity of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company by Vinson & Elkins L.L.P., Houston, Texas. Certain legal matters relating to the Common Stock offered hereby will be passed upon for the Underwriters by Andrews & Kurth L.L.P., Houston, Texas.

EXPERTS

The consolidated balance sheet of National-Oilwell, Inc. as of January 1, 1996 and the consolidated financial statements of National-Oilwell and subsidiaries, the predecessor, at December 31, 1995 and 1994 and for each of the three years in the period ended December 31, 1995, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon appearing elsewhere herein, and are included in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company has not previously been subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-1 (the "Registration Statement") under the Securities Act, with respect to the offer and sale of Common Stock pursuant to this Prospectus. This Prospectus, filed as a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement or the exhibits and schedules thereto in accordance with the rules and regulations of the Commission and reference is hereby made to such omitted information. Statements in this Prospectus as to the contents of any contract, agreement or other document filed as an exhibit to the Registration Statement are summaries of the terms of such contracts, agreements or documents and are not necessarily complete but, in the opinion of the Company's management, contain all material elements of such contracts, agreements or documents. Reference is made to each such exhibit for a more complete description of the matters involved and such statements shall be deemed qualified in their entirety by such reference. The Registration Statement and the exhibits and schedules thereto may be inspected, without charge, and copies may be obtained at prescribed rates, at the public reference facilities maintained by the Commission at its principal office at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and the regional offices of the Commission located at Northwestern Atrium Center, 500 West Madison Street, 14th Floor, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. The Registration Statement and other information filed by the Company with the Commission are also available at the web site of the Commission at <http://www.sec.gov>.

The Company intends to furnish its stockholders with annual reports containing audited financial statements certified by independent auditors and quarterly reports for the first three quarters of each fiscal year containing unaudited financial statements.

INDEX TO FINANCIAL STATEMENTS

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REPORTS OF INDEPENDENT AUDITORS

Board of Directors
National-Oilwell, Inc.

We have audited the accompanying consolidated balance sheet of National-Oilwell, Inc. and subsidiaries as of January 1, 1996. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of National-Oilwell, Inc. and subsidiaries at January 1, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Houston, Texas
August 29, 1996

Partners
National-Oilwell

We have audited the accompanying consolidated balance sheets of National-Oilwell, a general partnership, and subsidiaries, the Partnership, as of December 31, 1995 and 1994, and the related consolidated statements of operations, owners' equity, and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National-Oilwell, a general partnership, and subsidiaries at December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Houston, Texas
January 31, 1996

NATIONAL-OILWELL, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

| | SUCCESSOR | | PREDECESSOR | |
|---|----------------------|--------------------|---------------|---------------|
| | JUNE 30, 1996 | JANUARY 1, 1996 | DECEMBER 31, | |
| | ----- (UNAUDITED) | ----- | ----- 1995 | ----- 1994 |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 4,512 | \$ 17,371 | \$ 65,452 | \$ 9,418 |
| Receivables, less allowance of \$3,369, \$4,015, \$4,015 and \$1,023..... | 86,282 | 77,767 | 74,986 | 102,368 |
| Inventories..... | 121,907 | 116,107 | 120,686 | 124,096 |
| Prepays and other current assets..... | 7,073 | 6,033 | 4,543 | 4,119 |
| Total current assets..... | 219,774 | 217,278 | 265,667 | 240,001 |
| Property, plant and equipment, net..... | 17,916 | 18,936 | 18,877 | 22,397 |
| Deferred taxes..... | 7,759 | 8,464 | 1,450 | 1,959 |
| Goodwill..... | 6,408 | 6,489 | -- | -- |
| Deferred financing costs..... | 6,916 | 7,684 | 1,089 | 730 |
| Other assets..... | 708 | 788 | 1,495 | 3,217 |
| | ----- | ----- | ----- | ----- |
| | \$ 259,481 | \$ 259,639 | \$288,578 | \$268,304 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND OWNERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt..... | \$ 2,500 | \$ 2,250 | \$ -- | \$ -- |
| Accounts payable..... | 67,576 | 67,008 | 66,665 | 60,340 |
| Customer prepayments..... | 1,181 | 7,500 | 7,500 | 1,506 |
| Accrued compensation..... | 4,319 | 3,071 | 3,071 | 4,492 |
| Other accrued liabilities..... | 18,618 | 16,177 | 11,066 | 21,853 |
| Total current liabilities..... | 94,194 | 96,006 | 88,302 | 88,191 |
| Long-term debt..... | 118,688 | 121,128 | 9,128 | -- |
| Insurance reserves..... | 6,456 | 6,201 | 6,201 | 8,524 |
| Other liabilities..... | 6,161 | 6,935 | 6,935 | 9,701 |
| Total liabilities..... | 225,499 | 230,270 | 110,566 | 106,416 |
| Commitments and contingencies | | | | |
| Owners' equity: | | | | |
| Class A common stock -- par value \$.01; 13,288 shares issued and outstanding..... | -- | -- | -- | -- |
| Common stock -- par value \$.01; 11,064,548 shares issued and outstanding..... | 111 | 111 | -- | -- |
| Additional paid-in capital..... | 30,068 | 29,608 | -- | -- |
| Notes receivable from officers..... | (500) | (350) | -- | -- |
| Partners' capital..... | -- | -- | 185,506 | 169,784 |
| Cumulative translation adjustment..... | 303 | -- | (7,494) | (7,896) |
| Retained earnings..... | 4,000 | -- | -- | -- |
| Total owners' equity..... | 33,982 | 29,369 | 178,012 | 161,888 |
| | ----- | ----- | ----- | ----- |
| | \$ 259,481 | \$ 259,639 | \$288,578 | \$268,304 |
| | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | SUCCESSOR | | PREDECESSOR | | |
|--|------------------------------|-----------|-------------------------|-----------|------------|
| | SIX MONTHS ENDED JUNE 30, | | YEAR ENDED DECEMBER 31, | | |
| | 1996 | 1995 | 1995 | 1994 | 1993 |
| | (UNAUDITED) | | | | |
| Revenues..... | \$294,643 | \$266,443 | \$545,803 | \$562,053 | \$627,281 |
| Cost of revenues..... | 254,556 | 231,556 | 474,791 | 482,423 | 547,401 |
| Gross profit..... | 40,087 | 34,887 | 71,012 | 79,630 | 79,880 |
| Selling, general, and administrative.... | 26,681 | 30,903 | 57,231 | 64,422 | 79,391 |
| Special charges (credits)..... | -- | (7,500) | (8,458) | (13,916) | 8,565 |
| Operating income (loss)..... | 13,406 | 11,484 | 22,239 | 29,124 | (8,076) |
| Interest and financial costs..... | (6,738) | (1,437) | (2,358) | (5,777) | (8,277) |
| Interest income..... | 320 | 374 | 1,097 | 1,046 | 1,001 |
| Other income (expense)..... | (321) | 161 | (1,401) | 528 | (240) |
| Income (loss) before income taxes..... | 6,667 | 10,582 | 19,577 | 24,921 | (15,592) |
| Provision for income taxes..... | 2,667 | 1,204 | 1,937 | 1,041 | 1,871 |
| Net income (loss)..... | \$ 4,000 | \$ 9,378 | \$ 17,640 | \$ 23,880 | \$(17,463) |
| Weighted average shares outstanding..... | 13,368 | | | | |
| Net income per share..... | \$ 0.30 | | | | |
| Pro forma -- unaudited | | | | | |
| Historical income before income taxes..... | | | \$ 19,577 | | |
| Pro forma adjustments other than income taxes..... | | | (12,718) | | |
| Pro forma income before income taxes..... | | | 6,859 | | |
| Pro forma provision for income taxes..... | | | 2,413 | | |
| Pro forma net income..... | | | \$ 4,446 | | |
| Pro forma common shares outstanding... | | | 13,368 | | |
| Pro forma net income per share..... | | | \$ 0.33 | | |

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN THOUSANDS)

| | SUCCESSOR | | PREDECESSOR | | |
|--|------------------------------|-----------|-------------------------|-----------|------------|
| | SIX MONTHS ENDED JUNE 30, | | YEAR ENDED DECEMBER 31, | | |
| | 1996 | 1995 | 1995 | 1994 | 1993 |
| | (UNAUDITED) | | | | |
| Cash flow from operating activities: | | | | | |
| Net income (loss)..... | \$ 4,000 | \$ 9,378 | \$17,640 | \$ 23,880 | \$(17,463) |
| Adjustments to reconcile net income(loss) to net cash provided (used) by operating activities: | | | | | |
| Depreciation and amortization..... | 1,903 | 2,172 | 3,595 | 6,027 | 10,721 |
| Provision for losses on receivables..... | 304 | 2,401 | 2,855 | 545 | 1,237 |
| Provision for deferred income taxes..... | 705 | 316 | 509 | 909 | 893 |
| Gain on sale of assets..... | (192) | (513) | (662) | (910) | (867) |
| Foreign currency transaction (gain) loss..... | (57) | 102 | 1,170 | 54 | 160 |
| Special charges (credits)..... | -- | (7,500) | (8,458) | (13,916) | 8,565 |
| Changes in operating assets and liabilities: | | | | | |
| Decrease (increase) in receivables..... | (8,795) | 9,445 | 24,583 | 491 | (5,245) |
| Decrease (increase) in inventories..... | (5,804) | (2,610) | 2,205 | 12,483 | 19,558 |
| Decrease (increase) in prepaids and other current assets..... | (1,046) | (7,877) | (4,730) | 4,287 | (3,453) |
| Increase (decrease) in accounts payable..... | 582 | (12,185) | 6,959 | 7,614 | (21,423) |
| Increase (decrease) in other assets/liabilities, net..... | (2,152) | 3,055 | (3,996) | (3,913) | (7,172) |
| Net cash provided (used) by operating activities..... | (10,552) | (3,816) | 41,670 | 37,551 | (14,489) |
| Cash flow from investing activities: | | | | | |
| Purchases of property, plant and equipment..... | (849) | (2,031) | (4,764) | (3,604) | (1,967) |
| Proceeds from sale of assets..... | 272 | 3,885 | 6,865 | 1,731 | 4,947 |
| Proceeds from disposition of businesses..... | -- | 6,944 | 6,944 | 69,821 | -- |
| Acquisition of predecessor company, net of cash acquired..... | (106,248) | -- | -- | -- | -- |
| Other..... | (350) | (218) | (218) | 251 | (108) |
| Net cash provided (used) by investing activities..... | (107,175) | 8,580 | 8,827 | 68,199 | 2,872 |
| Cash flow from financing activities: | | | | | |
| Principal (payments) on long-term debt..... | (11,318) | -- | 9,128 | (69,842) | 13,334 |
| Proceeds from issuance of common stock..... | 30,179 | -- | -- | -- | -- |
| Borrowings proceeds from Acquisition debt..... | 103,378 | -- | -- | -- | -- |
| Principal payments under capital lease obligations..... | -- | -- | -- | (911) | (996) |
| Cash distribution to partners..... | -- | (1,918) | (1,918) | (31,000) | -- |
| Net cash provided (used) by financing activities..... | 122,239 | (1,918) | 7,210 | (101,753) | 12,338 |
| Effect of exchange rate losses on cash..... | -- | -- | (1,673) | (595) | (154) |
| Increase in cash and equivalents..... | 4,512 | 2,846 | 56,034 | 3,402 | 567 |
| Cash and cash equivalents, beginning of period..... | -- | 9,418 | 9,418 | 6,016 | 5,449 |
| Cash and cash equivalents, end of period..... | \$ 4,512 | \$ 12,264 | \$65,452 | \$ 9,418 | \$ 6,016 |
| | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.

CONSOLIDATED STATEMENTS OF OWNERS' EQUITY
(IN THOUSANDS)

| | CLASS A COMMON STOCK | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | NOTES RECEIVABLE FROM OFFICERS | PARTNERS' CAPITAL | CUMULATIVE TRANSLATION ADJUSTMENT | RETAINED EARNINGS | TOTAL |
|--|----------------------------|-----------------|----------------------------------|---|----------------------|---|----------------------|------------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Predecessor: | | | | | | | | |
| Balance at December 31, 1992..... | | | | | \$ 194,367 | \$(1,821) | | \$ 192,546 |
| Net loss..... | | | | | (17,463) | -- | | (17,463) |
| Translation adjustment..... | | | | | -- | (4,407) | | (4,407) |
| | | | | | ----- | ----- | | ----- |
| Balance at December 31, 1993..... | | | | | 176,904 | (6,228) | | 170,676 |
| Net income..... | | | | | 23,880 | -- | | 23,880 |
| Translation adjustment..... | | | | | -- | (1,668) | | (1,668) |
| Distribution..... | | | | | (31,000) | -- | | (31,000) |
| | | | | | ----- | ----- | | ----- |
| Balance at December 31, 1994..... | | | | | 169,784 | (7,896) | | 161,888 |
| Net income..... | | | | | 17,640 | -- | | 17,640 |
| Translation adjustment..... | | | | | -- | 402 | | 402 |
| Distribution..... | | | | | (1,918) | -- | | (1,918) |
| | | | | | ----- | ----- | | ----- |
| Balance at December 31, 1995..... | | | | | 185,506 | (7,494) | | 178,012 |
| Successor: | | | | | | | | |
| Issuance of 13,288 shares... | -- | | \$ 30,068 | \$ (500) | | | | 29,568 |
| Issuance of 11,064,548 shares..... | | \$111 | -- | | | | | 111 |
| Elimination of partners' interests..... | | | | | (185,506) | 7,494 | | (178,012) |
| Net income..... | | | | | | | \$4,000 | 4,000 |
| Translation adjustment..... | | | | | | 303 | | 303 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at June 30, 1996 (Unaudited)..... | -- | \$111 | \$ 30,068 | \$ (500) | \$ -- | \$ 303 | \$4,000 | \$ 33,982 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

National-Oilwell, Inc. was formed to acquire National-Oilwell, a general partnership between National Supply Company, Inc., a subsidiary of Armco Inc., and Oilwell, Inc., a subsidiary of USX Corporation, and subsidiaries, (the "Partnership"). The consolidated financial information of the Partnership, as predecessor, has been included with the consolidated financial information of National-Oilwell, Inc. and subsidiaries for purposes of comparability. References herein to the "Company" refer to the Partnership for periods prior to January 1, 1996 and to National-Oilwell, Inc. for subsequent periods. Effective as of January 1, 1996, National-Oilwell, Inc. acquired the Partnership for a purchase price of \$180 million, which approximated book value (the "Acquisition"). The closing date of the transaction was January 17, 1996, with an effective date of January 1, 1996. The accompanying consolidated balance sheet as of January 1, 1996 reflects the accounts of National-Oilwell, Inc. as if the acquisition of the Partnership had occurred on that date. The transaction was accounted for under the purchase method of accounting and accordingly all assets and liabilities of the Partnership were recorded at their fair values resulting in only minimal basis adjustments. The purchase price and related expenses were financed by new equity, existing cash, a new credit facility consisting of a revolving credit line totaling \$120 million and term debt of \$30 million, a \$5 million subordinated note and seller notes of \$20 million. Approximately \$67 million of the revolving credit line was utilized to consummate the transaction. A summary of the transaction is as follows (in thousands):

| | |
|---|-----------|
| Fair value of assets acquired, other than cash..... | \$242,268 |
| Cash paid to acquire Partnership..... | 106,248 |
| Purchase price financed by seller notes..... | 20,000 |
| | ----- |
| Liabilities assumed..... | \$116,020 |
| | ===== |

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. Actual results could differ from those estimates.

In the opinion of management, the unaudited consolidated financial statements include all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the financial position as of June 30, 1996, and the results of operations and cash flows for each of the six-month periods ended June 30, 1996 and 1995. Although management believes the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations and the cash flows for the six-month period ended June 30, 1996 are not necessarily indicative of the results to be expected for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, receivables, payables, and debt instruments. Cash equivalents include only those investments having a maturity of three

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

months or less at the time of purchase. The carrying values of these financial instruments approximate their respective fair values.

Inventories

Inventories consist of (a) oilfield products and oil country tubular goods, (b) manufactured equipment and (c) spare parts for manufactured equipment. Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) or average cost methods.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for major improvements which extend the lives of property and equipment are capitalized while minor replacements, maintenance and repairs are charged to operations as incurred. Disposals are removed at cost less accumulated depreciation with any resulting gain or loss reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of individual items.

Intangible Assets

Deferred financing costs are amortized on a straight-line basis over the five year life of the related debt security and accumulated amortization was \$768,000 at June 30, 1996. Goodwill is amortized on a straight-line basis over its estimated life of 40 years. The Company's policy is to periodically evaluate goodwill and all long-lived assets to determine whether there has been any impairment in value. Accumulated amortization was \$81,000 at June 30, 1996.

Foreign Currency

The functional currency for the Company's Canadian, United Kingdom and Australian subsidiaries is the local currency. The cumulative effects of translating the balance sheet accounts from the functional currency into the U.S. dollar at current exchange rates are included in cumulative foreign currency translation adjustments. The U.S. dollar is used as the functional currency for the Singapore and Venezuelan subsidiaries. For all operations, gains or losses from remeasuring foreign currency transactions into the functional currency are included in income.

Revenue Recognition

Revenue from the sale of products is recognized upon passage of title to the customer.

Income Taxes

The Company provides for income taxes under the liability method pursuant to Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax reporting basis of assets and liabilities.

Net Income Per Share

Average shares outstanding includes 11,064,548 issued shares of common stock, 282,392 shares of common stock pursuant to exercisable warrants and 2,021,452 shares of common stock associated with the conversion of Class A common stock at an assumed initial public offering price of \$16.00 as discussed at Note 8.

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Concentration of Credit Risk

The Company grants credit to its customers which operate primarily in the oil and gas industry. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables are generally due within 30 days. The Company maintains reserves for potential losses and such losses have historically been within management's expectations.

Long-Lived Assets

In March 1995, SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, was issued which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and estimated future undiscounted cash flows indicate the carrying value of those assets may not be recoverable. The Company implemented SFAS No. 121 on January 1, 1996 and the adoption did not have a material effect on the financial statements.

3. INVENTORIES

Inventories consist of (in thousands):

| | JUNE 30, 1996 | JANUARY 1, 1996 | DECEMBER 31, | |
|--|------------------|--------------------|--------------|-----------|
| | | | 1995 | 1994 |
| | (UNAUDITED) | | | |
| Raw materials and supplies..... | \$ 10,092 | \$ 11,528 | \$ 11,528 | \$ 12,486 |
| Work in process..... | 5,195 | 4,842 | 4,842 | 5,112 |
| Finished goods and purchased products..... | 106,620 | 99,737 | 104,316 | 106,498 |
| | \$ 121,907 | \$ 116,107 | \$120,686 | \$124,096 |
| | ===== | ===== | ===== | ===== |

Foreign inventories were approximately 18%, 17%, 21% and 20% of total inventories at June 30, 1996, January 1, 1996, December 31, 1995 and December 31, 1994, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of (in thousands):

| | ESTIMATED USEFUL LIVES | JUNE 30, 1996 | JANUARY 1, 1996 | DECEMBER 31, | |
|---------------------------------------|---------------------------|------------------|--------------------|--------------|-----------|
| | | | | 1995 | 1994 |
| | | (UNAUDITED) | | | |
| Land and improvements..... | 2-20 Years | \$ 2,017 | \$ 2,022 | \$ 2,509 | \$ 5,718 |
| Buildings..... | 5-31 Years | 4,920 | 4,940 | 10,404 | 10,772 |
| Machinery and equipment..... | 5-12 Years | 7,262 | 6,902 | 31,139 | 53,886 |
| Computer and office equipment... | 3-10 Years | 5,620 | 5,072 | 19,079 | 21,366 |
| | | 19,819 | 18,936 | 63,131 | 91,742 |
| Less accumulated depreciation..... | | (1,903) | -- | (44,254) | (69,345) |
| | | \$17,916 | \$ 18,936 | \$ 18,877 | \$ 22,397 |
| | | ===== | ===== | ===== | ===== |

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT

Long-term debt consists of (in thousands):

| | JUNE 30, 1996 | JANUARY 1, 1996 | DECEMBER 31, 1995 |
|----------------------------------|----------------------|--------------------|----------------------|
| | ----- (UNAUDITED) | ----- | ----- |
| Credit Agreement | | | |
| Revolving Credit Facilities..... | \$ 70,865 | \$ 68,378 | \$ -- |
| Term Loan A..... | 12,415 | 15,000 | -- |
| Term Loan B..... | 12,790 | 15,000 | -- |
| Previous credit agreement..... | -- | -- | 9,128 |
| Subordinated Note..... | 5,118 | 5,000 | -- |
| Seller Notes..... | 20,000 | 20,000 | -- |
| | ----- | ----- | ----- |
| | 121,188 | 123,378 | 9,128 |
| Less current portion..... | 2,500 | 2,250 | -- |
| | ----- | ----- | ----- |
| | \$ 118,688 | \$ 121,128 | \$9,128 |
| | ===== | ===== | ===== |

Credit Agreement

The Credit Agreement provides for Revolving Credit Facilities totaling \$120,000,000 in the United States, Canada and United Kingdom through December 31, 2000 and replaced the Company's previous credit agreement. In addition to borrowings, the Revolving Credit Facilities provide for the issuance of letters of credit, of which \$12,600,000 were outstanding at June 30, 1996. Borrowing availability is determined based on a percentage of eligible accounts receivable and inventory. The interest rate on the Revolving Credit Facility is prime plus 1.5% or LIBOR plus 2.75% (9.75% and 8.19% at June 30, 1996). A commitment fee of 0.5% is charged on the unused portion.

The Credit Agreement also provides for Term Loan A, payable quarterly through December 31, 2000 and Term Loan B, payable quarterly through December 31, 2001. Interest rates on the term loans are at prime plus 1.75% and 2.25%, respectively, or at LIBOR plus 3.0% and 3.5%, respectively. The term loans require prepayments from certain asset disposal proceeds and from up to 80% of excess cash flow (as defined).

The Credit Agreement is secured by essentially all assets of the Company and contains financial covenants regarding minimum net worth, maximum capital expenditures, minimum current ratio, minimum interest and fixed charge coverage ratios and a maximum funded debt coverage ratio. The Credit Agreement also restricts the Company's ability to, among other things, pay dividends, make acquisitions and investments, incur debt and liens, and change its capital structure or business.

Subordinated Note

The Subordinated Note bears interest at prime plus 3.0%, is due December 31, 2002 and is secured by a lien on essentially all assets of the Company. Interest payments are deferred until the aggregate balance outstanding under Term Loans A and B is \$15,000,000 or less and certain other conditions are met. Mandatory prepayments must be made from 50% of excess cash flow (as defined) after Term Loans A and B are repaid.

Seller Notes

The Company owes \$10,000,000 to each of the two Sellers in connection with the Acquisition. The notes are subordinate to other existing debt and bear interest at the rate of 9.0%. At its option, the Company may defer payment of interest due prior to January 16, 2003. One-half of the sum of the principal and any deferred interest is payable on January 16, 2004, and the balance is payable on January 16, 2005. The notes are subject

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

to prepayment in certain events, including the sale of significant assets by the Company or the sale by the stockholders at the time of the Acquisition of more than 50% of their aggregate shares. Partial prepayments are also required in connection with certain sales of the Company's stock owned by Duff & Phelps/Inverness LLC or First Reserve Corporation.

Scheduled maturities of long-term debt outstanding at June 30, 1996 are as follows: six months ending December 31, 1996 -- \$1,125,000; years ending December 31, 1997 -- \$3,000,000; 1998 -- \$3,250,000; 1999 -- \$3,250,000; 2000 -- \$75,865,000; 2001 -- \$9,130,000.

6. PENSION PLANS

The Company and its consolidated subsidiaries have several pension plans covering substantially all of its employees. Defined-contribution pension plans cover most of the U.S. and Canadian employees and are based on years of service and a percentage of current earnings. For the years ended December 31, 1995, 1994 and 1993, pension expense for defined-contribution plans was \$1,512,000, \$1,914,000 and \$2,005,000, respectively, and the funding is current.

The Company's subsidiary in the United Kingdom has a defined-benefit pension plan whose participants are primarily retired and terminated employees who are no longer accruing benefits. The pension plan assets are invested primarily in equity securities, United Kingdom government securities, overseas bonds and cash deposits. The plan assets at fair market value were \$32,104,000 at December 31, 1995 and \$27,389,000 at December 31, 1994. The projected benefit obligation was \$23,131,000 at December 31, 1995 and \$20,630,000 at December 31, 1994. Net periodic pension cost (benefit) recognized as expense (income) for the years ended December 31, 1995, 1994 and 1993 was \$379,000, (\$69,000) and \$699,000, respectively.

7. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases land, buildings and storage facilities, vehicles and data processing equipment under operating leases extending through various dates up to the year 2004. Rent expense for the years ended December 31, 1995, 1994 and 1993 was \$9,714,000, \$8,691,000 and \$10,372,000, respectively. The Company's minimum rental commitments for operating leases at December 31, 1995 were as follows (in thousands): 1996 -- \$6,372; 1997 -- \$4,046; 1998 -- \$1,796; 1999 -- \$1,312; 2000 -- \$1,159; thereafter -- \$6,096.

Contingencies

The Company is involved in various claims, regulatory agency audits and pending or threatened legal actions involving a variety of matters. The total liability on these matters at December 31, 1995 cannot be determined; however, in the opinion of management, any ultimate liability, to the extent not otherwise provided for, should not materially affect the financial position, liquidity or results of operations of the Company.

Environmental

The Company's business is affected both directly and indirectly by governmental laws and regulations relating to the oilfield service industry in general, as well as by environmental and safety regulations that specifically apply to the Company's business. Laws and regulations protecting the environment have generally become more expansive and stringent in recent years and the Company believes the trend will continue. Although the Company has not incurred material costs in connection with its compliance with such laws, there can be no assurance that other developments, such as stricter environmental laws, regulations and enforcement policies thereunder, could not result in additional, presently unquantifiable, costs or liabilities to the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

8. COMMON STOCK

The Company has authorized 40,000,000 shares, \$.01 par value, common stock and 13,288 shares, \$.01 par value, Class A common stock. The Class A common stock has preference over common stock to receive dividends or any other distribution until the holders of Class A common stock have received in the aggregate the original cost of \$30,079,200 paid for the Class A shares. Upon the occurrence of an initial public offering, the Class A common stock converts into the number of shares of common stock determined by dividing the unreturned original cost of the Class A common stock by the net public offering price. The Company has also authorized 10,000,000 shares of \$.01 par value preferred stock, none of which is issued or outstanding.

Seven executive officers of the Company participated in the Acquisition by acquiring common stock and Class A common stock at fair market value. In connection therewith, four of the executives issued promissory notes to the Company for an aggregate of \$500,000. Interest on the notes is at 1.5% over prime and is paid annually. The notes are due on January, 15, 2001 unless extended at the option of the Company, and are secured by shares of common stock and Class A common stock. The notes must be prepaid under certain conditions including the occurrence of a public offering or from cash proceeds from dividends, distributions or sale of any of the shares. The promissory notes are reflected in the accompanying balance sheet as a reduction of owners' equity.

The Stock Award and Long-Term Incentive Plan allows grants of incentive options, nonqualified options, restricted stock, stock appreciation rights, performance share awards, stock value equivalent awards or any combination of the above. In connection with the Acquisition, 941,303 shares of restricted common stock were purchased by executive officers for \$.001 per share under this plan. These shares are subject to restriction on transferability and are not entitled to receive dividends or distributions. Restrictions lapse annually regarding 20% of these shares beginning one year from acquisition or in their entirety upon the occurrence of (i) a merger or consolidation of the Company, (ii) a sale of all or substantially all the assets of the Company, or (iii) a sale of all the outstanding Class A common stock and common stock of the Company. Restrictions will lapse on an additional 20% of those shares upon an involuntary termination of employment without cause. Any restricted shares may be repurchased by the Company for \$.001 per share upon termination of the executive officers' employment. On August 27, 1996, the Company's board of directors approved the amendment and restatement of the plan to authorize the issuance of up to 1,000,000 additional shares of common stock pursuant to awards made thereunder. The Company has not made any additional awards pursuant this plan.

In connection with the Acquisition, the Company entered into a warrant agreement granting a significant debt holder and stockholder the right to purchase 282,392 shares of common stock at an exercise price of \$.01 per share. The warrants may be exercised at any time through January 16, 2006. The warrant agreement also provides for an additional 196,438, 100,815 and 102,586 shares to be issued on the fifth, sixth and seventh anniversary of the Acquisition date in the event the \$5 million subordinated note has not been repaid on or prior to such dates.

In January 1996, the Company established Value Appreciation Plans that are intended to reward participants for enhancing the value of the Company common stock. If target internal rates of return are achieved as of a triggering event such as a qualified public offering, the 34 participants will be paid in cash or common stock over time a percentage of the equity value as of such occurrence. Based upon an initial public offering price of \$16.00 (the midpoint of the range of offering prices), the Value Appreciation Plans would result in a one-time charge before taxes of \$11.7 million. The Company currently expects to pay \$2.8 million of this amount in cash at the time of the Offering, \$3.5 million in cash in five annual installments beginning January 17, 1997 and issue 343,986 shares of common stock. One-half of the shares of common stock will be issued one year after the Offering and the remaining one-half on January 17, 1999.

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. INCOME TAXES

Prior to 1996, the Company was a partnership for U.S. federal tax purposes and provided for foreign taxes but did not provide for U.S. federal or state taxes on its income.

The domestic and foreign components of income before income taxes were as follows (in thousands):

| | JUNE 30, | | 1995 | 1994 | 1993 |
|---------------|-------------|----------|----------|----------|------------|
| | 1996 | 1995 | | | |
| | (UNAUDITED) | | | | |
| Domestic..... | \$4,702 | \$ 7,235 | \$14,194 | \$22,840 | \$(16,446) |
| Foreign..... | 1,965 | 3,347 | 5,383 | 2,081 | 854 |
| | \$6,667 | \$10,582 | \$19,577 | \$24,921 | \$(15,592) |
| | ===== | ===== | ===== | ===== | ===== |

The components of the provision for income taxes consisted of (in thousands):

| | JUNE 30, | | 1995 | 1994 | 1993 |
|--------------|-------------|----------|----------|----------|----------|
| | 1996 | 1995 | | | |
| | (UNAUDITED) | | | | |
| Current: | | | | | |
| Federal..... | \$1,090 | \$ -- | \$ -- | \$ -- | \$ -- |
| State..... | 99 | -- | -- | -- | -- |
| Foreign..... | 773 | 888 | 1,428 | 132 | 978 |
| | 1,962 | 888 | 1,428 | 132 | 978 |
| Deferred: | | | | | |
| Federal..... | 507 | -- | -- | -- | -- |
| State..... | 112 | -- | -- | -- | -- |
| Foreign..... | 86 | 316 | 509 | 909 | 893 |
| | 705 | 316 | 509 | 909 | 893 |
| | \$2,667 | \$ 1,204 | \$ 1,937 | \$ 1,041 | \$ 1,871 |
| | ===== | ===== | ===== | ===== | ===== |

The difference between the effective tax rate reflected in the provision for income taxes and the U.S. federal statutory rate was as follows (in thousands):

| | JUNE 30, | | 1995 | 1994 | 1993 |
|--|-------------|----------|----------|----------|-----------|
| | 1996 | 1995 | | | |
| | (UNAUDITED) | | | | |
| Federal income tax at statutory rate..... | \$2,333 | \$ 3,704 | \$ 6,852 | \$ 8,722 | \$(5,457) |
| Foreign income tax rate differential..... | 26 | 12 | 184 | 368 | 338 |
| U.S. partnership income for which no tax is provided..... | -- | (2,532) | (4,968) | (7,994) | 5,756 |
| Nondeductible expenses..... | 341 | 247 | 398 | 293 | 157 |
| Foreign operating loss for which no benefit is recognized..... | -- | 412 | 1,037 | 278 | 2,211 |
| Change in deferred tax valuation allowance..... | -- | (639) | (1,577) | (809) | (1,303) |
| Other..... | (33) | -- | 11 | 183 | 169 |
| | \$2,667 | \$ 1,204 | \$ 1,937 | \$ 1,041 | \$ 1,871 |
| | ===== | ===== | ===== | ===== | ===== |

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

| | JUNE 30, 1996 | JANUARY 1, 1996 | DECEMBER 31, | |
|--|------------------|--------------------|--------------|----------|
| | | | 1995 | 1994 |
| | (UNAUDITED) | | | |
| Deferred tax assets: | | | | |
| Book over tax depreciation..... | \$ 288 | \$ 44 | \$ 1,153 | \$ 1,729 |
| Accrued liabilities..... | 9,201 | 9,639 | 1,205 | 2,887 |
| Net operating loss carryforwards..... | 6,738 | 7,143 | 6,780 | 7,268 |
| Other..... | 6,620 | 7,159 | 1,070 | 508 |
| Total deferred tax assets..... | 22,847 | 23,985 | 10,208 | 12,392 |
| Valuation allowance for deferred tax assets..... | (13,277) | (13,277) | (8,310) | (9,887) |
| | 9,570 | 10,708 | 1,898 | 2,505 |
| Deferred tax liabilities: | | | | |
| Tax over book depreciation..... | 1,569 | 1,891 | 448 | 346 |
| Other..... | 242 | 353 | -- | 200 |
| Total deferred tax liabilities.... | 1,811 | 2,244 | 448 | 546 |
| Net deferred tax assets..... | \$ 7,759 | \$ 8,464 | \$ 1,450 | \$ 1,959 |

In connection with the Acquisition, the Company restated its deferred tax assets and liabilities as of January 1, 1996. The deferred tax valuation allowance increased (decreased) (\$1,577) and \$4,967 for the periods ending December 31, 1995 and June 30, 1996, respectively. The decrease in the valuation allowance is related to the realization of foreign net operating losses that were previously deferred. The increase in the valuation allowance is related to the Company's current estimate of deferred tax assets that may not be realized. Any future decrease in the valuation allowance recorded at January 1, 1996 will reduce goodwill. The Company's deferred tax assets are expected to be realized principally through future earnings.

Undistributed earnings of the Company's foreign subsidiaries amounted to \$9,898,000 at June 30, 1996 and \$9,125,000 at December 31, 1995. Those earnings are considered to be permanently reinvested and, accordingly, no provision for U.S. federal and state income taxes has been made. Distribution of these earnings in the form of dividends or otherwise would result in both U.S. federal taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable in various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable; however, unrecognized foreign tax credit carryforwards would be available to reduce some portion of the U.S. liability. Withholding taxes of approximately \$910,000 would be payable upon remittance of all previously unremitted earnings at December 31, 1995.

The Company made income tax payments of \$332,000, \$557,000 and \$392,000 during the years ended December 31, 1995, 1994 and 1993, respectively.

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10. SPECIAL CHARGES (CREDITS)

Special charges (credits) consist of the following (in thousands):

| | 1995 | 1994 | 1993 |
|--|-----------|------------|----------|
| | ----- | ----- | ----- |
| Sale of product lines and assets..... | \$(8,458) | \$(15,648) | \$10,000 |
| Employee terminations and other costs..... | -- | 3,817 | -- |
| Reversal of reserves..... | -- | (2,085) | (1,435) |
| | ----- | ----- | ----- |
| Total..... | \$(8,458) | \$(13,916) | \$ 8,565 |
| | ===== | ===== | ===== |

Sale of Product Lines and Assets. During the second quarter of 1995 the Company completed the sale of the Wilson-Snyder centrifugal pump and switch valve product line. Proceeds of approximately \$6.9 million from that sale resulted in a gain of \$5.5 million. In addition, the Company recorded a net gain of approximately \$3.0 million related to the final closure of a facility in the United Kingdom and the sale of related property and equipment.

During 1994, the Company completed the sales of certain production equipment product lines not considered part of its core businesses resulting in a gain of \$15.6 million. Proceeds received in 1994 totaled \$41.0 million and were used to reduce debt.

During 1993, the Company implemented a business strategy to focus on its core businesses and divest marginal or unprofitable product lines. In the fourth quarter of 1993, the Company recorded a \$10.0 million charge for the estimated loss on the sale of its wellhead business under an asset sales agreement signed in December 1993. This charge included an \$8.5 million writedown of inventories and property, plant and equipment to estimated net realizable values and \$1.5 million for transition and other direct costs of disposal. Proceeds from the wellhead business sale of \$28.7 million were used to reduce debt.

Employee Terminations and Other Costs. In conjunction with the formal announced shutdown of a manufacturing facility in the United Kingdom, the Company expensed approximately \$3.2 million in 1994 relating to employee termination benefits. These benefits are calculated pursuant to the terms of the United Kingdom preexisting employee benefit plan and were paid in the fourth quarter of 1994 and in 1995. The consolidation of the Company's Houston, Texas manufacturing operations resulted in lease termination and other costs of \$0.6 million which were paid in 1994.

Reversal of Reserves. The reversal of reserves in 1994 and 1993 primarily relate to an \$18.5 million reserve initially recorded in 1991 to accrue for the estimated loss on the shutdown and disposition of a manufacturing facility and related machinery and equipment at Garland, Texas. The \$1.4 million reversal in 1993 primarily related to excess machinery, equipment and inventory relocation accruals no longer needed after movement to the Company's other facilities was completed in 1993. The \$2.1 million reversal in 1994 primarily related to excess accruals for potential demolition and environmental cleanup not required after the facility was sold.

11. RELATED PARTY TRANSACTIONS

In connection with the Acquisition, the Company entered into a five year Management Services Agreement with the Company's largest stockholder, Inverness/Phoenix LLC, whereby the Company would pay \$1,000,000 per year for senior management assistance and other services as agreed. The agreement also provides that Inverness/Phoenix LLC will receive 1% of the aggregate transaction value in connection with each acquisition or disposition completed during the five year period. A management fee of \$500,000 was recorded during the first half of 1996 of which \$200,000 was unpaid at June 30, 1996. The Company and Inverness/Phoenix LLC have agreed to terminate this agreement upon the date of execution of a definitive underwriting agreement relating to the anticipated public offering discussed in Note 13 for future cash payments totalling \$4,775,000.

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company paid and recorded as a cost of the Acquisition transaction fees of \$1,800,000 to the Inverness Group, Inc. and \$1,200,000 to First Reserve Corporation, the Company's second largest stockholder. Fees of \$4,700,000 were also paid to General Electric Capital Corporation in connection with the provision of the Credit Agreement entered into in connection with the Acquisition.

12. BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

The Company's operations consist of the Oilfield Equipment segment and the Distribution Services segment. The Oilfield Equipment segment designs and manufactures a variety of oilfield equipment for use in oil and gas drilling, completion and production activities. The Distribution Services segment distributes an extensive line of oilfield supplies, oilfield equipment and tubular products. The Disposed Businesses information includes the results of operations disposed of in prior years. Intersegment sales and transfers are accounted for at commercial prices.

Summarized financial information with respect to business segments and geographic areas is as follows:

Business Segments (in thousands)

| | OILFIELD EQUIPMENT(1) | DISTRIBUTION SERVICES | CORPORATE(2) | ELIMINATIONS | DISPOSED BUSINESSES(3) | TOTAL |
|---------------------------------------|--------------------------|--------------------------|--------------|--------------|---------------------------|-----------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| 1995 | | | | | | |
| Revenues from: | | | | | | |
| Unaffiliated customers..... | \$113,511 | \$432,292 | \$ -- | \$ -- | \$ -- | \$545,803 |
| Intersegment sales..... | 33,006 | -- | -- | (33,006) | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total revenues..... | 146,517 | 432,292 | -- | (33,006) | -- | 545,803 |
| Operating income (loss)..... | 10,443 | 9,435 | (2,866) | -- | 5,227 | 22,239 |
| Capital expenditures..... | 3,540 | 1,157 | 67 | -- | -- | 4,764 |
| Depreciation and amortization..... | 1,899 | 1,662 | 34 | -- | -- | 3,595 |
| Identifiable assets..... | 93,287 | 128,321 | 69,761 | (2,791) | -- | 288,578 |
| 1994 | | | | | | |
| Revenues from: | | | | | | |
| Unaffiliated customers..... | \$127,854 | \$415,722 | \$ -- | \$ -- | \$ 18,477 | \$562,053 |
| Intersegment sales..... | 60,041 | -- | -- | (60,041) | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total revenues..... | 187,895 | 415,722 | -- | (60,041) | 18,477 | 562,053 |
| Operating income (loss)..... | 5,314 | 9,036 | (2,898) | -- | 17,672 | 29,124 |
| Capital expenditures..... | 1,690 | 1,832 | 44 | -- | 38 | 3,604 |
| Depreciation and amortization..... | 1,922 | 2,564 | 8 | -- | 1,533 | 6,027 |
| Identifiable assets..... | 99,298 | 162,170 | 12,150 | (5,314) | -- | 268,304 |
| 1993 | | | | | | |
| Revenues from: | | | | | | |
| Unaffiliated customers..... | \$111,948 | \$450,455 | \$ -- | \$ -- | \$ 64,878 | \$627,281 |
| Intersegment sales..... | 67,780 | -- | -- | (67,780) | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total revenues..... | 179,728 | 450,455 | -- | (67,780) | 64,878 | 627,281 |
| Operating income (loss)..... | 1,482 | 13,955 | (2,308) | -- | (21,205) | (8,076) |
| Capital expenditures..... | 899 | 455 | 21 | -- | 592 | 1,967 |
| Depreciation and amortization..... | 4,380 | 2,370 | 2 | -- | 3,969 | 10,721 |
| Identifiable assets..... | 99,371 | 188,312 | 12,402 | (10,265) | 53,659 | 343,479 |

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- (1) Operating income/(loss) of the oilfield equipment segment includes special charges (credits) of \$(3,231), \$1,732 and \$(1,435) for 1995, 1994 and 1993, respectively.
- (2) Corporate identifiable assets in 1995 included \$65.5 million of cash and cash equivalents.
- (3) Operating income/(loss) of the disposed businesses includes special charges (credits) of \$(5,227), \$(15,648) and \$10,000 for 1995, 1994 and 1993, respectively. Operating results prior to the disposal date for the business sold in 1995 were immaterial.

Geographic Areas (in thousands)

| | UNITED STATES | CANADA | UNITED KINGDOM | OTHER | ELIMINATIONS | TOTAL |
|--------------------------|------------------|----------|-------------------|-----------|--------------|-----------|
| 1995 | | | | | | |
| Revenues from: | | | | | | |
| Unaffiliated | | | | | | |
| customers..... | \$430,671 | \$59,390 | \$35,776 | \$ 19,966 | \$ -- | \$545,803 |
| Interarea sales..... | 34,416 | 878 | 16,285 | 233 | (51,812) | -- |
| Total | | | | | | |
| revenues..... | 465,087 | 60,268 | 52,061 | 20,199 | (51,812) | 545,803 |
| Operating income | | | | | | |
| (loss)..... | 18,707 | 2,003 | (1,383) | 2,912 | -- | 22,239 |
| Export sales of U.S..... | -- | 1,700 | 1,539 | 80,075 | -- | 83,314 |
| Identifiable assets..... | 228,817 | 23,851 | 17,789 | 18,121 | -- | 288,578 |
| 1994 | | | | | | |
| Revenues from: | | | | | | |
| Unaffiliated | | | | | | |
| customers..... | \$442,555 | \$73,052 | \$29,708 | \$ 16,738 | \$ -- | \$562,053 |
| Interarea sales..... | 26,144 | 579 | 9,726 | 106 | (36,555) | -- |
| Total | | | | | | |
| revenues..... | 468,699 | 73,631 | 39,434 | 16,844 | (36,555) | 562,053 |
| Operating income | | | | | | |
| (loss)..... | 27,166 | 1,872 | (314) | 400 | -- | 29,124 |
| Export sales of U.S..... | -- | 1,436 | 635 | 102,265 | -- | 104,336 |
| Identifiable assets..... | 186,634 | 34,567 | 32,136 | 14,967 | -- | 268,304 |
| 1993 | | | | | | |
| Revenues from: | | | | | | |
| Unaffiliated | | | | | | |
| customers..... | \$485,988 | \$68,766 | \$49,419 | \$ 23,108 | \$ -- | \$627,281 |
| Interarea sales..... | 33,750 | 552 | 8,395 | 961 | (43,658) | -- |
| Total | | | | | | |
| revenues..... | 519,738 | 69,318 | 57,814 | 24,069 | (43,658) | 627,281 |
| Operating income | | | | | | |
| (loss)..... | (4,865) | (321) | (3,980) | 1,090 | -- | (8,076) |
| Export sales of U.S..... | -- | 1,386 | 389 | 115,464 | -- | 117,239 |
| Identifiable assets..... | 257,597 | 29,662 | 39,391 | 16,829 | -- | 343,479 |

NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

13. PRO FORMA NET INCOME AND NET INCOME PER SHARE (UNAUDITED)

The following table sets forth for the year ended December 31, 1995: (a) summarized historical consolidated income statement data and (b) summarized pro forma consolidated income statement data reflecting the acquisition of the Partnership as if such had occurred on January 1, 1995 (in thousands).

| | HISTORICAL ----- | PRO FORMA ----- |
|--|---------------------|---------------------|
| Revenues..... | \$ 545,803 ===== | \$ 545,803 ===== |
| Operating income..... | \$ 22,239 | \$ 21,239(A) |
| Interest and financial costs, net..... | 1,261 | 12,817(B) |
| Other (income) expense..... | 1,401 ----- | 1,563(C) ----- |
| Income (loss) before income taxes..... | 19,577 | 6,859 |
| Provision for income taxes..... | 1,937 ----- | 2,413(D) ----- |
| Net income..... | \$ 17,640 ===== | \$ 4,446 ===== |
| Earnings per share..... | | \$ 0.33 ===== |
| Average shares outstanding..... | | 13,368 ===== |

-
- (A) Decrease in operating income reflects the management fees discussed in Note 11 which would have been recorded if the acquisition of the Partnership had occurred on January 1, 1995.
- (B) Increase in interest costs reflects the incremental interest expense associated with the debt incurred with the acquisition of the Partnership at the Company's 1995 effective interest rate of 9.5%, adjusted for the difference in the amortization of deferred financing fees associated with the credit facilities.
- (C) Increase in other (income) expense reflects the amortization of goodwill incurred in connection with the acquisition of the Partnership.
- (D) Increase in income taxes reflects the provision for U.S. federal and state income taxes that were previously not recorded because of the partnership status and as a result of the above pro forma adjustments.

Average shares outstanding reflects 11,346,940 shares of common stock and common stock equivalents currently outstanding and 2,021,452 shares of common stock issuable upon the conversion of the shares of Class A common stock at the assumed initial offering price of \$16 per share.

[Map of North America with National-Oilwell distribution centers illustrated with colored circles. Boxes below the map showing the number of distribution centers in the United States, Canada and outside of the United States and Canada.]

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING COVERED BY THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSONS TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

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 UNTIL , 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

 4,000,000 SHARES

[NATIONAL-OILWELL, INC. LOGO]

NATIONAL-OILWELL, INC.

COMMON STOCK

 PROSPECTUS

MERRILL LYNCH & CO.

GOLDMAN, SACHS & CO.

SIMMONS & COMPANY
 INTERNATIONAL
 , 1996

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The expenses of the Offering are estimated to be as follows:

| | |
|--|-----------|
| Securities and Exchange Commission registration fee..... | \$ 28,552 |
| NASD filing fee..... | 8,780 |
| New York Stock Exchange listing fee..... | 130,000 |
| Blue Sky fees and expenses..... | 10,000 |
| Printing expenses..... | 135,000 |
| Legal fees and expenses..... | 200,000 |
| Accounting fees and expenses..... | 150,000 |
| Transfer Agent fees..... | 3,000 |
| Miscellaneous..... | 54,668 |
| | ----- |
| Total..... | \$720,000 |
| | ===== |

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article Sixth, Part II, Section 1 of the Company's Charter, a copy of which is filed as Exhibit 3.1, and Article VI of the Company's Bylaws, a copy of which is filed as Exhibit 3.2 to this Registration Statement, each provide that directors, officers, employees and agents shall be indemnified to the fullest extent permitted by Section 145 of the DGCL.

Section 145 of the DGCL authorizes, inter alia, a corporation to indemnify any person ("indemnitee") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that such person is or was an officer or director of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. A Delaware corporation may indemnify past or present officers and directors of such corporation or of another corporation or other enterprise at the former corporation's request, in an action by or in the right of the corporation to procure a judgment in its favor under the same conditions, except that no indemnification is permitted without judicial approval if such person is adjudged to be liable to the corporation. Where an officer or director is successful on the merits or otherwise in defense of any action referred to above, or in defense of any claim, issue or matter therein, the corporation must indemnify him against the expenses (including attorney's fees) which he actually and reasonably incurred in connection therewith. Section 145 further provides that any indemnification shall be made by the corporation only as authorized in each specific case upon a determination by the (i) stockholders, (ii) board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding or (iii) independent counsel if a quorum of disinterested directors so directs. Section 145 provides that indemnification pursuant to its provisions is not exclusive of other rights of indemnification to which a person may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Section 145 of the DGCL also empowers the Company to purchase and maintain insurance on behalf of any person who is or was an officer or director of the Company against liability asserted against or incurred by him in any such capacity, whether or not the Company would have the power to indemnify such officer or director against such liability under the provisions of Section 145. The Company intends to purchase and maintain a directors' and officers' liability policy for such purposes.

The form of Purchase Agreement filed as Exhibit 1.1 to this Registration Statement contains certain provisions for indemnification of directors and officers of the Company and the Underwriters against civil liabilities under the Securities Act.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

The shares of Class A Common Stock which have been sold by the Company in the following transactions will be converted into shares of Common Stock.

On July 15, 1995, the Company sold an aggregate of 1,168,310 shares of Common Stock at \$.001 per share to DPI Oil Service Partners Limited Partnership and DPI Partners II, two limited partnerships for which Inverness/Phoenix LLC serves as managing general partner, in connection with the initial capitalization of the Company. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

On January 16, 1996, the Company sold an aggregate of 8,806,479 shares of Common Stock at \$.011 per share, 753,049 shares of Common Stock at \$.001 per share, an aggregate of 13,085.6 shares of Class A Common Stock at \$2,264 per share to the Inverness Investors, the First Reserve Investors, GE Capital and members of management, including Messrs. Staff, Bearden, Leigh, Nation and Gauche, in connection with the closing of the Acquisition, and the Company issued a warrant to GE Capital to purchase 282,392 shares of Common Stock for \$.011 per share in connection with the Credit Facility. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

On July 24, 1996, the Company received the funds for and completed the previously committed sale of an aggregate of 148,456 shares of Common Stock at \$.011 per share, 282,381 shares of Common Stock at \$.001 per share and an aggregate of 202.4 shares of Class A Common Stock at \$2,264 per share to Messrs. Fasnacht, Krablin and Miller in connection with the Acquisition which occurred in January 1996. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(A) EXHIBITS.

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|--|
| *1.1 | -- Form of Purchase Agreement. |
| 2.1 | -- Purchase Agreement by and among Oilwell, Inc., National Supply Company, Inc., USX Corporation, Armco Inc. and the Company dated September 22, 1995, as amended. |
| 3.1 | -- Amended and Restated Certificate of Incorporation of the Company. |
| 3.2 | -- Bylaws of the Company. |
| 4.1 | -- Specimen Common Stock certificate. |
| 5.1 | -- Opinion of Vinson & Elkins L.L.P. |
| 10.1 | -- Employment Agreement dated as of January 16, 1996 between Joel V. Staff and the Company. |
| 10.2 | -- Employment Agreement effective as of January 17, 1996 between C. R. Bearden and the Company, with similar agreements with Lynn L. Leigh, Jerry N. Gauche, Paul M. Nation, James J. Fasnacht and Steven W. Krablin, a similar agreement effective as of February 5, 1996 between and Merrill A. Miller, Jr. and the Company. |
| 10.3 | -- Stockholders Agreement among the Company and its stockholders dated as of January 16, 1996. |
| 10.4 | -- Waiver and First Amendment to Stockholders Agreement dated as of July 24, 1996. |
| 10.5 | -- Employee Incentive Plan. |
| 10.6 | -- Stock Award and Long-Term Stock Incentive Plan. |
| 10.7 | -- First Amendment to Stock Award and Long-Term Stock Incentive Plan. |

| EXHIBIT NUMBER | DESCRIPTION |
|----------------|--|
| 10.8 | -- Value Appreciation and Incentive Plan A. |
| 10.9 | -- Value Appreciation and Incentive Plan B. |
| 10.10 | -- Restricted Stock Agreement between the Company and Joel V. Staff, with similar agreements with C. R. Bearden, Jerry N. Gauche, Steven W. Krablin, Merrill A. Miller, Jr., James J. Fasnacht and Paul M. Nation. |
| 10.11 | -- Management Services Agreement. |
| 10.12 | -- Supplemental Savings Plan. |
| *10.13 | -- Form of Credit Agreement. |
| *10.14 | -- Deferred Fee Agreement. |
| *10.15 | -- First Amendment to Value Appreciation and Incentive Plan A. |
| *10.16 | -- First Amendment to Value Appreciation and Incentive Plan B. |
| *10.17 | -- Second Amendment to Stockholders Agreement dated as of October 18, 1996. |
| 21.1 | -- Subsidiaries of the Company. |
| *23.1 | -- Consent of Ernst & Young LLP. |
| 23.2 | -- Consent of Vinson & Elkins L.L.P. (included in Exhibit 5.1 hereto). |
| 24.1 | -- Powers of Attorney (included in the signature pages of the Registration Statement). |
| 27.1 | -- Financial Data Schedule. |

* Filed herewith.

All other exhibits have been previously filed.

(B) CONSOLIDATED FINANCIAL STATEMENT SCHEDULES.

All schedules are omitted because they are not applicable or the required information has been provided in the consolidated financial statements or the notes thereto.

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes to provide at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act, each post-effective amendment that contained a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on the 24th day of October, 1996.

NATIONAL-OILWELL, INC.

By: /s/ STEVEN W. KRABLIN

 Steven W. Krablin
 Vice President and
 Chief Financial Officer

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Steven W. Krablin and Paul M. Nation, or either of them, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and any additional registration statement pursuant to Rule 462(b), and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|------------------|
| * ----- Joel V. Staff | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) | October 24, 1996 |
| /s/ Steven W. Krablin ----- Steven W. Krablin | Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | October 24, 1996 |
| * ----- C. R. Bearden | Director | October 24, 1996 |
| * ----- James C. Comis III | Director | October 24, 1996 |
| * ----- W. McComb Dunwoody | Director | October 24, 1996 |
| * ----- Howard I. Bull | Director | October 24, 1996 |
| * ----- James T. Dresher | Director | October 24, 1996 |
| * ----- William E. Macaulay | Director | October 24, 1996 |
| * ----- Bruce M. Rothstein | Director | October 24, 1996 |
| * By /s/ Paul M. Nation ----- Paul M. Nation as attorney-in-fact | | |

INDEX TO EXHIBITS

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|-------------------|---|
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| 2.1 | -- Purchase Agreement by and among Oilwell, Inc., National Supply Company, Inc., USX Corporation, Armco Inc. and the Company dated September 22, 1995. |
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| 3.2 | -- Bylaws of the Company. |
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| *10.16 | -- First Amendment to Value Appreciation and Incentive Plan B. |
| *10.17 | -- Second Amendment to Stockholders Agreement dated as of October 18, 1996. |
| 21.1 | -- Subsidiaries of the Company. |
| *23.1 | -- Consent of Ernst & Young LLP. |
| 23.2 | -- Consent of Vinson & Elkins L.L.P. (included in Exhibit 5.1 hereto). |
| 24.1 | -- Powers of Attorney (included in the signature pages of the Registration Statement). |
| 27.1 | -- Financial Data Schedule. |

* Filed herewith.

All other exhibits have been previously filed.

National-Oilwell, Inc.
(a Delaware corporation)

4,000,000 Shares of Common Stock

PURCHASE AGREEMENT

Dated: October __, 1996

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NATIONAL-OILWELL, INC.

(a Delaware corporation)
 4,000,000 Shares of Common Stock
 (par value \$.01 Per Share)
 PURCHASE AGREEMENT

October , 1996

MERRILL LYNCH & CO.

Merrill Lynch, Pierce, Fenner & Smith
 Incorporated

Goldman, Sachs & Co.

Simmons & Company International

as Representatives of the several Underwriters

c/o Merrill Lynch & Co.

Merrill Lynch, Pierce, Fenner & Smith
 Incorporated

North Tower

World Financial Center

New York, New York 10281-1209

Ladies and Gentlemen:

National-Oilwell, Inc., a Delaware corporation (the "Company"), confirms its agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and each of the other Underwriters named in Schedule A hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Merrill Lynch, Goldman, Sachs & Co. and Simmons & Company International are acting as representatives (in such capacity, the "Representatives"), with respect to the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value \$.01 per share, of the Company ("Common Stock") set forth in said Schedule A, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of 600,000 additional shares of Common Stock to cover over-allotments, if any. The aforesaid 4,000,000 shares of Common Stock (the "Initial Securities") to be purchased by the Underwriters

and all or any part of the 600,000 shares of Common Stock subject to the option described in Section 2(b) hereof (the "Option Securities") are hereinafter called, collectively, the "Securities".

The Company understands that the Underwriters propose to make a public offering of the Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company and the Underwriters agree that up to 200,000 shares of the Securities to be purchased by the Underwriters (the "Reserved Securities") shall be reserved for sale by the Underwriters to certain eligible employees and persons having business relationships with the Company, as part of the distribution of the Securities by the Underwriters, subject to the terms of this Agreement, the applicable rules, regulations and interpretations of the National Association of Securities Dealers, Inc. and all other applicable laws, rules and regulations. To the extent that such Reserved Securities are not so purchased by such eligible employees and persons having business relationships with the Company, by the end of the first business day after the date of this Agreement such Reserved Securities may be offered to the public as part of the public offering contemplated hereby.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-11051) covering the registration of the Securities under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses. Promptly after execution and delivery of this Agreement, the Company will either (i) prepare and file a prospectus in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations or (ii) if the Company has elected to rely upon Rule 434 ("Rule 434") of the 1933 Act Regulations, prepare and file a term sheet (a "Term Sheet") in accordance with the provisions of Rule 434 and Rule 424(b). The information included in such prospectus or in such Term Sheet, as the case may be, that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective (a) pursuant to paragraph (b) of Rule 430A is referred to as "Rule 430A Information" or (b) pursuant to paragraph (d) of Rule 434 is referred to as "Rule 434 Information." Each prospectus used before such registration statement became effective, and any prospectus that omitted, as applicable, the Rule 430A Information or the Rule 434 Information, that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto and schedules thereto, if any, at the time it became effective and including the Rule 430A Information and the Rule 434 Information, as applicable, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final prospectus in the form first furnished to the Underwriters for use in connection with the offering of the Securities is herein called the "Prospectus." If Rule 434 is relied on, the term "Prospectus" shall refer to the preliminary prospectus dated October 4, 1996 together with the Term

Sheet and all references in this Agreement to the date of the Prospectus shall mean the date of the Term Sheet. For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any Term Sheet or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

SECTION 1. Representations and Warranties.

(a) Representations and Warranties by the Company. The Company represents and warrants to each Underwriter as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b) hereof, and agrees with each Underwriter, as follows:

(i) Compliance with Registration Requirements. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and the Prospectus, any preliminary prospectus and any supplement thereto or prospectus wrapper prepared in connection therewith, at their respective times of issuance and at the Closing Time, complied and will comply in all material respects with any applicable laws or regulations of foreign jurisdictions in which the Prospectus and such preliminary prospectus, as amended or supplemented, if applicable, are distributed in connection with the offer and sale of Reserved Securities. Neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any such amendment or supplement was issued and at the Closing Time (and, if any option Securities are purchased, at the Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. If Rule 434 is used, the Company will comply with the requirements of Rule 434 and the Prospectus shall not be "materially different", as such term is used in Rule 434, from the prospectus included in the Registration Statement at the time it became effective. The representations and warranties

in this subsection shall not apply to statements in or omissions from the Registration Statement or Prospectus made in reliance upon and in conformity with information furnished to the Company in writing by any Underwriter through the Representatives expressly for use in the Registration Statement or Prospectus.

Each preliminary prospectus and the prospectus filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations and each preliminary prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) Independent Accountants. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iii) Financial Statements. The financial statements included in the Registration Statement and the Prospectus, together with the related schedules and notes, present fairly the financial position of the Company and its consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company and its consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved. The supporting schedules, if any, included in the Registration Statement present fairly in accordance with GAAP the information required to be stated therein. The selected financial data and the summary financial information included in the Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included in the Registration Statement. The pro forma financial statements and the related notes thereto included in the Registration Statement and the Prospectus present fairly the information shown therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(iv) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company or any of its subsidiaries, other than those in the

ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(v) Good Standing of the Company. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under this Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(vi) Good Standing of Subsidiaries. Each of the subsidiaries of the Company identified in Exhibit 21 of the Registration Statement hereto (each a "Subsidiary" and, collectively, the "Subsidiaries"), which includes each "significant subsidiary" of the Company (as such term is defined in Rule 1-02 of Regulation S-X), has been duly organized and is validly existing as a corporation or a limited partnership, as the case may be, in good standing under the laws of the jurisdiction of its incorporation or formation, has corporate (or partnership) power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation or limited partnership, as the case may be, to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect; except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each such Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary. The only subsidiaries of the Company are (a) the subsidiaries listed on Exhibit 21 to the Registration Statement and (b) certain other subsidiaries which, considered in the aggregate as a single Subsidiary, do not constitute a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X.

(vii) Capitalization. The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus in the column entitled "Historical" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities, options or warrants referred to in the Prospectus). The shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; none of the

outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company. There are no outstanding subscriptions, rights, warrants, options, calls, convertible securities, commitments of sale or liens related to or entitling any person to purchase or otherwise acquire any shares of the capital stock of the Company except as otherwise disclosed in the Prospectus.

(viii) Authorization of Agreement. This Agreement has been duly authorized, executed and delivered by the Company.

(ix) Authorization and Description of Securities. The Securities have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set forth herein, will be validly issued and fully paid and non-assessable; the Common Stock conforms to all statements relating thereto contained in the Prospectus and such description conforms to the rights set forth in the instruments defining the same; no holder of the Securities will be subject to personal liability by reason of being such a holder; and the issuance of the Securities is not subject to the preemptive or other similar rights of any securityholder of the Company.

(x) Absence of Defaults and Conflicts. Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments") except for such defaults that would not result in a Material Adverse Effect; and the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use of Proceeds") or the transactions described in the Prospectus as occurring substantially contemporaneously with the issuance and sale of the Securities and compliance by the Company with its obligations hereunder have been duly authorized by all necessary corporate action and do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any subsidiary pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company or any subsidiary or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any subsidiary or any of their assets, properties or

operations. As used herein, a "Repayment Event" means any the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any subsidiary.

(xi) Absence of Labor Dispute. No labor dispute with the employees of the Company or any subsidiary exists or, to the knowledge of the Company, is imminent, and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its or any subsidiary's principal suppliers, manufacturers, customers or contractors, which, in either case, may reasonably be expected to result in a Material Adverse Effect.

(xii) Absence of Proceedings. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Company, threatened, against or affecting the Company or any subsidiary, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in this Agreement or the transactions described in the Prospectus as occurring substantially contemporaneously with the issuance and sale of the Securities or the performance by the Company of its obligations hereunder; the aggregate of all pending legal or governmental proceedings to which the Company or any subsidiary is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, could not reasonably be expected to result in a Material Adverse Effect.

(xiii) Accuracy of Exhibits. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits thereto which have not been so described and filed as required.

(xiv) Possession of Intellectual Property. The Company and its subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them, and neither the Company nor any of its subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company or any of its subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would result in a Material Adverse Effect.

(xv) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company of its obligations hereunder, in connection with the offering, issuance or sale of the Securities hereunder or the consummation of the transactions contemplated by this Agreement or the transactions described in the Prospectus as occurring substantially contemporaneously with the issuance and sale of the Securities, except (i) such as have been already obtained or as may be required under the 1933 Act or the 1933 Act Regulations or state securities laws and (ii) such as have been obtained under the laws and regulations of jurisdictions outside the United States in which the Reserved Securities are offered. The Company has filed a registration statement pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, to register the Securities.

(xvi) Possession of Licenses and Permits. The Company and its subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them; the Company and its subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, have a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not have a Material Adverse Effect; and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Material Adverse Effect.

(xvii) Title to Property. The Company and its subsidiaries have good and marketable title to all real property owned by the Company and its subsidiaries and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectus or (b) do not, singly or in the aggregate, materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company or any of its subsidiaries; and all of the leases and subleases material to the business of the Company and its subsidiaries, considered as one enterprise, and under which the Company or any of its subsidiaries holds properties described in the Prospectus, are in full force and effect, and neither the Company nor any subsidiary has any notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company or any subsidiary under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease.

(xviii) Compliance with Cuba Act. The Company has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder (collectively, the "Cuba Act") or is exempt therefrom.

(xix) Investment Company Act. The Company is not, and upon the issuance and sale of the Securities as herein contemplated and the application of the net proceeds therefrom as described in the Prospectus will not be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(xx) Environmental Laws. Except as described in the Registration Statement and except as would not, singly or in the aggregate, result in a Material Adverse Effect, (A) neither the Company nor any of its subsidiaries is in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company and its subsidiaries have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any of its subsidiaries and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company or any of its subsidiaries relating to Hazardous Materials or any Environmental Laws.

(xxi) Registration Rights. Except as described in the Prospectus as to which all rights have been waived with respect to inclusion in the Registration Statement, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xxii) Insurance. The Company maintains reasonably adequate insurance for the business conducted by the Company.

(xxiii) Accounting Controls. The Company and the Subsidiaries maintain a system of accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with the management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxiv) Non-Governmental Consents, Agreements. The Company has obtained all consents from non-governmental parties required in connection with the issuance and sale of the Securities and has entered into agreements with parties relating to transactions described in the Prospectus as occurring substantially contemporaneously with the issuance and sale of the Securities and, to the extent such agreements are non-binding, the Company reasonably expects such parties to carry out such agreements in the manner described in the Prospectus, including, without limitation, (i) the exercise of the Warrant held by General Electric Capital Corporation, (ii) the termination of the Management Services Agreement with Inverness/Phoenix LLC and its replacement with a Deferred Fee Agreement (iii) the execution and delivery of a new five-year Senior Secured Revolving Credit Facility with General Electric Capital Corporation.

(b) Officer's Certificates. Any certificate signed by any officer of the Company or any of its subsidiaries delivered to the Representatives or to counsel for the Underwriters shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

SECTION 2. Sale and Delivery to Underwriters; Closing.

(a) Initial Securities. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company, at the price per share set forth in Schedule B, the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional number of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) Option Securities. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the Underwriters, severally and not jointly, to purchase up to an additional 600,000 shares of Common Stock at the price per share set forth in Schedule B, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities. The option hereby granted will expire 30 days after the

date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial Securities upon notice by the Representatives to the Company setting forth the number of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery (a "Date of Delivery") shall be determined by the Representatives, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the Option Securities, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Securities then being purchased which the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter bears to the total number of Initial Securities, subject in each case to such adjustments as the Representatives in their discretion shall make to eliminate any sales or purchases of fractional shares.

(c) Payment. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Andrews & Kurth L.L.P., 4200 Texas Commerce Tower, Houston, Texas 77002, or at such other place as shall be agreed upon by the Representatives and the Company, at 10:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Representatives and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price for, and delivery of certificates for, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representatives and the Company, on each Date of Delivery as specified in the notice from the Representatives to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Representatives for the respective accounts of the Underwriters of certificates for the Securities to be purchased by them. It is understood that each Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial Securities and the Option Securities, if any, which it has agreed to purchase. Merrill Lynch, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial Securities or the Option Securities, if any, to be purchased by any Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such Underwriter from its obligations hereunder.

(d) Denominations; Registration. Certificates for the Initial Securities and the Option Securities, if any, shall be in such denominations and registered in such names as the Representatives may request in writing at least one full business day before the Closing Time or the relevant Date

of Delivery, as the case may be. The certificates for the Initial Securities and the Option Securities, if any, will be made available for examination and packaging by the Representatives in The City of New York not later than 10:00 A.M. (Eastern time) on the business day prior to the Closing Time or the relevant Date of Delivery, as the case may be.

SECTION 3. Covenants of the Company. The Company covenants with each Underwriter as follows:

(a) Compliance with Securities Regulations and Commission Requests. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A or Rule 434, as applicable, and will notify the Representatives immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectus or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) Filing of Amendments. The Company will give the Representatives notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), any Term Sheet or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectus, will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Representatives or counsel for the Underwriters shall object.

(c) Delivery of Registration Statements. The Company has furnished or will deliver to the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and signed copies of all consents and certificates of experts, and will also deliver to the Representatives, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the Underwriters. The copies of the

Registration Statement and each amendment thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) Delivery of Prospectuses. The Company has delivered to each Underwriter, without charge, as many copies of each preliminary prospectus as such Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each Underwriter, without charge, during the period when the Prospectus is required to be delivered under the 1933 Act or the Securities Exchange Act of 1934 (the "1934 Act"), such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request. The Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) Continued Compliance with Securities Laws. The Company will comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement and in the Prospectus. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement the Prospectus in order that the Prospectus will not include any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request.

(f) Blue Sky Qualifications. The Company will use its best efforts, in cooperation with the Underwriters, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Representatives may designate and to maintain such qualifications in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the

Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) Rule 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) Use of Proceeds. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectus under "Use of Proceeds".

(i) Listing. The Company will use its best efforts to effect the listing of the outstanding Common Stock as well as the Securities on the New York Stock Exchange.

(j) Restriction on Sale of Securities. During a period of 180 days from the date of the Prospectus, the Company will not, without the prior written consent of Merrill Lynch, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to existing employee benefit plans of the Company referred to in the Prospectus, (D) any shares of Common Stock issued pursuant to any non-employee director stock plan or dividend reinvestment plan or (E) any shares of Common Stock or any securities convertible or exchangeable into Common Stock issued as payment of any part of the purchase price for businesses which are acquired by the Company (provided, however, that such shares shall be subject to restrictions that will prohibit the transfer thereof until after the expiration of the 180-day lock-up period described in the preceding sentence).

(k) Reporting Requirements. The Company, during the period when the Prospectus is required to be delivered under the 1933 Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

(l) Compliance with NASD Rules. The Company hereby agrees that it will ensure that the Reserved Securities will be restricted as required by the National Association of Securities Dealers, Inc. (the "NASD") or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of this Agreement. The Underwriters will notify the Company as to which persons will need to be so restricted. At the request of the Underwriters, the Company will direct the transfer agent to place a stop transfer restriction upon such securities for such period of time. Should the Company release, or seek to release, from such restrictions any of the Reserved Securities, the Company agrees to reimburse the Underwriters for any reasonable expenses (including, without limitation, legal expenses) they incur in connection with such release.

(m) Form SR. The Company will file with the Commission such reports on Form SR as may be required pursuant to Rule 463 of the 1933 Act Regulations.

SECTION 4. Payment of Expenses. (a) Expenses. The Company will pay all expenses incident to the performance of its obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus, any Term Sheets and of the Prospectus and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of any transfer agent or registrar for the Securities and (ix) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of the sale of the Securities (x) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange), and (y) all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters, in connection with matters related to the Reserved Securities which are designated by the Company for sale to employees and others having a business relationship with the Company.

(b) Termination of Agreement. If this Agreement is terminated by the Representatives in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company shall reimburse the Underwriters for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the Underwriters.

SECTION 5. Conditions of Underwriters' Obligations. The obligations of the several Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company contained in Section 1 hereof or in certificates of any officer of the Company or any subsidiary of the Company delivered pursuant to the provisions hereof, to the performance by the Company of its covenants and other obligations hereunder, and to the following further conditions:

(a) Effectiveness of Registration Statement. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A) or, if the Company has elected to rely upon Rule 434, a Term Sheet shall have been filed with the Commission in accordance with Rule 424(b).

(b) Opinion of Counsel for Company. At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of Vinson & Elkins L.L.P., counsel for the Company, in form and substance satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth in Exhibit A hereto and to such further effect as counsel to the Underwriters may reasonably request. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of New York, the law of the State of Texas, and the federal law of the United States and the General Corporation Law of the State of Delaware), upon the opinions of counsel satisfactory to the Representatives. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and its Subsidiaries and certificates of public officials.

(c) Opinions of General Counsel and Other Counsel. At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of Paul M. Nation, General Counsel of the Company, in form and substance satisfactory to Counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters to the effect set forth in Exhibit B1 hereto and to such further effect as counsel to the Underwriters may reasonably request. In addition, the Representatives shall have received the favorable opinions, dated as of Closing Time, of B.D.H. Cooper L.L.B., Solicitor to National Oilwell (U.K.) Limited, to effect set forth in Exhibit B2 hereto, and of _____, _____, to the effect set forth in Exhibit B3 hereto.

(d) Opinion of Counsel for Underwriters. At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of

Andrews & Kurth L.L.P., counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters with respect to the matters set forth in clauses (i), (iv), (v) (solely as to preemptive or other similar rights arising by operation of law or under the charter or by-laws of the Company), (vii) through (ix), inclusive, (xi) (solely as to the information in the Prospectus under "Description of Capital Stock--Common Stock") and the penultimate paragraph of Exhibit A hereto. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of Texas, the State of New York, the federal law of the United States and the General Corporation Law of the State of Delaware, upon the opinions of counsel satisfactory to the Representatives. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and its subsidiaries and certificates of public officials.

(e) Officers' Certificate. At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(f) Accountant's Comfort Letter. At the time of the execution of this Agreement, the Representatives shall have received from Ernst & Young LLP a letter dated such date, in form and substance reasonably satisfactory to the Representatives, together with signed or reproduced copies of such letter for each of the other Underwriters containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(g) Bring-down Comfort Letter. At Closing Time, the Representatives shall have received from Ernst & Young LLP a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (f) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(h) Approval of Listing. At Closing Time, the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance.

(i) No Objection. The NASD has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(j) Lock-up Agreements. At the date of this Agreement, the Representatives shall have received an agreement substantially in the form of Exhibit C hereto signed by the persons listed on Schedule C hereto.

(k) Conditions to Purchase of Option Securities. In the event that the Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Representatives shall have received:

(i) Officers' Certificate. A certificate, dated such Date of Delivery, of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company confirming that the certificate delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) Opinion of Counsel for Company. The favorable opinion of Vinson & Elkins L.L.P., counsel for the Company, in form and substance satisfactory to counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(b) hereof.

(iii) Opinion of General Counsel and Other Counsel. The favorable opinions of Paul M. Nation, General Counsel of the Company, and other counsel to the same effect as the opinions required by Section 5(c) hereof.

(iv) Opinion of Counsel for Underwriters. The favorable opinion of Andrews & Kurth L.L.P., counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(d) hereof.

(v) Bring-down Comfort Letter. A letter from Ernst & Young LLP, in form and substance satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Representatives pursuant to Section 5(g) hereof, except that the "specified date" in

the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(l) Additional Documents. At Closing Time and at each Date of Delivery, counsel for the Underwriters shall have been furnished with such documents and opinions as they may reasonably require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters.

(m) Termination of Agreement. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Option Securities, on a Date of Delivery which is after the Closing Time, the obligations of the several Underwriters to purchase the relevant Option Securities, may be terminated by the Representatives by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

SECTION 6. Indemnification.

(a) Indemnification of Underwriters. The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of (A) the violation of any applicable laws or regulations of foreign jurisdictions where Reserved Securities have been offered and (B) any untrue statement or alleged untrue statement of a material fact included in the supplement or prospectus wrapper

material distributed in Canada in connection with the reservation and sale of the Reserved Securities to eligible employees or the omission or alleged omission therefrom of a material fact necessary to make the statements therein, when considered in conjunction with the Prospectus or preliminary prospectus, not misleading;

(iii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission or in connection with any violation of the nature referred to in Section 6(a)(ii)(A) hereof; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company; and

(iv) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Merrill Lynch), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission or in connection with any violation of the nature referred to in Section 6(a)(ii)(A) hereof, to the extent that any such expense is not paid under (i), (ii) or (iii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(b) Indemnification of Company, Directors and Officers. Each Underwriter severally agrees to indemnify and hold harmless the Company, its directors, each of its officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(c) Actions against Parties; Notification. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a) above, counsel to the indemnified parties shall be selected by Merrill Lynch, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) Settlement without Consent if Failure to Reimburse. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) Indemnification for Reserved Securities. In connection with the offer and sale of the Reserved Securities, the Company agrees, promptly upon a request in writing, to indemnify and hold harmless the Underwriters from and against any and all losses, liabilities, claims, damages and expenses incurred by them as a result of the failure of eligible employees of the Company to pay for and accept delivery of Reserved Securities which, by the end of the first business day following the date of this Agreement, were subject to a properly confirmed agreement to purchase.

SECTION 7. Contribution. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Underwriters on the other hand in connection with the statements or omissions, or in connection with any failure of the nature referred to in Section 6(a)(ii)(A) hereof, which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company on the one hand and the Underwriters on the other hand in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the Underwriters, in each case as set forth on the cover of the Prospectus, or, if Rule 434 is used, the corresponding location on the Term Sheet, bear to the aggregate initial public offering price of the Securities as set forth on such cover.

The relative fault of the Company on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission or any failure of the nature referred to in Section 6(a)(ii)(A) hereof.

The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any

damages which such Underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial Securities set forth opposite their respective names in Schedule A hereto and not joint.

SECTION 8. Representations, Warranties and Agreements to Survive Delivery. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the Underwriters.

SECTION 9. Termination of Agreement.

(a) Termination; General. The Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Representatives, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of Securities Dealers, Inc. or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) Liabilities. If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. Default by One or More of the Underwriters. If one or more of the Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the number of Securities to be purchased on such date, each of the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the number of Defaulted Securities exceeds 10% of the number of Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after the Closing Time, the obligation of the Underwriters to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which is after the Closing Time, which does not result in a termination of the obligation of the Underwriters to purchase and the Company to sell the relevant Option Securities, as the case may be, either the Representatives or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10.

SECTION 11. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Representatives at North Tower, World Financial Center, New York, New York 10281-1201, attention of Wood Steinberg,

Vice President; and notices to the Company shall be directed to it at 5555 San Felipe, Houston, Texas 77056, attention of Paul M. Nation, Vice President and General Counsel.

SECTION 12. Parties. This Agreement shall each inure to the benefit of and be binding upon the Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO EASTERN TIME.

SECTION 14. Effect of Headings. The Article and Section headings herein and the Table of Contents are for convenience only) and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

NATIONAL-OILWELL, INC.

By
Title:

CONFIRMED AND ACCEPTED, as of the date first above written:

MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
GOLDMAN, SACHS & CO.
SIMMONS & COMPANY INTERNATIONAL

By: MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By _____
Authorized Signatory

For themselves and as Representatives of the other Underwriters named in
Schedule A hereto.

SCHEDULE A

| Name of Underwriter ----- | Number of Initial Securities ----- |
|--|---|
| Merrill Lynch, Pierce, Fenner & Smith Incorporated..... Goldman, Sachs & Co. Simmons & Company International | |
| Total | ----- 4,000,000 Shares ===== |

SCHEDULE B

National-Oilwell, Inc.
4,000,000 Shares of Common Stock
(Par Value \$.01 Per Share)

1. The initial public offering price per share for the Securities, determined as provided in said Section 2, shall be \$_____.

2. The purchase price per share for the Securities to be paid by the several Underwriters shall be \$_____, being an amount equal to the initial public offering price set forth above less \$_____ per share; provided that the purchase price per share for any Option Securities purchased upon the exercise of the over-allotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities.

Sch B-1

SCHEDULE C

List of Persons and Entities
Subject to Lock-up

First Reserve VI, Limited Partnership
First Reserve Fund V, Limited Partnership
First Reserve Fund V-2, Limited Partnership
DPI Oil Service Partners Limited Partnership
DPI Partners II
General Electric Capital Corporation
Joel V. Staff
C. R. Bearden
Lynn L. Leigh
Paul M. Nation
Jerry N. Gauche
James J. Fasnacht
Edgar J. Marsten III, on behalf of the Trust created pursuant to the
National-Oilwell Supplemental Savings Plan

Sch C-1

FORM OF OPINION OF COMPANY'S COUNSEL
TO BE DELIVERED PURSUANT TO
SECTION 5(b)

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.

(ii) The Company has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under the Purchase Agreement.

(iii) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to the Purchase Agreement or pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities, options or warrants referred to in the Prospectus); the shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; and none of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company.

(iv) The Securities have been duly authorized for issuance and sale to the Underwriters pursuant to the Purchase Agreement and, when issued and delivered by the Company pursuant to the Purchase Agreement against payment of the consideration set forth in the Purchase Agreement, will be validly issued and fully paid and non-assessable and no holder of the Securities is or will be subject to personal liability by reason of being such a holder.

(v) The issuance of the Securities is not subject to preemptive or other similar rights of any securityholder of the Company.

(vi) Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each U.S. Subsidiary listed on Schedule 1 hereto (each a "U.S. Subsidiary") has been duly authorized and validly issued, is fully paid and non-assessable and, to the best of our knowledge, is owned by the Company, directly or through subsidiaries, free and clear of

any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any U.S. Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such U.S. Subsidiary.

(vii) The Purchase Agreement has been duly authorized, executed and delivered by the Company.

(viii) The Registration Statement, including any Rule 462(b) Registration Statement, has been declared effective under the 1933 Act; any required filing of the Prospectus pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or threatened by the Commission.

(ix) The Registration Statement, including any Rule 462(b) Registration Statement, the Rule 430A Information and the Rule 434 Information, as applicable, the Prospectus and each amendment or supplement to the Registration Statement and Prospectus as of their respective effective or issue dates (other than the financial statements and supporting schedules included therein or omitted therefrom, as to which we need express no opinion) complied as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.

(x) The form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the charter and by-laws of the Company and the requirements of the New York Stock Exchange.

(xi) The information in the Prospectus under "Description of Capital Stock--Common Stock", "Description of Capital Stock--Preferred Stock" and "--Certain Anti-Takeover and Other Provisions of the Amended and Restated Certificate of Incorporation" and "--Liability of Officers and Directors -- Indemnification", and "Shares Eligible for Future Sale" and in the Registration Statement under Item 14, to the extent that it constitutes matters of law, summaries of legal matters, the Company's charter and bylaws, or legal conclusions, has been reviewed by us and is correct in all material respects; provided, however, that we express no opinion with respect to this item (xiii) as to the calculation of the number of shares to be issued upon conversion of the Class A common stock, or shares of Common Stock to be issued under the Value Appreciation Plans.

(xii) All descriptions in the Registration Statement of contracts and other documents to which the Company or its subsidiaries are a party are accurate in all material respects; to the best of our knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes, leases

or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed or incorporated by reference as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

(xiii) No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency, domestic or foreign (other than under the 1933 Act and the 1933 Act Regulations, which have been obtained, or as may be required under the securities or blue sky laws of the various states, as to which we need express no opinion) is necessary or required in connection with the due authorization, execution and delivery of the Purchase Agreement or for the offering, issuance or sale of the Securities; provided, however, that we express no opinion as to any securities laws of any non-U.S. jurisdiction.

(xiv) The execution, delivery and performance of the Purchase Agreement and the consummation of the transactions contemplated in the Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectus under the caption "Use Of Proceeds") and compliance by the Company with its obligations under the Purchase Agreement do not and will not, whether with or without the giving of notice or lapse of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined in Section 1(a)(x) of the Purchase Agreement) under or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any subsidiary pursuant to any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or any other agreement or instrument, identified to such counsel as being material to the Company, to which the Company or any subsidiary is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not have a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company or any Subsidiary, or (except for such violations that would not have a Material Adverse Effect) any applicable law, statute, rule, regulation, judgment, order, writ or decree, known to us, of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any subsidiary or any of their respective properties, assets or operations.

(xv) Except as otherwise waived or described in the Prospectus, to the best of our knowledge, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xvi) The Company is not an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the 1940 Act.

Nothing has come to our attention that would lead us to believe that the Registration Statement or any amendment thereto, including the Rule 430A Information and Rule 434 Information (if applicable), (except for financial statements and schedules and other financial data included therein or omitted therefrom, as to which we need make no statement), at the time such Registration Statement or any such amendment became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus or any amendment or supplement thereto (except for financial statements and schedules and other financial data included therein or omitted therefrom, as to which we need make no statement), at the time the Prospectus was issued, at the time any such amended or supplemented prospectus was issued or at the Closing Time, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may rely, as to matters of fact (but not as to legal conclusions), to the extent they deem proper, on certificates of responsible officers of the Company and public officials. Such opinion shall not state that it is to be governed or qualified by, or that it is otherwise subject to, any treatise, written policy or other document relating to legal opinions, including, without limitation, the Legal Opinion Accord of the ABA Section of Business Law (1991).

Schedule 1 to Exhibit A

List of Subsidiaries

U.S. Subsidiaries

Natoil, Inc.
NOW Oilfield Services, Inc
National-Oilwell, L.P.
National-Oilwell International, Inc.

Other Subsidiaries

National Oilwell (U.K.) Limited
National-Oilwell Canada Ltd.

Exhibit B1

FORM OF OPINION OF PAUL M. NATION,
THE COMPANY'S GENERAL COUNSEL,
TO BE DELIVERED PURSUANT TO
SECTION 5(c)

- (i) The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.
- (ii) Each U.S. subsidiary listed on Schedule 1 hereto (each a "U.S. Subsidiary"), has been duly incorporated and is validly existing as a corporation or limited partnership, as the case may be, in good standing under the laws of the jurisdiction of its incorporation or formation, has corporate or partnership power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and is duly qualified as a foreign corporation or limited partnership, as the case may be, to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.
- (iii) The information in the Prospectus under "Description of Capital Stock -- Common Stock" and "Shares Eligible for Future Sale" and in the Registration Statement under Item 14 to the extent that it constitutes summaries of legal matters or legal proceedings has been reviewed by me and is correct in all material respects.
- (iv) To the best of my knowledge, no subsidiary of the Company is in violation of its charter or by-laws and no default by the Company or any subsidiary exists in the due performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument that is described or referred to in the Registration Statement or the Prospectus or filed or incorporated by reference as an exhibit to the Registration Statement.
- (v) To the best of my knowledge, there is not pending or threatened any action, suit, proceeding, inquiry or investigation, to which the Company or any subsidiary is a party, or to which the

property of the Company or any subsidiary is subject, before or brought by any court or governmental agency or body, domestic or foreign, which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in the Purchase Agreement or the performance by the Company of its obligations thereunder.

B1-2

Exhibit B2

FORM OF OPINION OF B.D.H. COOPER L.L.B.,
SOLICITOR TO NATIONAL OILWELL (U.K.) LIMITED
TO BE DELIVERED PURSUANT TO SECTION 5(C)

NOW International, Inc. is recorded in the Register of Members of National Oilwell (U.K.) Limited (the "Company") as being the owner of all of the issued and outstanding capital stock or other equity interests of the Company. Based upon the foregoing, I am of the opinion that none of such capital stock and equity securities has been issued in violation of, and is not subject to any, pre-emptive or prescription rights. There are no outstanding warrants, options, agreements, convertible or exchangeable securities or other commitments to which the Company is or may become obligated to issue, sell, purchase, return, or redeem any of such capital stock or equity securities.

The Company has been duly organized and is validly existing as a company under the laws of England and Wales; it has legal power and authority to own, lease, and operate its properties and to conduct its business.

B2-1

Exhibit B3

FORM OF OPINION OF _____/
RELATING TO NATIONAL-OILWELL CANADA LTD.
TO BE DELIVERED PURSUANT TO SECTION 5(C)

B2-2

FORM OF LOCK-UP AGREEMENT
TO BE DELIVERED PURSUANT TO SECTION 5(j)
BY PERSONS LISTED ON SCHEDULE C

August 26, 1996

MERRILL LYNCH & CO.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated,
Goldman Sachs & Co., Inc.
Simmons & Company International
as Representative(s) of the several
Underwriters to be named in the
within-mentioned Purchase Agreement
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Re: Proposed Public Offering by National-Oilwell, Inc.

Dear Sirs:

The undersigned, a stockholder of NOW Holdings, Inc. (to be renamed National-Oilwell, Inc.), a Delaware corporation (the "Company"), understands that Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Goldman, Sachs & Co. and Simmons & Company International propose to enter into a Purchase Agreement (the "Purchase Agreement") with the Company providing for the public offering of shares (the "Securities") of the Company's common stock, par value \$.01 per share (the "Common Stock"). In recognition of the benefit that such an offering will confer upon the undersigned as a stockholder of the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby

acknowledged, the undersigned agrees with each underwriter to be named in the Purchase Agreement that, during a period of 180 days from the date of the Purchase Agreement, the undersigned will not, without the prior written consent of Merrill Lynch, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of the Company's Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise; provided, (i) any person with shares of Common Stock or securities convertible or exercisable into Common Stock that are currently pledged to the Company as collateral for a loan made to such individual by the Company in connection with the acquisition of such shares or securities may pledge such shares of Common Stock or securities convertible or exercisable into Common Stock as collateral for any loan of an equal or lesser amount in connection with the prepayment and cancellation of such loan by the Company; (ii) shares of Common Stock or securities convertible or exercisable into Common Stock may be transferred by the undersigned in a private transaction to a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the undersigned (an "Affiliate") if such Affiliate agrees prior to such transfer in writing to be bound by a similar lock-up agreement; (iii) shares of Common Stock or securities convertible or exercisable into Common Stock may be transferred as bona fide gifts by stockholders to children or trusts controlled by such stockholder who agree prior to such transfer to be bound by a similar lock-up agreement; and (iv) shares of Common Stock or securities convertible or exercisable into Common Stock held by the trust pursuant to the Company's Supplemental Savings Plan may be transferred to a beneficial owner of such shares who is subject to a similar lock-up agreement pursuant to an event of termination.

Very truly yours,

Signature:
Print Name:
Title (if applicable):

FORM OF ERNST & YOUNG LLP'S COMFORT LETTER PURSUANT TO SECTION 5(e)

We are independent public accountants with respect to the Company and the Partnership within the meaning of the 1933 Act and the applicable published 1933 Act Regulations.

(i) in our opinion, the audited financial statements [and the related financial statement schedules] included in the Registration Statement and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder;

(ii) on the basis of procedures (but not an examination in accordance with generally accepted auditing standards) consisting of a reading of the unaudited interim consolidated historical financial statements for the six month periods ended June 30, 1996 and June 30, 1995 included in the Registration Statement and the Prospectus (collectively, the "Quarterly Financials"), a reading of the latest available unaudited interim consolidated financial statements of the Company, a reading of the minutes of all meetings of the stockholders and directors of the Company and its subsidiaries and the Executive and Audit Committees of the Company's Board of Directors and any subsidiary committees since, January 1, 1996, inquiries of certain officials of the Company and its subsidiaries responsible for financial and accounting matters, a review of interim financial information in accordance with standards established by the American Institute of Certified Public Accountants in Statement on Auditing Standards No. 71, Interim Financial Information ("SAS 71"), with respect to the description of relevant periods and such other inquiries and procedures as may be specified in such letter, nothing came to our attention that caused us to believe that:

(A) the Quarterly Financials included in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the 1933 Act Regulations or any material modifications should be made to the unaudited consolidated financial statements included in the Registration Statement and the Prospectus for them to be in conformity with generally accepted accounting principles;

(B) at August 31, 1996 and at a specified date not more than five days prior to the date of this Agreement, there was any change in the of the Company and its subsidiaries or any decrease in the of the Company and its subsidiaries or any increase in the of the Company and its subsidiaries in each case as compared with amounts

shown in the latest balance sheet included in the Registration Statement, except in each case for changes, decreases or increases that the Registration Statement discloses have occurred or may occur; or

(C) for the period from June 30, 1996 to August 31, 1996 and for the period from August 31, 1996 to a specified date not more than five days prior to the date of this Agreement, there was any decrease in revenues, gross profit, or operating income, in each case as compared with the comparable period in the preceding year, except in each case for any decreases that the Registration Statement discloses have occurred or may occur [considering comparing post-June 30, 1996 period to comparable period ended June 30, 1996];

(iii) based upon the procedures set forth in clause (ii) above and a reading of the Selected Historical Financial Data included in the Registration Statement and a reading of the financial statements from which such data were derived, nothing came to our attention that caused us to believe that the Selected Historical Financial Data included in the Registration Statement do not comply as to form in all material respects with the disclosure requirements of Item 301 of Regulation S-K of the 1933 Act, that the amounts included in the Selected Historical Financial Data are not in agreement with the corresponding amounts in the audited consolidated financial statements for the respective periods or that the financial statements not included in the Registration Statement from which certain of such data were derived are not in conformity with generally accepted accounting principles;

(iv) we have compared the information in the Registration Statement under selected captions with the disclosure requirements of Regulation S-K of the 1933 Act and on the basis of limited procedures specified herein, nothing came to our attention that caused us to believe that this information does not comply as to form in all material respects with the disclosure requirements of Items 302, 402 and 503(d), respectively, of Regulation S-K;

[(v) include if capsule nine-month earnings included-based upon the procedures set forth in clause (ii) above, a reading of the unaudited financial statements of the Company for the most recent period that have not been included in the Registration Statement and a review of such financial statements in accordance with SAS 71, nothing came to our attention that caused us to believe that the unaudited amounts for _____ for the most recent period do not agree with the amounts set forth in the unaudited consolidated financial statements for those periods or that such unaudited amounts were not determined on a basis substantially consistent with that of the corresponding amounts in the audited consolidated financial statements];

[(vi)] we are unable to and do not express any opinion on the Unaudited Pro Forma Consolidated Balance Sheet and Statement of Operations (the "Pro Forma Statements") included in the Registration Statement or on the pro forma adjustments applied to the historical amounts included in the Pro Forma Statements; however, for purposes of this letter we have:

(A) read the Pro Forma Statements;

(B) performed an audit with respect to the financial statements for the year ended December 31, 1995 and a review in accordance with SAS 71 of the unaudited financial statements for the six-month period ended June 30, 1996, to which the pro forma adjustments were applied;

(C) made inquiries of certain officials of the Company who have responsibility for financial and accounting matters about the basis for their determination of the pro forma adjustments and whether the Pro Forma Statements complies as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X; and

(D) proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the Pro Forma Statements; and

on the basis of such procedures and such other inquiries and procedures as specified herein, nothing came to our attention that caused us to believe that the Pro Forma Statements included in the Registration Statement does not comply as to form in all material respects with the applicable requirements of Rule 11-02 of Regulation S-X or that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements; and

(vii) in addition to the procedures referred to in clause (ii) above, we have performed other procedures, not constituting an audit, with respect to certain amounts, percentages, numerical data and financial information appearing in the Registration Statement, which are specified herein, and have compared certain of such items with, and have found such items to be in agreement with, the accounting and financial records of the Company [requests for specific comfort to be discussed].

=====

AMENDED AND RESTATED CREDIT AGREEMENT

Dated October 23, 1996

among

NATIONAL-OILWELL, L.P.

and NATIONAL OILWELL (U.K.) LIMITED

as Borrowers,

THE LENDERS NAMED HEREIN

as Lenders,

and

GENERAL ELECTRIC CAPITAL CORPORATION,

as Administrative Agent and Lender

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This AMENDED AND RESTATED CREDIT AGREEMENT, dated October 23, 1996 and effective as of the Closing Date among NATIONAL-OILWELL, L.P., a Delaware limited partnership, NATIONAL OILWELL (U.K.) Limited, an English corporation, GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation, for itself, as a Lender, and as Administrative Agent, THE BANK OF NEW YORK COMMERCIAL CORPORATION, BTM CAPITAL CORPORATION (f/k/a BOT FINANCIAL CORPORATION), THE MITSUBISHI TRUST AND BANKING CORPORATION, and SANWA BUSINESS CREDIT CORPORATION, as Lenders.

RECITALS

WHEREAS, NATIONAL-OILWELL, INC., f/k/a NOW HOLDINGS, INC., a Delaware corporation ("Holdings") entered into a certain Purchase Agreement dated as of September 22, 1995 (the "Purchase Agreement") with OILWELL, INC., a Delaware corporation ("Oilwell"), NATIONAL SUPPLY COMPANY INC., a Delaware corporation ("National Supply"), USX CORPORATION, a Delaware corporation ("USX"), and ARMCO INC., an Ohio corporation ("Armco") (Oilwell and National Supply are collectively referred to herein as "Sellers") to purchase all of the partnership interests (the "Partnership Interests") in National-Oilwell, a Delaware general partnership ("National-Oilwell") and all of the issued and outstanding capital stock (the "Purchased Stock") of National-Oilwell Pte. Ltd., a Singapore corporation ("Singapore") and National-Oilwell Pty. Ltd., an Australian corporation ("Australia");

WHEREAS, Holdings assigned all of its right, title and interest in the Purchase Agreement to US Borrower;

WHEREAS, Borrowers entered into a Credit Agreement dated as of December 29, 1995 (the "Prior Credit Agreement") with the Administrative Agent, the Lenders that are parties hereto, Goldman Sachs & Co., GECC Capital Markets Group, Inc. and certain other Lenders pursuant to which the Borrowers received credit facilities of up to \$138,000,000;

WHEREAS, each Borrower secured all of its obligations under the Prior Credit Agreement by granting to Administrative Agent, on behalf of Lenders, a security interest in and lien upon all of its personal and real property;

WHEREAS, Holdings and the Partners guaranteed all of the obligations of Borrowers to Lenders under the Prior Credit Agreement and granted to Administrative Agent, on behalf of Lenders, a security interest in all of the capital stock of NOW International and the Partners and the partnership interests of US Borrower, respectively, to secure such guaranties;

WHEREAS, NOW International guaranteed all of the obligations of Borrowers to Lenders under the Prior Credit Agreement and granted to Administrative Agent, on behalf of Administrative Agent and Lenders, a security interest in sixty-five percent (65%) of the capital stock of all foreign Subsidiaries, including UK Borrower, to secure such guaranty;

WHEREAS, Holdings has completed an initial public offering (as more fully defined in Schedule A hereto, the "IPO") and in connection therewith US Borrower has repaid Term Loan A and Term Loan B under the Prior Credit Agreement;

WHEREAS, Borrowers and the Lenders desire to amend and restate the Prior Credit Agreement to govern the terms of the Obligations that are outstanding thereunder and to provide a revolving credit facility to US Borrower of up to \$105,000,000 (including the continuing Obligations outstanding under the Prior Credit Agreement) and a term loan to UK Borrower of up to \$5,000,000 (including the continuing Obligations outstanding under the Prior Credit Agreement) as a subfacility of the revolving credit facility described above, the working capital and general business needs of US Borrower (including the funding of Permitted Acquisitions) and UK Borrower; and

WHEREAS, capitalized terms used in this Agreement shall have the meanings ascribed to them in Schedule A. All Schedules, Exhibits and other attachments hereto, or expressly identified to this Agreement, are incorporated herein by reference, and taken together, shall constitute but a single agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and for other good and valuable consideration, the parties hereto agree as follows:

1. AMOUNT AND TERMS OF CREDIT

1.1 Credit Facilities.

(a) Revolving Credit Facility. (i) Upon and subject to the terms and conditions hereof, each Lender, severally and not jointly, agrees to make or continue to make available, from time to time, until the Commitment Termination Date, for US Borrower's use and upon the request of US Borrower therefor, its Pro Rata Share of advances (each, a "Revolving Credit Advance") in an aggregate amount which shall not at any given time exceed the lesser at such time of (A) the Maximum Revolving Credit Loan and (B) an amount equal to the Borrowing Base of US Borrower, less, in each case, the amount of the Letter of Credit Obligations ("Borrowing Availability"); provided that in no event shall the Revolving Credit Loan of any Lender exceed its Revolving Credit Loan Commitment less its Pro Rata Share of the Letter of Credit Obligations at such time. Until all amounts outstanding in respect of the Revolving Credit Loan shall become due and payable on the Commitment Termination Date, US Borrower may from time to time borrow, repay and reborrow under this Section 1.1(a). Each Revolving Credit Advance shall be made by delivery of a Borrowing Notice by US Borrower to the individual at the Administrative Agent identified on Schedule 1.1(a) at the address specified thereon, given no later than (x) 12:00 (noon) (New York time) on the Business Day of the proposed Revolving Credit Advance, in the case of an Index Rate Loan, or (y) 12:00 (noon) (New York time) on the day which is three (3) Business Days prior to the proposed Revolving Credit Advance in the case of a LIBOR Loan; provided that unless US Borrower shall also have complied with the requirements of Section 1.5(e), all such Revolving Credit Advances

shall bear interest by reference to the Index Rate; provided further that any Revolving Credit Advance requested as a LIBOR Loan shall be in a minimum amount of \$5,000,000 and multiples of \$1,000,000 in excess of such amount. Each Borrowing Notice shall be given in writing (by telecopy or overnight courier) or by telephone confirmed immediately in writing.

(ii) US Borrower shall execute and deliver to each Lender an amended and restated note to evidence the Revolving Credit Loan, such note to be in the principal amount of the Revolving Credit Loan Commitment of such Lender, dated October 23, 1996 and substantially in the form of Exhibit A (each an "Amended Revolving Credit Note" and, collectively, the "Amended Revolving Credit Notes"). The Amended Revolving Credit Notes shall represent the obligation of US Borrower to pay the amount of the Revolving Credit Loan Commitment or, if less, the aggregate unpaid principal amount of all Revolving Credit Advances made by Lenders to US Borrower and all other Obligations of US Borrower together with interest thereon as prescribed in Section 1.5. The date and amount of each Revolving Credit Advance and each payment of principal with respect thereto shall be recorded on the books and records of Administrative Agent, which books and records shall constitute prima facie evidence of the accuracy of the information therein recorded. The entire unpaid balance of the Revolving Credit Loan shall be immediately due and payable on the Commitment Termination Date.

(b) Term Loan C. Upon and subject to the terms and conditions hereof, each Lender having a Term Loan C Commitment, severally and not jointly, agrees to make or continue to make as a subfacility of the Revolving Credit Loan Facility available, from time to time, for UK Borrower's use and upon the request of US Borrower therefor, its Pro Rata Share of advances under Term Loan C in an aggregate amount equal to its Term Loan C Commitment (collectively, "Term Loan C"); provided that the aggregate outstanding principal amount of Term Loan C shall not at any time exceed an amount equal to the UK Borrowing Base. Until all amounts outstanding in respect of Term Loan C shall become due and payable on the Commitment Termination Date, amounts advanced under the Term Loan C facility may be repaid and reborrowed. Term Loan C shall be evidenced by amended and restated notes, each dated October 23, 1996 and substantially in the form of Exhibit B (each an "Amended Term C Note"), and UK Borrower shall execute and deliver the same to each such Lender. All advances and payments under Term Loan C shall be in United States Dollars. All Borrowing Base Certificate calculations for UK Borrower shall be converted to United States Dollars at the then current exchange rates as quoted in the Wall Street Journal, with the basis for such calculation set forth on each Borrowing Base Certificate of UK Borrower.

The entire unpaid balance of Term Loan C shall be immediately due and payable on the Commitment Termination Date.

(c) Reliance on Notices; Appointment of Borrower Representative. Administrative Agent shall be entitled to rely upon, and shall be fully protected in relying upon, any Borrowing Notice or similar notice believed by Administrative Agent to be genuine. Administrative Agent may assume that each Person executing and delivering such a notice was duly authorized, unless the responsible individual acting thereon for Administrative Agent has actual knowledge to the contrary.

UK Borrowers hereby designate Borrower Representative as its representative and agent on its behalf for the purposes of issuing Borrowing Notices, giving instructions with respect to the disbursement of the proceeds of the Loans, selecting interest rate options, giving and receiving all other notices and consents hereunder or under any of the other Loan Documents and taking all other actions (including in respect of compliance with covenants) on behalf of Borrowers under the Loan Documents. Borrower Representative hereby accepts such appointment. Administrative Agent and each Lender may regard any notice or other communication pursuant to any Loan Document from Borrower Representative as a notice or communication from all Borrowers, and may give any notice or communication required or permitted to be given to any Borrower or Borrowers hereunder to Borrower Representative on behalf of such Borrower or Borrowers. UK Borrower agrees that each notice, election, representation and warranty, covenant, agreement and undertaking made on its behalf by Borrower Representative shall be deemed for all purposes to have been made by such Borrower and shall be binding upon and enforceable against such Borrower to the same extent as if the same had been made directly by such Borrower.

1.2 Letters of Credit. Subject to the terms and conditions of Schedule B, US Borrower shall have the right to request the issuance of Letters of Credit and Lenders agree to incur Letters of Credit Obligations with respect thereto.

1.3 Prepayment. (a) In the event that the outstanding balance of the Revolving Credit Loan shall, at any time, exceed the lesser at such time of (i) the Maximum Revolving Credit Loan and (ii) the Borrowing Base of US Borrower, less, in each case, the outstanding amount of the Letter of Credit Obligations, US Borrower shall immediately and without notice or demand of any kind (x) repay the Revolving Credit Loan in the amount of such excess and (y) if any excess remains after repaying the Revolving Credit Loan, cash collateralize the Letter of Credit Obligations in such amount as may be necessary to eliminate such remaining excess. In the event that the outstanding balance of Term Loan C shall, at any time, exceed the UK Borrowing Base, UK Borrower shall immediately and without notice or demand of any kind repay Term Loan C in the amount of such excess.

(b) (i) Except for the proceeds of assets of NOW Canada (other than property or assets of NOW Canada, if any, included in the Asset Sale Program) required to be paid to General Electric Capital Canada Inc. pursuant to the NOW Canada Credit Agreement and proceeds of assets and property subject to subsection 1.3(b)(ii), immediately upon receipt by US Borrower or any Subsidiaries of Net Proceeds of any asset disposition permitted by subsection 6.8(ii), (iii) or (iv) (including all Net Proceeds of the Asset Sale Program), US Borrower shall prepay the Revolving Credit Loan in an amount equal to one hundred percent (100%) of such Net Proceeds; provided that the Maximum Revolving Credit Loan shall not be reduced as a result of any such prepayment, and such amounts may be reborrowed.

(ii) Immediately upon receipt by UK Borrower or any of its Subsidiaries of Net Proceeds of any asset disposition permitted by subsections 6.8(ii), 6.8(iii) or 6.8(iv) (other than assets of UK Borrower, if any, included in the Asset Sale Program) or receipt by UK Borrower of any

payment by NOW Canada on its intercompany indebtedness to UK Borrower permitted by subsection 6.22(iii), UK Borrower shall prepay Term Loan C in an amount equal to one hundred percent (100%) of such Net Proceeds or of such payment, as applicable.

(c) (i) Except for the insurance proceeds of assets and property of NOW Canada (other than property or assets of NOW Canada, if any, included in the Asset Sale Program) required to be paid to General Electric Capital Canada Inc. pursuant to the NOW Canada Credit Agreement and proceeds of assets and property subject to subsection 1.3(c)(ii), immediately upon receipt by US Borrower or any of its Subsidiaries of insurance proceeds received in the event of loss or the seizure or requisition of any property or assets of US Borrower or any Subsidiary, US Borrower shall prepay the Revolving Credit Loan to the extent required in accordance with Section 5.5; provided that the Maximum Revolving Credit Loan shall not be reduced as a result of any such prepayment and such amounts may be reborrowed.

(ii) Immediately upon receipt by UK Borrower or any of its Subsidiaries of insurance proceeds received in the event of loss or the seizure or requisition of any property or assets of UK Borrower or any of its Subsidiaries (other than property or assets included in the Asset Sale Program), UK Borrower shall prepay Term Loan C in an amount equal to such insurance proceeds.

(d) Upon at least fifteen (15) days' prior written notice to Administrative Agent, UK Borrower shall have the right at any time to voluntarily prepay all or part of Term Loan C in a minimum amount of \$500,000 and integral multiples thereof; provided that any such voluntary prepayment shall be accompanied by the payment of any LIBOR funding breakage costs in accordance with subsection 1.13(c).

(e) Upon at least fifteen (15) days' prior written notice to Administrative Agent, US Borrower may voluntarily permanently reduce the Revolving Credit Loan Commitment in whole, or in part ratably among Lenders in a minimum aggregate amount of \$5,000,000 or any integral multiple of \$1,000,000 in excess thereof; provided that the amount of the Revolving Credit Loan Commitment may not be reduced below the aggregate principal amount of the outstanding Revolving Credit Loan; provided further that any such voluntary reduction shall be accompanied by the payment of any LIBOR funding breakage costs in accordance with subsection 1.13(c); provided further that any Letter of Credit Obligations outstanding as of the date of such reduction, to the extent necessary, shall be canceled and returned or cash collateralized in the manner described in Schedule B. Upon any such permanent reduction or termination of the Revolving Credit Loan Commitment, US Borrower's right to receive Revolving Credit Advances shall simultaneously terminate or be permanently reduced to the same degree, as the case may be.

1.4 Use of Proceeds. US Borrower may utilize the proceeds of all Revolving Credit Advances (i) for the financing of ordinary working capital and general partnership needs of US Borrower (but excluding in any event any direct or indirect redemption of partnership interests or purchase of any Stock of Holdings or either Partner other than as permitted by Section 6.14; (ii) for intercompany loans as permitted by this Agreement; and (iii) for Permitted Acquisitions. UK

Borrower may utilize the proceeds of Term Loan C to repay existing Indebtedness owing to US Borrower and for ordinary working capital purposes.

1.5 Interest on the Loans, Applicable Line Margin and L/C Margin. (a) US Borrower and UK Borrower shall pay interest to Administrative Agent, for the ratable benefit of Lenders with respect to the Loans made by each Lender, in arrears on each applicable Interest Payment Date, at a rate equal to: (i) the Index Rate plus the Applicable Index Margin per annum or, at the election of US Borrower in accordance with subsection 1.5(e), the applicable LIBOR Rate plus the Applicable LIBOR Margin per annum.

The Applicable Line Margin, Applicable L/C Margin, Applicable Index Margin, and Applicable LIBOR Margin will be .375%, 1.375%, .75%, and 2.00% per annum, respectively, as of the Closing Date. The Applicable Margins will be adjusted (up or down) prospectively on a quarterly basis as determined by Holdings' consolidated financial performance for the trailing four quarters, commencing with the first day of the first calendar month that occurs more than five (5) days after delivery of Holdings' quarterly Financial Statements to Lenders for the Fiscal Quarter ending March 31, 1997. Adjustments in Applicable Margins will be determined by reference to the following grid:

| IF FUNDED ----- DEBT/EBIT ----- RATIO IS: ----- | APPLICABLE ----- LINE ----- MARGIN IS: ----- | APPLICABLE ----- L/C MARGIN ----- IS: --- | APPLICABLE ----- INDEX ----- MARGIN IS: ----- | APPLICABLE ----- LIBOR ----- MARGIN IS: ----- |
|--|---|--|--|--|
| =1.25 | 0.250% | 0.875% | 0.25% | 1.50% |
|)1.25 but =(3.00 | 0.375% | 1.375% | 0.75% | 2.00% |
|)3.00 | 0.50% | 1.875% | 1.25% | 2.50% |

All adjustments in the Applicable Margins after March 31, 1997, will be implemented quarterly on a prospective basis, commencing with the first day of the first calendar month that occurs more than five (5) days after the date of delivery to Lenders of the quarterly unaudited or annual audited (as applicable) Financial Statements of Holdings evidencing the need for an adjustment. Concurrently with the delivery of those Financial Statements, US Borrower shall deliver to Administrative Agent and Lenders a certificate, signed by its Chief Financial Officer or Treasurer, setting forth in reasonable detail the basis for the continuance of, or any change in, the Applicable Margins. Failure to timely deliver such Financial Statements shall, in addition to any other remedy provided for in this Agreement, result in an increase in the Applicable Margins to the highest level set forth in the foregoing grid, until the first day of the first calendar month commencing at least five (5) days after the date of the delivery of those Financial Statements demonstrating that such an increase is not required. If a Default or Event of Default shall have occurred or be continuing at the time any reduction in the Applicable Margins is to be implemented, that reduction shall be deferred.

until the first day of the first calendar month following the date on which such Default or Event of Default is waived or cured.

(b) If any payment on any Loan becomes due and payable on a day other than a Business Day, the maturity thereof will be extended to the next succeeding Business Day (except as set forth in the definition of LIBOR Period) and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension.

(c) All computations of Fees calculated on a per annum basis and all calculations of interest shall be made by Administrative Agent on the basis of a three hundred and sixty (360) day year, in each case for the actual number of days occurring in the period for which such interest or Fees are payable. The Index Rate shall be determined each day based upon the Index Rate as in effect each day. Each determination by Administrative Agent of an interest rate hereunder shall be conclusive, absent manifest error.

(d) So long as any Event of Default shall have occurred and be continuing, the Letter of Credit Fees and the interest rates applicable to the respective Loans and any other Obligations shall be increased by two percent (2%) per annum above the Letter of Credit Fees or the rate of interest, as the case may be, otherwise applicable hereunder ("Default Rate").

(e) Provided no Default or Event of Default shall have occurred and be continuing, US Borrower may elect by delivery of a Borrowing Notice to Administrative Agent not later than 12:00 noon (New York time) on the third (3rd) Business Day prior to (i) the date of any proposed Revolving Credit Advance or Term Loan C advance all or any part of which is to bear interest at the LIBOR Rate, (ii) the end of each LIBOR Period with respect to any LIBOR Loans, or (iii) the date on which US Borrower wishes to convert any Index Rate Loan to a LIBOR Loan, to have all or some portion of the Revolving Credit Loan or Term Loan C bear or continue to bear, as applicable, interest at the LIBOR Rate for the next succeeding LIBOR Period as designated by US Borrower in such Borrowing Notice. Each Borrowing Notice shall be given in writing (by telecopy or overnight courier) or by telephone confirmed immediately in writing. If no Borrowing Notice is received with respect to a LIBOR Loan by 12:00 (noon) (New York time) on the third (3rd) Business Day prior to the end of the LIBOR Period with respect to such LIBOR Loan, such LIBOR Loan shall be converted to an Index Rate Loan at the end of the LIBOR Period. US Borrower shall have the option to (i) convert at any time all or any part of its outstanding Loan or Loans equal to \$5,000,000 and integral multiples of \$1,000,000 in excess of that amount from LIBOR Loans to Index Rate Loans or from Index Rate Loans to LIBOR Rate Loans, or (ii) upon the expiration of any LIBOR Period applicable to a LIBOR Loan, to continue all or any portion of such Loan equal to \$5,000,000 and integral multiples of \$1,000,000 in excess of that amount as a LIBOR Loan, and the succeeding LIBOR Period(s) of such continued Loan shall commence on the last day of the LIBOR Period of the Loan to be continued; provided that LIBOR Loans may be converted into Index Rate Loans only on the expiration date of a LIBOR Period applicable thereto; provided further, that no outstanding Loan may be made or continued as, or be converted into, a LIBOR Loan when any Default or Event of Default has occurred and is continuing.

(f) Notwithstanding anything to the contrary set forth in this Section 1.5, if, at any time until payment in full of all of the Obligations and the termination of the Commitments, the rate of interest payable hereunder exceeds the highest rate of interest permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto (the "Maximum Lawful Rate"), then in such event and so long as the Maximum Lawful Rate would be so exceeded, the rate of interest payable hereunder shall be equal to the Maximum Lawful Rate; provided that if at any time thereafter the rate of interest payable hereunder is less than the Maximum Lawful Rate, Borrowers shall continue to pay interest hereunder at the Maximum Lawful Rate until such time as the total interest received by Administrative Agent, on behalf of Lenders, from the making of such advances hereunder is equal to the total interest which would have been received had the interest rate payable hereunder been (but for the operation of this subsection 1.5(f)) the interest rate payable since the Funding Date as otherwise provided in this Agreement. Thereafter, the interest rate payable hereunder shall be the rate of interest provided in subsections 1.5(a) through (e) of this Agreement, unless and until the rate of interest again exceeds the Maximum Lawful Rate, in which event this subsection 1.5(f) shall again apply. In no event shall the total interest received by any Lender pursuant to the terms hereof exceed the amount which such Lender could lawfully have received had the interest due hereunder been calculated for the full term hereof at the Maximum Lawful Rate. In the event the Maximum Lawful Rate is calculated pursuant to this subsection 1.5(f), such interest shall be calculated at a daily rate equal to the Maximum Lawful Rate divided by the number of days in the year in which such calculation is made. In the event that a court of competent jurisdiction, notwithstanding the provisions of this subsection 1.5 (f), shall make a final determination that a Lender has received interest hereunder or under any of the other Loan Documents in excess of the Maximum Lawful Rate, Administrative Agent shall, to the extent permitted by applicable law, promptly apply such excess first to any interest due and not yet paid hereunder in respect of the Loans, then to the outstanding principal of the Loans, then to Fees and any other unpaid Obligations and thereafter shall refund any excess to the applicable Borrower or as a court of competent jurisdiction may otherwise order.

1.6 Eligible Accounts. Based on the most recent Borrowing Base Certificate delivered by the applicable Borrower to Administrative Agent and on other information available to Administrative Agent, Administrative Agent shall in its reasonable discretion determine which Accounts shall be deemed to be "Eligible Accounts" for purposes of determining the amounts, if any, which are (i) permitted to be outstanding to US Borrower under the Revolving Credit Loan and (ii) permitted to be outstanding to UK Borrower under Term Loan C. In determining whether a particular Account constitutes an Eligible Account, Administrative Agent shall not include any such Account which meets any of the criteria set forth in Schedule C-1 or Schedule C-2, as applicable. Administrative Agent reserves the right, at any time and from time to time after the Closing Date, in the exercise of its reasonable credit judgment (i) to adjust any eligibility criteria or to establish new eligibility criteria as to any Borrower, which are more restrictive than those set forth in Schedule C-1 and Schedule C-2, and (ii) establish reserves against Borrowing Availability.

1.7 Eligible Inventory, Eligible Equipment, Eligible Real Estate. (a) Based on the most recent Borrowing Base Certificate delivered by the applicable Borrower to Administrative

Agent and on other information available to Administrative Agent, Administrative Agent shall in its reasonable discretion determine which Inventory of such Borrower shall be deemed to be "Eligible Inventory" for purposes of determining the amounts, if any, which are (1) permitted to be outstanding to US Borrower under the Revolving Credit Loan and (2) permitted to be outstanding to UK Borrower under Term Loan C. In determining whether any particular Inventory constitutes Eligible Inventory, Administrative Agent shall not include Inventory which meets any of the criteria set forth in Schedule D-1 or Schedule D-2, as applicable. Administrative Agent reserves the right, at any time and from time to time after the Closing Date, in the exercise of its reasonable credit judgment, (i) to adjust any eligibility criteria or to establish new eligibility criteria as to any Borrower, which are more restrictive than those set forth in Schedule D-1 and Schedule D-2, and (ii) establish reserves against Borrowing Availability.

(b) Administrative Agent reserves the right at any time from and after the Closing Date, in the exercise of its reasonable credit judgment, (i) to adjust any eligibility criteria or to establish new eligibility criteria (which adjustment or new criteria may be more restrictive) with respect to Eligible Equipment, Eligible On-Lease Inventory and Eligible Real Estate, and (ii) establish reserves with respect to Eligible Equipment, Eligible On-Lease Inventory and Eligible Real Estate, including without limitation, repair reserves, reserves to assure payment of Liens, including Permitted Encumbrances with respect thereto, and environmental remediation reserves with respect to Eligible Real Estate.

1.8 Fees. (a) US Borrower shall pay to GE Capital, individually, the fees specified in the GE Capital Fee Letter, at the times specified for payment therein.

(b) As additional compensation for Lenders' costs and risks in making the Revolving Credit Loan available to US Borrower, US Borrower agrees to pay to Administrative Agent, for the ratable benefit of Lenders, in arrears, on the first Business Day of each month prior to the Commitment Termination Date and on the Commitment Termination Date, a fee for US Borrower's non-use of available funds (the "Non-Use Fee") in an amount equal to the Applicable Line Margin from time to time in effect (calculated on the basis of a 360-day year for actual days elapsed) of the difference between the respective daily averages of (i) the Maximum Revolving Credit Loan (as it may be adjusted from time to time hereunder) and (ii) the amount of the Revolving Credit Loan and Letter of Credit Obligations outstanding during the period for which the Non-Use Fee is due.

(c) US Borrower shall pay to Administrative Agent, for the ratable benefit of Lenders, Letter of Credit fees equal to the Applicable L/C Margin from time to time in effect and expenses, all as set forth in Schedule B.

1.9 Cash Management Systems. (a) US Borrower has established and will maintain until the Termination Date, the cash management systems described on Schedule E. All available funds received each day in US Borrower's depository accounts shall be swept to the Collection Account and applied to outstanding Obligations in accordance with Section 1.11.

(b) UK Borrower has established and will maintain until Term Loan C has been paid in full, the cash management systems subject to a charge in favor of Administrative Agent for the ratable benefit of Lenders. Unless Administrative Agent shall elect to release such funds to UK Borrower, all available funds received each day in UK Borrower's depository accounts shall be swept to the Collection Account and applied against outstanding Obligations in accordance with Section 1.11.

1.10 Receipt of Payments. Borrowers shall make each payment under this Agreement not later than 12:00 noon (New York time) on the day when due in lawful money of the United States of America in immediately available funds to the Collection Account. For purposes of computing interest and fees for either Borrower and for determining the amount of funds available for borrowing by US Borrower pursuant to subsection 1.1(a), (a) all payments (including cash sweeps) consisting of cash, wire or electronic transfers in immediately available funds shall be deemed received on the date of deposit thereof in the Collection Account and notice to Administrative Agent of such deposit before the time specified above, and (b) all payments consisting of checks, drafts, or similar non-cash items shall be deemed received on the day of receipt of good funds following deposit of any such item of payment in the Collection Account and notice to Administrative Agent of such deposit.

1.11 Application and Allocation of Payments. So long as any Event of Default has occurred and is continuing, each Borrower irrevocably waives the right to direct the application of any and all payments at any time or times hereafter received from or on behalf of such Borrower and agrees that Administrative Agent shall have the continuing exclusive right to apply any and all such payments against the then due and payable Obligations of such Borrower as the Requisite Lenders may deem advisable notwithstanding any previous entry by Administrative Agent upon the Loan Account or any other books and records. In the absence of a specific determination by the Requisite Lenders to the contrary with respect to US Borrower, the same shall be applied in the following order: (i) to then due and payable Fees and expenses; (ii) to then due and payable interest payments; (iii) to then due and payable Obligations other than Fees, expenses and interest and principal payments; and (iv) to the principal balance of the Revolving Credit Loan. In the absence of a specific determination by the Requisite Lenders to the contrary with respect to UK Borrower, the same shall be applied in the following order: (i) to then due and payable Fees and expenses; (ii) to then due and payable interest payments on Term Loan C; (iii) to then due and payable Obligations other than Fees, expenses and interest and principal payments; and (iv) to principal payments on Term Loan C. Administrative Agent is authorized to, and at its option may, charge to the Revolving Credit Loan balance on behalf of US Borrower amounts equal to all Fees, expenses, Charges, costs or interest owing by US Borrower under this Agreement or any of the other Loan Documents if and to the extent US Borrower fails to promptly pay any such amounts as and when due, even if such charges would cause total Revolving Credit Advances to exceed Borrowing Availability or the Maximum Revolving Credit Loan amount. At Administrative Agent's option and to the extent permitted by law, any charges so made shall constitute part of the Revolving Credit Loan hereunder.

1.12 Loan Account and Accounting. Administrative Agent shall maintain a loan account (the "Loan Account") on its books to record: (a) all Revolving Credit Advances and Term Loan C advances; (b) all payments made by each Borrower, and (c) all other appropriate debits and credits as provided in this Agreement with respect to the Revolving Credit Loan and Term Loan C or any other Obligations. All entries in the Loan Account shall be made in accordance with Administrative Agent's customary accounting practices as in effect from time to time. Each Borrower shall pay all of its Obligations as such amounts become due or are declared due pursuant to the terms of this Agreement.

The balance in the Loan Account, as recorded on Administrative Agent's most recent printout or other written statement, shall be presumptive evidence of the amounts due and owing to Administrative Agent and Lenders by each Borrower; provided that any failure to so record or any error in so recording shall not limit or otherwise affect such Borrower's obligations to pay its Obligations. Administrative Agent shall render to US Borrower a monthly accounting of transactions under the Revolving Credit Loan and Term Loan C setting forth the balance of the Loan Account. Each and every such accounting shall (absent manifest error) be deemed final, binding and conclusive upon each Borrower in all respects as to all matters reflected therein, unless US Borrower, within thirty (30) days after the date any such accounting is rendered, shall notify Administrative Agent in writing of any objection which Borrowers may have to any such accounting, describing the basis for such objection with specificity. In that event, only those items expressly objected to in such notice shall be deemed to be disputed by Borrowers. Administrative Agent's determination, based upon the facts available, of any item objected to by Borrowers in such notice shall (absent manifest error) be final, binding and conclusive on Borrowers.

1.13 Indemnity. (a) Borrowers shall, jointly and severally, indemnify and hold Administrative Agent, Lenders, their respective Affiliates, and each such Person's respective officers, directors, employees, partners, attorneys, agents and representatives (each, an "Indemnified Person"), harmless from and against any and all suits, actions, proceedings, claims, damages, losses, liabilities and expenses (including reasonable attorneys' fees and disbursements and other costs of investigation or defense, including those incurred upon any appeal) which may be instituted or asserted against or incurred by any such Indemnified Person as the result of credit having been extended under this Agreement and the other Loan Documents or in connection with or arising out of the transactions contemplated hereunder and thereunder or any actions or failures to act in connection therewith, including any and all Environmental Liabilities and Costs (the "Indemnified Liabilities"); provided that neither Borrower shall be liable for any indemnification to such Indemnified Person to the extent that any such suit, action, proceeding, claim, damage, loss, liability or expense results solely from such Indemnified Person's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted. To the extent that either Borrower is strictly liable under any Environmental Laws, Borrowers' obligations to indemnify under this subsection 1.13(a) shall likewise be without regard to fault on the part of Borrowers and without regard to the violation of law which results in liability to Borrowers. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this subsection 1.13(a) may be unenforceable because it is violative of any law or public policy, Borrowers shall contribute the

maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all indemnified liabilities incurred by the Indemnified Persons or any of them. Borrowers also agree to reimburse the Indemnified Persons periodically for any accrued and unpaid Indemnified Liabilities. Notwithstanding any other provision of this Agreement to the contrary, the provisions of and undertakings and indemnifications set forth in this subsection 1.13(a) shall survive the satisfaction and payment of the Obligations and the termination of this Agreement, and shall continue to be the liability, obligation and indemnification of Borrowers. All of the foregoing costs and expenses shall be part of the Obligations and shall be secured by the Collateral. NONE OF ADMINISTRATIVE AGENT, ANY LENDER, OR ANY OTHER INDEMNIFIED PERSON SHALL BE RESPONSIBLE OR LIABLE TO ANY OTHER PARTY HERETO, ANY SUCCESSOR, ASSIGNEE OR THIRD PARTY BENEFICIARY OF SUCH PERSON OR ANY OTHER PERSON ASSERTING CLAIMS DERIVATIVELY THROUGH SUCH PARTY, FOR INDIRECT, PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF CREDIT HAVING BEEN (OR HAVING NOT BEEN) EXTENDED OR TERMINATED UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

(b) Each Borrower hereby acknowledges and agrees that neither Administrative Agent nor any Lender (i) is now, and has ever been, in control of any of the Real Estate or any Borrower's or any Subsidiary's affairs, and (ii) has the capacity through the provisions of the Loan Documents to influence any Borrower's conduct with respect to the ownership, operation or management of any of its Real Estate.

(c) Each Borrower understands that in connection with Lenders' arranging to provide the LIBOR Rate interest option with respect to the Revolving Credit Loan and Term Loan C from time to time at the option of either Borrower on the terms provided herein, Lenders may enter into funding arrangements with third parties ("Funding Arrangements") on terms and conditions which could result in losses to such Lenders if such LIBOR Rate funds do not remain outstanding at the interest rates provided herein for the entire LIBOR Period with respect to which the LIBOR Rate has been fixed. Consequently, in order to induce Lenders to provide such LIBOR Rate option on the terms provided herein and in consideration of Lenders entering into such Funding Arrangements from time to time, if any LIBOR Loans of a Borrower are repaid in whole or in part prior to the last day of any such LIBOR Period therefor (whether such repayment is made pursuant to any provision of this Agreement or any other Loan Document or is the result of acceleration, by operation of law or otherwise), such Borrower shall indemnify and hold harmless each Lender from and against and in respect of any and all losses, costs and expenses resulting from, or arising out of or imposed upon or incurred by such Lender by reason of the liquidation or reemployment of funds acquired or committed to be acquired by such Lender to fund such LIBOR Loans pursuant to the Funding Arrangements. The amount of any losses, costs or expenses resulting in an obligation of either Borrower to make a payment pursuant to the foregoing sentence shall not include any losses attributable to lost profit to Lenders but shall represent the excess, if any, of (A) such Lender's cost of borrowing the LIBOR Rate funds pursuant to the Funding Arrangements over (B) the return to such Lender on its reinvestment of such funds; provided that if any Lender terminates any Funding

Arrangements in respect of the LIBOR Loans, the amount of such losses, costs and expenses shall include the cost to such Lender of such termination. In reinvesting any funds borrowed by any Lender pursuant to the Funding Arrangements, such Lender shall take into consideration the remaining maturity of such borrowings. As promptly as practicable under the circumstances, each Lender shall provide the applicable Borrower with its written calculation of all amounts payable pursuant to the next preceding sentence, and such calculation shall be final, conclusive and binding on the parties hereto absent manifest error.

1.14 Access. (a) Each Borrower shall provide full access during normal business hours, from time to time upon one (1) Business Day's prior notice, to Administrative Agent and any of its officers, employees and agents, as frequently as Administrative Agent determines, in its reasonable discretion, to be appropriate (unless a Default or Event of Default shall have occurred and be continuing, in which event Administrative Agent and its officers, employees, designees, agents and representatives shall have access at any and all times and without any advance notice), and to any Lender upon one (1) Business Day's prior notice and the consent of such Borrower, which consent shall not be unreasonably withheld, to the properties, facilities, books, records, advisors and employees (including officers) of such Borrower and its Subsidiaries, to its Collateral, to the accountants (including Ernst & Young) of such Borrower and its Subsidiaries and to the work papers of such accountants and, upon the occurrence of an Event of Default and during the continuance thereof, suppliers and customers. Without limiting the generality of the foregoing, each Borrower shall (i) permit Administrative Agent, and any of its officers, employees, agents and representatives, to inspect, audit and make extracts from all of such Borrower's and its Subsidiaries' corporate or partnership records, files and books of account and (ii) permit Administrative Agent, and any of its officers, employees, agents and representatives, to inspect, review and evaluate the Accounts, Inventory at such Borrower's and its Subsidiaries' locations and at premises not owned by or leased to such Borrower or Subsidiary. Each Borrower shall make available to Administrative Agent and its counsel, as quickly as is possible under the circumstances, originals or copies of all books, records, board minutes, contracts, insurance policies, environmental audits, business plans, files, financial statements (actual and pro forma), filings with federal, state and local regulatory agencies, and other instruments and documents which Administrative Agent may request. Each Borrower shall deliver any document or instrument necessary for Administrative Agent, as it may from time to time request, to obtain records from any service bureau or other Person which maintains records for such Borrower, and shall maintain duplicate records or supporting documentation on media, including computer tapes and discs owned by such Borrower. Each Borrower shall instruct their certified public accountants to make available to Administrative Agent such information and records as Administrative Agent may request. So long as no Event of Default shall have occurred and be continuing, Administrative Agent will give notice to US Borrower of any such request promptly after such request has been made; provided that the failure to give such notice shall not invalidate Administrative Agent's request to the accountants.

(b) A fee of \$650 per day per individual (plus all reasonable out-of-pocket costs and expenses) in connection with Administrative Agent's field examinations permitted under subsection 1.14(a) and subsection 4(c) of the Security Agreement shall be charged against the

Revolving Credit Loan in connection with each field audit conducted by Administrative Agent after the Closing Date; provided that so long as no Default or Event of Default shall have occurred and be continuing, Borrowers shall not be responsible for reimbursing Administrative Agent for the cost of more than one (1) field examination in any twelve (12) month period.

1.15 Taxes. (a) Any and all payments by either Borrower hereunder or under the Amended Revolving Credit Notes or the Amended Term C Notes shall be made in accordance with this Section 1.15, without set-off or counterclaim and free and clear of and without deduction for any and all present or future Taxes. If any Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the Amended Revolving Credit Notes or the Amended Term C Notes, (i) the sum payable shall be increased as much as shall be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 1.15) Administrative Agent or Lenders, as applicable, receive an amount equal to the sum they would have received had no such deductions been made, (ii) such Borrower shall make such deductions, and (iii) such Borrower shall pay the full amount deducted to the relevant taxing or other authority in accordance with applicable law.

(b) Each Borrower shall indemnify and pay, within thirty (30) days of demand therefor, Administrative Agent and each Lender for the full amount of Taxes (including any Taxes imposed by any jurisdiction on amounts payable under this Section 1.15) paid by Administrative Agent or such Lender, as appropriate, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally asserted. Upon payment to Administrative Agent of the full amount of such Taxes, Borrowers shall be entitled to contest such Taxes and retain all refunds with respect thereto.

(c) Within thirty (30) days after the date of any payment of Taxes pursuant to subsection 1.15(a), US Borrower shall furnish to Administrative Agent, at its address referred to in Section 11.10, (i) with respect to domestic Taxes, the original or a certified copy of a receipt evidencing payment thereof and (ii) with respect to foreign Taxes, a certified copy of the payment instrument and, within two(2) Business Days of receipt thereof, the original or a certified copy of a receipt evidencing payment thereof.

1.16 Capital Adequacy; Increased Costs; Illegality. (a) In the event that any Lender shall have determined that the adoption after the Closing Date of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy, reserve requirements or similar requirements or compliance by any Lender with any request or directive regarding capital adequacy, reserve requirements or similar requirements (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction does or would have the effect of increasing the amount of capital, reserves or other funds required to be maintained by such Lender or any Person controlling such Lender and thereby reducing the rate of return on such Person's capital as a consequence of its obligations hereunder, then Borrowers shall from time to time within fifteen (15) days after notice and demand on US Borrower by such Lender (together with

the certificate referred to in the next sentence and with a copy to Administrative Agent) pay to Administrative Agent, for the account of such Lender, additional amounts sufficient to compensate such Lender for such reduction. A certificate as to the amount of such cost and showing the basis of the computation of such cost submitted by such Lender to US Borrower and Administrative Agent shall, absent manifest error, be final, conclusive and binding for all purposes.

(b) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or the making, funding or maintaining of any Loan, then Borrowers shall from time to time, upon demand by such Lender (with a copy of such demand to Administrative Agent), pay to Administrative Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to US Borrower and Administrative Agent by such Lender, shall be conclusive and binding on Borrowers for all purposes, absent manifest error. Each Lender agrees that, as promptly as practicable after it becomes aware of any circumstances referred to in clause (i) or (ii) above which would result in any such increased cost to such Lender, such Lender shall, to the extent not inconsistent with such Lender's internal policies of general application, use reasonable commercial efforts to minimize costs and expenses incurred by it and payable to it by Borrowers pursuant to this subsection 1.16(b).

(c) Notwithstanding anything to the contrary contained herein, if the introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or any central bank or other Governmental Authority shall assert that it is unlawful, for any Lender to agree to make or to make or to continue to fund or maintain any LIBOR Loan, then, unless such Lender is able to agree to make or to make or to continue to fund or to maintain such LIBOR Loan at another branch or office of such Lender without, in such Lender's opinion, adversely affecting it or its Loans or the income obtained therefrom, on notice thereof and demand therefor by such Lender to Borrowers through Administrative Agent, (i) the obligation of such Lender to agree to make or to make or to continue to fund or maintain LIBOR Loans shall terminate and (ii) each Borrower shall forthwith prepay in full all outstanding LIBOR Loans, together with interest accrued thereon, of such Lender unless Borrowers, within five (5) Business Days after the delivery of such notice and demand, convert all such Loans into a Loan bearing interest based on the Index Rate.

(d) Upon the Administrative Agent obtaining actual knowledge of the occurrence of any of the events set forth in this Section 1.16, Administrative Agent shall promptly notify US Borrower of the occurrence of such event. Borrowers shall have the right within five (5) days of receipt of such notice to convert any outstanding LIBOR Loans to Index Rate Loans; provided that Borrowers shall be liable for breakage costs as provided in subsection 1.13(c).

(e) Foreign Lenders. Each Lender organized under the laws of a jurisdiction outside the United States (a "Foreign Lender") as to which payments to be made under this Agreement or under the Notes are exempt from United States withholding tax or are subject to

United States withholding tax at a reduced rate under an applicable statute or tax treaty shall provide to US Borrower and Administrative Agent a properly completed and executed Internal Revenue Service Form 4224 or Form 1001 or other applicable form, certificate or document prescribed by the Internal Revenue Service or the United States certifying as to such Foreign Lender's entitlement to such exemption or reduced rate of withholding with respect to payments to be made to such Foreign Lender under this Agreement and under the Notes (a "Certificate of Exemption"). Prior to becoming a Lender under this Agreement and within fifteen (15) days after a reasonable written request of US Borrower or Administrative Agent from time to time thereafter, each Foreign Lender that becomes a Lender under this Agreement shall provide a Certificate of Exemption to US Borrower and Administrative Agent. No Person may become a Lender hereunder if such Person is unable to deliver a Certificate of Exemption.

If a Foreign Lender does not provide a Certificate of Exemption to Borrowers and Administrative Agent within the time periods set forth in the preceding paragraph, Borrowers shall withhold taxes from payments to such Foreign Lender at the applicable statutory rate and Borrowers shall not be required to pay any additional amounts as a result of such withholding; provided that all such withholding shall cease upon delivery by such Foreign Lender of a Certificate of Exemption to US Borrower and Administrative Agent.

1.17 Effect of Amendment and Restatement. This Agreement amends and restates in its entirety the Prior Credit Agreement and upon the effectiveness of this Agreement, the terms and provisions of the Prior Credit Agreement shall be superseded hereby. The Obligations outstanding under the Prior Credit Agreement that remain outstanding upon the effectiveness of this Agreement shall constitute Obligations hereunder governed by the terms hereof and shall continue to be secured by the Collateral. Such Obligations shall be continuing in all respects, and this Agreement shall not be deemed to evidence or result in a novation or repayment and re-borrowing of those Obligations. All references to the "Credit Agreement" contained in the Loan Documents delivered in connection with the Prior Credit Agreement shall be deemed to refer to this Amended and Restated Credit Agreement without further amendment of those Loan Documents.

2. CONDITIONS PRECEDENT

2.1 Conditions to the Effectiveness of Agreement.

Notwithstanding any other provision of this Agreement and without affecting in any manner the rights of Administrative Agent and Lenders hereunder, this Agreement shall not become effective until the following conditions have been satisfied, in Administrative Agent's sole discretion (including the delivery of documents in form and substance satisfactory to the Administrative Agent). If the Closing Date does not occur on or prior to December 31, 1996, this Agreement shall be void ab initio and of no force or effect and the Prior Credit Agreement shall continue to govern the Obligations outstanding thereunder.

(a) Credit Agreement. This Agreement or counterparts hereof shall have been duly executed by, and delivered to, Borrowers, Administrative Agent and Lenders.

(b) Loan Documents. Administrative Agent shall have received such reaffirmations of guaranties, and other documents, instruments, agreements and legal opinions as Administrative Agent shall request in connection with the transactions contemplated by this Agreement and the other Loan Documents, including all reaffirmations of guaranties, and other documents, instruments, agreements and legal opinions listed in the Schedule of Documents attached hereto as Schedule F, each in form and substance satisfactory to the Administrative Agents.

(c) IPO. The IPO shall have been consummated; all of the Net Proceeds thereof shall have been contributed to the equity of US Borrower, and US Borrower shall have used the Net Proceeds to pay Indebtedness and the costs, fees and expenses of the Related Transactions.

(d) Term Loans A and B and Subordinated Loan. Term Loan A, Term Loan B and the Subordinated Loan (as each such term is defined in the Prior Credit Agreement), together with all interest, fees and expenses accrued or payable with respect thereto, shall have been paid in full.

(e) Payment of Fees. US Borrower shall have paid to GE Capital the fees required to be paid on the Closing Date in the respective amounts specified in the GE Capital Fee Letter.

(f) Officer's Certificate. Administrative Agent shall have received duly executed originals of a certificate of the Chief Executive Officer, Chief Financial Officer or Treasurer of US Borrower, dated the Closing Date, stating that since December 31, 1995, (i) there has been no material adverse change in the aggregate in the business, assets, liabilities, results of operations, financial or other condition or prospects of Borrowers taken as a whole; (ii) no litigation has been commenced which, if successful, would have a Material Adverse Effect or would challenge any of the transactions contemplated by this Agreement and the other Loan Documents; (iii) there have been no distributions to either of the Partners; and (iv) there has been no material increase in liabilities, liquidated or contingent, and no material decrease in assets of the Borrowers taken as a whole.

(g) Financial Condition. Borrowers shall have provided Administrative Agent and Lenders with their current operating statements, a consolidated and consolidating balance sheet and statement of cash flows, projections and a Borrowing Base Certificate certified by each Borrower's Chief Executive Officer, Chief Financial Officer or Treasurer, in each case in form and substance satisfactory to the Administrative Agent, and the Administrative Agent shall be satisfied, in their sole discretion, with all of the foregoing, including:

(i) the Pro Forma as of the Closing Date in accordance with Section 3.4 hereof;

(ii) Projections in accordance with Section 3.4 hereof; and

(iii) a certificate of the Chief Executive Officer, Chief Financial Officer or Treasurer of US Borrower, based on such Pro Forma and Projections, to the effect that (A) the Pro Forma fairly presents the financial condition of US Borrower and the Subsidiaries as of the date thereof after giving effect to the transactions contemplated by this Agreement; and (B) the Projections are reasonable estimates of the future financial performance of US Borrower and the Subsidiaries subsequent to the date thereof.

(h) Corporate Proceedings. All corporate, partnership and legal proceedings and all instruments and agreements in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be satisfactory in form and substance to the Administrative Agent, and Administrative Agent shall have received all information and copies of all documents and papers which Administrative Agent or any Lender may have requested in connection therewith, and such documents and papers, where appropriate, shall be certified by proper corporate or partnership officers or Governmental Authorities.

(i) Total Expenses. Total fees, costs and expenses of the Related Transactions (excluding fees paid to Administrative Agent and Lenders and underwriters' discounts and commissions paid to non-Affiliates) payable on the Closing Date shall not exceed \$1,000,000.

(j) Partnership Agreement. Administrative Agent shall have received a copy, certified on the Closing Date by the Chief Executive Officer, Chief Financial Officer or Treasurer of US Borrower, of the Partnership Agreement.

2.2 Further Conditions to Each Revolving Credit Advance and Term Loan C Advance. It shall be a further condition to the initial and each subsequent Revolving Credit Advance and Term Loan C advance, as the case may be, and to the incurrence of the initial and any subsequent Letter of Credit Obligations that the following statements shall be true on the date of each such advance or funding, as the case may be:

(a) All of Borrowers' representations and warranties contained herein or in any of the other Loan Documents shall be true and correct on and as of the Closing Date and the date on which each such Revolving Credit Advance or Term Loan C advance is made (or such Letter of Credit Obligations are incurred) as though made on and as of such date, except to the extent that any such representation or warranty expressly relates to an earlier date and except for changes therein expressly permitted or expressly contemplated by this Agreement.

(b) No Material Adverse Effect shall have occurred since the Closing Date.

(c) No event shall have occurred and be continuing, or would result from the making of any Revolving Credit Advance (or the incurrence of any Letter of Credit Obligations), which constitutes or would constitute a Default or an Event of Default.

(d) After giving effect to such Revolving Credit Advance, Term Loan C advance or such Letter of Credit Obligations the aggregate principal amount of the Revolving Credit Loan shall not exceed the maximum amount permitted by subsection 1.3(a) without requiring that a payment be made to Administrative Agent or any Lender.

The request and acceptance by US Borrower or UK Borrower of the proceeds of any Revolving Credit Advance or Term Loan C advance, respectively, or the incurrence of any Letter of Credit Obligations shall be deemed to constitute, as of the date of such request or acceptance, (i) a representation and warranty by Borrowers that the conditions in this Section 2.2 have been satisfied and (ii) a reaffirmation by Borrowers of the granting and continuance of Administrative Agent's Liens, on behalf of itself and Lenders, pursuant to the Collateral Documents.

3. REPRESENTATIONS AND WARRANTIES

To induce Lenders to make or continue the Revolving Credit Loan and Term Loan C and to incur or continue Letter of Credit Obligations, each Borrower makes the following representations and warranties to Administrative Agent and each Lender as of and after the Closing Date (unless another date is otherwise specifically referenced), each and all of which shall survive the execution and delivery of this Agreement.

3.1 Existence and Standing; Compliance with Law. US Borrower is a duly organized Delaware limited partnership, validly existing and in good standing under the laws of Delaware and has been duly qualified to conduct business and is in good standing in each jurisdiction where it owns or leases Real Estate and in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification. Each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has been duly qualified to conduct business and is in good standing in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification. UK Borrower is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation. Each Borrower and each Subsidiary (i) has the requisite power and authority and the legal right to own, pledge, mortgage or otherwise encumber and operate its properties, to lease the property it operates under lease and to conduct its business as now, heretofore and proposed to be conducted; (ii) has all licenses, permits, consents or approvals from or by, and has made all filings with, and has given all notices to, all Governmental Authorities having jurisdiction, to the extent required for such ownership, operation and conduct; (iii) is in compliance with the Partnership Agreement or its certificate or articles of incorporation and by-laws, or its Memorandum and Articles of Association or comparable organizational documents, as applicable; and (v) is in compliance with all applicable provisions of law where the failure to comply could have a Material Adverse Effect.

3.2 Chief Executive Offices. The current location of each Borrower's chief executive office and principal place of business is set forth in Schedule 3.2.

3.3 Power, Authorization, Enforceable Obligations. The execution, delivery and performance by Holdings, each Borrower and each Subsidiary of the Loan Documents to which it is a party and all other instruments and documents to be delivered by each such Person, and the creation of all Liens provided for therein: (i) are within such Person's power; (ii) have been duly authorized by all necessary or proper corporate or partnership action, as applicable, and shareholder or partner approval, as applicable; (iii) are not in contravention of any provision of the Partnership Agreement or such Person's certificate or articles of incorporation or by-laws or its memorandum and articles of association or comparable organizational documents, as applicable; (iv) will not violate any law or regulation, or any order or decree of any court or governmental instrumentality; (v) will not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which such Person is a party or by which such Person or any of its property is bound; (vi) will not result in the creation or imposition of any Lien upon any of the property of such Person other than those in favor of Administrative Agent, on behalf of itself and Lenders, all pursuant to the Loan Documents; and (vii) do not require the consent or approval of any Governmental Authority or any other Person. On or prior to the Closing Date, each of the Loan Documents shall have been duly executed and delivered for the benefit of or on behalf of Holdings, each Borrower and each Subsidiary (as applicable) and each Loan Document shall then constitute a legal, valid and binding obligation of Holdings, each Borrower and such Subsidiary, to the extent it is a party thereto, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally or by application of general principles of equity.

3.4 Financial Statements and Projections. The financial statements (the "Financial Statements"), except for the Projections, concerning Holdings, Borrowers and the Subsidiaries which are referenced below have been prepared in accordance with GAAP consistently applied throughout the periods involved (except as disclosed therein and except, with respect to unaudited financial statements, for the absence of footnotes and normal year-end audit adjustments) and do present fairly in all material respects the financial condition of the Persons covered thereby as at the dates thereof and the results of their operations for the periods then ended:

(a) The unaudited balance sheet of Holdings on a consolidated and consolidating basis as of August 31, 1996, delivered on the Closing Date and attached hereto as Schedule 3.4(a).

(b) The Pro Forma delivered on the Closing Date and attached hereto as Schedule 3.4(b) was prepared by US Borrower assuming the consummation of the Related Transactions and based on the unaudited consolidated balance sheet of Holdings dated August 31, 1996; the underlying balance sheet was prepared in accordance with GAAP, with only such adjustments thereto as would be required to reflect the Related Transactions.

(c) The Projections of Holdings and its Subsidiaries delivered on the Closing Date and attached hereto as Schedule 3.4(c) for the period from October 1, 1996 through December 31, 1996 and for the three Fiscal Years thereafter, after giving effect to the Related Transactions.

3.5 Collateral Reports. Borrowers have delivered the Collateral Reports identified on Schedule H and each such Collateral Report complies with the description thereof contained on Schedule H.

3.6 Material Adverse Effect. Since December 31, 1995, Borrowers and the Subsidiaries, taken as a whole have not in the aggregate incurred any obligations, contingent liabilities, liabilities for Charges, long-term leases or unusual forward or long-term commitments which are not reflected in the pro forma balance sheet of Borrowers and the Subsidiaries and which could, alone or in the aggregate, have or result in a Material Adverse Effect. No Material Adverse Effect has occurred between December 31, 1995 and the Closing Date.

3.7 Ownership of Property; Liens. The real estate ("Real Estate") listed on Schedule 3.7 constitutes all of the real property owned or leased by Borrowers and the Material Subsidiaries or where any Collateral is located (other than Inventory in transit). Each Borrower and each Material Subsidiary (i) owns good and marketable fee simple title to all of its owned Real Estate, and valid and marketable leasehold interests in all of its Leases (both as lessor and lessee, sublessor and sublessee or assignee), all as described on Schedule 3.7, and (ii) has, with respect to US Borrower, good and marketable title to, or valid leasehold interests in, all of its other properties and assets and, with respect to UK Borrower, beneficial ownership with full title guarantee of all of its other properties and assets. Neither General Partner nor Limited Partner owns any assets or property other than its partnership interest in US Borrower, and on and after the Closing Date neither will own any other assets or property. NOW International owns no assets or property other than the capital stock of the Subsidiaries described on Schedule 3.10 and on and after the Closing Date will not own any other assets or property. None of the properties and assets of Borrowers or any Material Subsidiary are subject to any Liens, except Permitted Encumbrances; and each Borrower or Subsidiary has received all deeds, assignments, waivers, consents, non-disturbance and recognition or similar agreements, bills of sale and other documents, and duly effected all recordings, filings and other actions necessary to establish, protect and perfect such Borrower's or Subsidiary's, right, title and interest in and to all such Real Estate and other assets or property. The estimated fair market value of each parcel of owned Real Estate is set forth on Schedule 3.7. Except as described on Schedule 3.7, (i) neither of the Borrowers and no Material Subsidiary and no other party to any such Lease described on Schedule 3.7 is in default of its obligations thereunder or has delivered or received any notice of default under any such Lease (which has not been waived or cured), and no event has occurred which, with the giving of notice, the passage of time or both, would constitute a default under any such Lease; (ii) neither of the Borrowers and no Material Subsidiary owns or holds or is obligated under or a party to, any option, right of first refusal or any other contractual right to purchase, acquire, sell, assign or dispose of any Real Estate owned or leased by such Borrower or Subsidiary except as set forth in Schedule 3.7; and (iii) no portion of any Real Estate owned or leased by either Borrower or any Material Subsidiary has suffered any material damage by fire or other casualty loss or a Release which has not heretofore been completely repaired and restored to its original condition or is being remedied. All material permits required to have been issued or appropriate to enable the Real Estate owned or leased by such Borrower or Subsidiary to

be lawfully occupied and used for all of the purposes for which they are currently occupied and used, have been lawfully issued and are, as of Closing Date, in full force and effect.

3.8 Restrictions; No Default. No contract, lease, agreement or other instrument to which either Borrower or any Material Subsidiary is a party or by which it or any of its properties or assets is bound or affected and no provision of applicable law or governmental regulation has or results in a Material Adverse Effect, or could have or result in a Material Adverse Effect. Neither of the Borrowers and no Material Subsidiary is in default in any material respect and, to such Borrower's knowledge, no third party is in default, under or with respect to any material contract, agreement, lease or other instrument to which it is a party.

3.9 Labor Matters. No strikes or other labor disputes against either Borrower or any Material Subsidiary are pending or, to either Borrower's knowledge, threatened. Hours worked by and payment made to employees of US Borrower have not been in violation of the Fair Labor Standards Act. All payments due from such Borrower or its Material Subsidiaries on account of employee health and welfare insurance have been paid or accrued as a liability on the books of such Person. Except as set forth in Schedule 3.9, neither of the Borrowers and none of the Material Subsidiaries has any obligations under any collective bargaining agreement or any employment agreement. There is no organizing activity involving either Borrower or any Material Subsidiary pending or, to either Borrower's knowledge, threatened by any labor union or group of employees. Except as set forth in Schedule 3.9, there are no representation proceedings pending or, to either Borrower's knowledge, threatened with the National Labor Relations Board, and no labor organization or group of employees of either Borrower or any Material Subsidiary has made a pending demand for recognition. Except as set forth in Schedule 3.9, there are no complaints or charges against any Borrower or any Material Subsidiary pending or threatened to be filed with any federal, state, local or foreign court, governmental agency or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment of any individual by any Borrower or any Material Subsidiary.

3.10 Ventures, Subsidiaries and Affiliates; Outstanding Stock and Indebtedness. Except as set forth in Schedule 3.10, neither Holdings nor either Borrower has any Subsidiaries, is engaged in any joint venture or partnership with any other Person, or is an Affiliate of any other Person. Other than the Material Subsidiaries, no Subsidiary of either Borrower has assets with a value in excess of \$500,000. All of the issued and outstanding Stock of each Borrower and each Subsidiary is owned by each of the stockholders named on Schedule 3.10. No Partner's interest in US Borrower is subject to any option, warrant, interest, right to call or commitment of any kind or character. Except as set forth in the Shareholders Agreement, there are no outstanding rights to subscribe or purchase, options, warrants or similar rights or agreements pursuant to which either Borrower or any Subsidiary may be required to issue or sell any Stock or other equity security of itself or any of its Subsidiaries. As of the Closing Date, all outstanding Indebtedness of each Borrower and the Subsidiaries is described in Section 6.3 (including Schedule 6.3).

3.11 Government Regulation. Neither of the Borrowers and no Material Subsidiary is an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940 as amended. Neither of the Borrowers and no Material Subsidiary is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, or any other federal or state statute that restricts or limits its ability to incur Indebtedness or to perform its obligations hereunder, and the making or continuation of the Revolving Credit Advances and Term Loan C by Lenders, the incurrence or continuation of the Letter of Credit Obligations, the application of the proceeds thereof and repayment thereof by either Borrower and the consummation of the transactions contemplated by this Agreement and the other Loan Documents will not violate any provision of any such statute or any rule, regulation or order issued by the Securities and Exchange Commission.

3.12 Margin Regulations. Neither of the Borrowers and no Material Subsidiary is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin security" as such term is defined in Regulation U or G of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") as now and from time to time hereafter in effect (such securities being referred to herein as "Margin Stock"). Neither of the Borrowers and no Material Subsidiary owns any Margin Stock, and the proceeds of the Revolving Credit Advances and Term Loan C will not be used, directly or indirectly, for the purpose of purchasing or carrying any Margin Stock, for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry any Margin Stock or for any other purpose which might cause any of the loans or other extensions of credit under this Agreement to be considered a "purpose credit" within the meaning of Regulation G, T, U or X of the Federal Reserve Board.

3.13 Taxes. Except as described on Schedule 3.13, all federal, state, local and foreign tax returns, reports and statements, including, but not limited to, information returns required to be filed by Holdings, each Partner, each Borrower or any Material Subsidiary, have been filed with the appropriate Governmental Authority and all Charges and other impositions shown thereon to be due and payable have been paid prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof (or any such fine, penalty, interest, late charge or loss has been paid), and Holdings, each Partner, each Borrower and each Material Subsidiary has paid when due and payable all Charges required to be paid by it excluding, in each case, Charges or other amounts being contested in accordance with Section 5.2(b). Proper and accurate amounts have been withheld by each Borrower or each Material Subsidiary from its respective employees for all periods in full and complete compliance with the tax, social security and unemployment withholding provisions of applicable federal, state, local and foreign law and such withholdings have been timely paid to the respective Governmental Authorities. Schedule 3.13 sets forth as of the Closing Date those taxable years for which Holdings', either Partner's, or US Borrower's tax returns are currently being audited by the IRS or any other applicable Governmental Authority and any assessments or threatened assessments in connection with such audit, or otherwise currently outstanding. Except as described on Schedule 3.13, Holdings, the Partners and US Borrower have not executed or filed with the IRS any agreement or other document extending, or having the effect of extending, the

period for assessment or collection of any Charges. Neither Holdings, Borrowers, any Material Subsidiary nor the Acquired Companies are liable for any Charges: (i) under any agreement (including, without limitation, any tax sharing agreements) or (ii) to the best of each Borrower's or each Material Subsidiary's knowledge, as a transferee other than as a result of the transactions contemplated by the Purchase Agreement. As of the Closing Date, none of Holdings, either Partner, US Borrower, any Material Subsidiary or the Acquired Companies has agreed or been requested to make any adjustment under IRC Section 481(a) by reason of a change in accounting method or otherwise which would have a Material Adverse Effect.

3.14 ERISA. (a) Schedule 3.14 lists all Plans maintained or contributed to by either Borrower or any Subsidiary and all Qualified Plans maintained or contributed to by any ERISA Affiliate, and separately identifies the Title IV Plans, Multiemployer Plans, any multiple employer plans subject to Section 4064 of ERISA, unfunded Pension Plans, Welfare Plans and Retiree Welfare Plans. Each Qualified Plan has been determined by the IRS to qualify under Section 401 of the IRC, and the trusts created thereunder have been determined to be exempt from tax under the provisions of Section 501 of the IRC, and, except as set forth in Schedule 3.14, to the best knowledge of each Borrower, nothing has occurred which would cause the loss of such qualification or tax-exempt status. Each Plan is in compliance with the applicable provisions of ERISA and the IRC, including the filing of reports required under the IRC or ERISA except where a failure to comply would not have a Material Adverse Effect, and with respect to each Plan, other than a Qualified Plan, all required contributions and benefits have been paid in accordance with the provisions of each such Plan. Neither of the Borrowers, and no Subsidiary or ERISA Affiliate thereof, with respect to any Qualified Plan, has failed to make any contribution or pay any amount due as required by Section 412 of the IRC or Section 302 of ERISA or the terms of any such Plan. With respect to all Retiree Welfare Plans, the present value of future anticipated expenses pursuant to the latest actuarial projections of liabilities does not exceed \$4,000,000, and copies of such latest projections have been provided to Administrative Agent; with respect to Pension Plans, other than Qualified Plans, the present value of the liabilities for current participants thereunder using PBGC interest assumptions does not exceed \$1,000,000. Neither of the Borrowers and no Subsidiary or ERISA Affiliate thereof has engaged in a prohibited transaction, as defined in Section 4975 of the IRC or Section 406 of ERISA, in connection with any Plan, which would subject either Borrower or any Subsidiary (after giving effect to any exemption) to a material tax on prohibited transactions imposed by Section 4975 of the IRC or any other material liability.

(b) Except as set forth in Schedule 3.14: (i) no Title IV Plan has any Unfunded Pension Liability; (ii) no ERISA Event or event described in Section 4062(e) of ERISA with respect to any Title IV Plan has occurred or is reasonably expected to occur; (iii) there are no pending, or to the knowledge of US Borrower, threatened claims, actions or lawsuits (other than claims for benefits in the normal course), asserted or instituted against (x) any Plan or its assets, (y) any fiduciary with respect to any Plan or (z) either Borrower, any Subsidiary or any ERISA Affiliate with respect to any Plan wherein the amount at issue exceeds \$100,000; (iv) neither US Borrower nor any ERISA Affiliate thereof has incurred or reasonably expects to incur any withdrawal liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in

such liability) under Section 4201 of ERISA as a result of a complete or partial withdrawal from a Multiemployer Plan; (v) within the last five years neither US Borrower, any Subsidiary nor any ERISA Affiliate thereof has engaged in a transaction which resulted in a Title IV Plan with Unfunded Pension Liabilities being transferred outside of the "controlled group" (within the meaning of Section 4001(a)(14) of ERISA) of any such entity; (vi) no Plan which is a Retiree Welfare Plan provides for continuing benefits or coverage for any participant or any beneficiary of a participant after such participant's termination of employment (except as may be required by Section 4980B of the IRC and at the sole expense of the participant or the beneficiary of the participant); (vii) US Borrower, each Subsidiary and each ERISA Affiliate have complied with the notice and continuation coverage requirements of Section 4980B of the IRC and the regulations thereunder except where the failure to comply could not have or result in any Material Adverse Effect; and (viii) no liability under any Plan of US Borrower has been funded, nor has such obligation been satisfied, with the purchase of a contract from an insurance company that is not rated AAA by the Standard & Poor's Corporation or the equivalent by another nationally recognized rating agency. Schedule 3.14 lists all pension plans maintained or contributed to by the Material Subsidiaries (other than NOW International). Each such Plan is in compliance in all material respects with all applicable laws, and, with respect to each such Plan, all required contributions and benefits have been paid in accordance with the provisions of such plans. No such Material Subsidiary has taken any action or engaged in any transaction which would subject such Person to any material liability with respect to any such plans.

3.15 No Litigation. Except as set forth in Schedule 3.15, no action, claim or proceeding involving claims in excess of \$250,000 is now pending or, to the best knowledge of either Borrower, threatened in writing against the Acquired Companies or against such Borrower or any Subsidiary, before any court, board, commission, agency or instrumentality of any federal, state, local or foreign government or of any agency or subdivision thereof, or before any arbitrator or panel of arbitrators, nor, to the best knowledge of either Borrower, does a state of facts exist which is reasonably likely to give rise to such action, claim or proceedings. None of the actions, claims or proceedings set forth in Schedule 3.15 (i) challenges such Borrower's or such Subsidiary's right or power to enter into or perform any of its obligations under the Loan Documents, or the validity or enforceability of any Loan Document or any action taken thereunder, or (ii) if determined adversely, would have or result in a Material Adverse Effect. Schedule 3.15 sets forth summaries of Holdings and its Subsidiaries' liability reserves taken in accordance with GAAP as of June 1, 1996 for each of the following: (i) workers compensation, (ii) vehicle accidents, (iii) general liability, (iv) product liability, (v) domestic warranty claims and (vi) foreign warranty claims. To the best of Borrowers' knowledge, the reserves on the books of Holdings and its Subsidiaries are adequate to cover all litigation pending or threatened in writing with respect to Holdings and its Subsidiaries as of the Closing Date.

3.16 Brokers. Except as set forth in Schedule 3.16, no broker or finder acting on behalf of Holdings, either Borrower or any Subsidiary brought about the obtaining, making or closing of the loans made pursuant to this Agreement or the transactions contemplated by the Loan Documents and none of Holdings, either Borrower or any Subsidiary has obligations to any Person in respect of any finder's or brokerage fees in connection therewith.

3.17 Employment Matters. Except as set forth in Schedule 3.17, there are no consulting or management agreements binding upon either Borrower or any Material Subsidiary in excess of \$250,000 in any Fiscal Year which cannot be canceled without liability or any employment contracts binding upon either Borrower or any Material Subsidiary with any management employee or Affiliate of Holdings. A true and complete copy of each such agreement has been furnished to Administrative Agent.

3.18 Patents, Trademarks, Copyrights and Licenses. Except as otherwise set forth in Schedule 3.18, each Borrower and each Material Subsidiary owns all material licenses, patents, patent applications, copyrights, service marks, trademarks, trademark applications, and trade names necessary to continue to conduct its business as heretofore conducted by it or proposed to be conducted by it, each of which is listed, together with Copyright Office or Patent and Trademark Office application or registration numbers, where applicable, on Schedule 3.18. Schedule 3.18 also lists all material tradenames or other names under which either Borrower or any Material Subsidiary conducts business. Except as set forth in Schedule 3.18, to the best of each Borrower's knowledge, neither the conduct of its business nor the conduct of any Material Subsidiary's business infringes upon any intellectual property right of any other Person.

3.19 Full Disclosure. No information contained in this Agreement, any of the other Loan Documents, the Financial Statements, the Collateral Reports or any written statement furnished by or on behalf of Holdings, either Borrower, either Partner or any Subsidiary pursuant to the terms of this Agreement, which has previously been delivered to Administrative Agent, contained, contains or will contain any untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. There is no fact known to either Borrower (other than matters of a general economic nature) that has had or will have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to Administrative Agent or Lenders for use in connection with the transactions contemplated by this Agreement.

3.20 Hazardous Materials. As of the Closing Date, except as set forth in Schedule 3.20, (i) the Real Estate is free of contamination from any Hazardous Material except for contamination which will not materially impact the value of an individual parcel of Real Estate with a value of \$1,000,000 or more, and (ii) each Borrower, its Subsidiaries and the Real Estate are in compliance in all material respects with the Environmental Laws. To the best of Borrowers' knowledge the aggregate costs of remediation and removal for all Environmental Liabilities and Costs will not exceed \$1,000,000 in any of the next three (3) Fiscal Years. Neither of the Borrowers and no Subsidiary has caused or suffered to occur any Release with respect to any Hazardous Material at, under, above or upon any Real Estate which Release could reasonably be expected to have a material adverse impact on the value of an individual parcel of Real Estate with a value of \$1,000,000 or more. As of the Closing Date, neither of the Borrowers and no Subsidiary is involved in operations that are likely to result in the imposition of any Lien on its assets or any material liability being imposed on such Borrower or such Subsidiary, under any Environmental Law, and

neither of the Borrowers and no Subsidiary has permitted any tenant or occupant of such premises to engage in any such activity. Borrowers have provided to Administrative Agent copies of all existing environmental reports, reviews and audits prepared within the past year and all reasonably available and current written information pertaining to actual or potential Environmental Liabilities and Costs, in each case relating to either Borrower or any Subsidiary.

3.21 Insurance Policies. Schedule 3.21 lists all liability and casualty insurance of any nature (other than freight insurance and non-material policies of insurance regarding foreign Subsidiaries) maintained for current occurrences by either Borrower or any Material Subsidiary, as well as a summary of the terms of such insurance.

3.22 Deposit and Disbursement Accounts. Schedule 3.22 lists all banks and other financial institutions at which either Borrower or any Material Subsidiary maintains deposits and/or other accounts, including any disbursement accounts, and such Schedule correctly identifies the name, address and telephone number of each depository, the name in which the account is held, a description of the purpose of the account, and the complete account number.

3.23 Government Contracts. Except as set forth in Schedule 3.23, none of the Accounts are subject to the Federal Assignment of Claims Act (31 U.S.C. Section 3727).

3.24 Customer and Trade Relations. As of the Closing Date, there exists no actual or threatened termination or cancellation of, or any material adverse modification or change in: (a) the business relationship of either Borrower or any Material Subsidiary with any customer or group of customers whose purchases during the preceding twelve (12) months caused them to be ranked among the ten largest customers of Borrowers and the Material Subsidiaries taken as a whole; or (b) the business relationship of either Borrower or any Material Subsidiary with any supplier material to the operations of such Borrower or Subsidiary.

3.25 Agreements and Other Documents. As of the Closing Date, Borrowers have provided or made available to Administrative Agent or its counsel, on behalf of Lenders, accurate and complete copies (or summaries) of all of the following agreements or documents to which either Borrower or any Material Subsidiary is subject and each of which are listed on Schedule 3.25: (a) Plans; (b) supply agreements with a term of one (1) year or more involving receipts in excess of \$1,000,000 not terminable by such Borrower or Subsidiary, as appropriate, within sixty (60) days following written notice issued by such Borrower or such Subsidiary; (c) purchase agreements with a term of one (1) year or more involving payments of \$1,000,000 or more and not terminable by such Borrower or such Subsidiary, as appropriate, within 60 days following written notice issued by such Borrower or such Subsidiary; (d) Leases involving lease payments of more than \$100,000 per annum; (e) any lease of equipment having a remaining term of one year or longer involving lease payments of \$100,000 or more per annum; (f) all material licenses and permits necessary for the conduct of such Borrower's or such Subsidiary's businesses; (g) instruments or documents evidencing Indebtedness of such Borrower or such Subsidiary and any security interest granted by such Borrower or such Subsidiary with respect thereto; and (h) instruments and agreements evidencing

the issuance of any equity securities, warrants, rights or options to purchase equity securities of such Borrower or such Subsidiary.

3.26 Subordinated Debt. The subordination provisions of the Sellers' Notes are enforceable against the holders of the Sellers' Notes by the holder of any Notes. All Obligations, including the Obligations to pay principal of and interest on the Loans and Letter of Credit Obligations, constitute senior Indebtedness entitled to the benefits of subordination created by the Sellers' Notes. The principal of and interest on the Notes, all Letter of Credit Obligations and all other Obligations will constitute "senior debt" as that or any similar term is or may be used in any other instrument evidencing or applicable to any Subordinated Debt of US Borrower. The consummation of the Related Transactions will not cause any principal or interest to be due and payable with respect to the Sellers' Notes. Borrowers acknowledge that the Administrative Agent and each Lender are entering into this Agreement and are extending the Commitments in reliance upon the subordination provisions of the Sellers' Notes and this Section 3.26.

3.27 Collateral. The Liens granted to Administrative Agent, on behalf of itself and Lenders, pursuant to the Collateral Documents are fully perfected first priority Liens in and to the Collateral described therein, subject only to Liens set forth in Schedule 6.7 and the Liens granted to Administrative Agent, on behalf of itself and Lenders, pursuant to the Mortgages are fully perfected first priority Liens in and to the Mortgaged Property described therein and Permitted Encumbrances. The amendment and restatement of the Prior Credit Agreement in accordance herewith does not affect the enforceability or priority of the Liens securing payment of the Obligations.

3.28 FEIN. Schedule 3.28 lists the federal employer identification number of US Borrower and each Subsidiary with such a number.

4. FINANCIAL STATEMENTS AND INFORMATION

4.1 Reports and Notices. (a) Borrowers each hereby covenant and agree that from and after the Closing Date and until the Termination Date, they shall deliver to Administrative Agent and/or Lenders, as required, financial statements, notices and Projections at the times, to the Persons and in the manner set forth in Schedule G.

(b) Borrowers each hereby covenant and agree that from and after the Closing Date, they shall deliver to Administrative Agent and/or Lenders, as required, the various Collateral Reports at the times, to the Persons and in the manner set forth in Schedule H.

4.2 Communication with Accountants. Each Borrower authorizes Administrative Agent and each Lender to communicate directly with its independent certified public accountants, including Ernst & Young LLP, through the partner in charge of Borrowers' account, and authorizes those accountants and advisors to disclose to Administrative Agent and each Lender any and all financial statements and other supporting financial documents and schedules relating to any Borrower and its Subsidiaries (including, without limitation, copies of any issued management

letters) with respect to the business, financial condition and other affairs of each Borrower and each Subsidiary. Each Borrower has obtained a letter from such accountants, on which Administrative Agent is designated as a recipient, acknowledging that such Borrower intends the financial statements certified by such accountants to benefit or influence Lenders and that Lenders may rely upon such certification.

5. AFFIRMATIVE COVENANTS

Borrowers each jointly and severally covenant and agree that, without the prior written consent of Administrative Agent and the Requisite Lenders, from and after the Closing Date and until the Termination Date:

5.1 Maintenance of Existence and Conduct of Business. Each Borrower shall, and shall cause each Material Subsidiary to: (a) do or cause to be done all things necessary to preserve and keep in full force and effect its partnership or corporate existence, as applicable, and its rights and franchises; (b) continue to conduct its business substantially as now conducted or as otherwise permitted hereunder; (c) at all times maintain, preserve and protect all of its material copyrights, patents, trademarks, trade names and all other material intellectual property and rights as licensee or licensor thereof and preserve all the remainder of its assets and properties, used or useful in the conduct of its business, and keep the same in good repair, working order and condition (taking into consideration ordinary wear and tear) and from time to time make, or cause to be made, all necessary or appropriate repairs, replacements and improvements thereto consistent with industry practices; and (d) transact business only in such corporate, partnership and trade names as are set forth in Schedule 5.1.

5.2 Payment of Obligations. (a) Subject to Section 5.2(b), each Borrower shall, and shall cause each Subsidiary to, pay and discharge or cause to be paid and discharged promptly all (A) Charges imposed upon it, its income and profits, or any of its property (real, personal or mixed), and (B) lawful claims for labor, materials, supplies and services or otherwise, before any thereof shall become past due.

(b) Each Borrower and any Subsidiary may in good faith contest, by appropriate proceedings, the validity or amount of any Charges or claims described in Section 5.2(a); provided that at the time of commencement of any such action or proceeding, and during the pendency thereof (i) no Default or Event of Default shall have occurred and be continuing, (ii) adequate reserves with respect thereto are maintained on the books of such Borrower or such Subsidiary, as the case may be, in accordance with GAAP, (iii) such contest is maintained and prosecuted continuously and with diligence, (iv) none of the Collateral becomes subject to forfeiture or loss as a result of such Charges or claims, (v) no Lien shall be imposed to secure payment of such Charges or claims other than inchoate tax liens, and (vi) such Borrower or such Subsidiary, as the case may be, shall promptly pay or discharge such contested Charges and all additional charges, interest, penalties and expenses, if any, and such Borrower shall deliver to Administrative Agent evidence acceptable to Administrative Agent of such compliance, payment or discharge, if such contest is terminated or discontinued

adversely to such Borrower or such Subsidiary, as the case may be, or the conditions set forth in this Section 5.2(b) are no longer met.

5.3 Books and Records. Each Borrower shall keep adequate records and books of account with respect to such Borrower's and the Subsidiaries' business activities, in which proper entries, reflecting all financial transactions, are made in accordance with GAAP and on a basis consistent with the Financial Statements referred to in Schedule 3.4.

5.4 Litigation. Each Borrower shall notify Administrative Agent in writing, promptly upon learning thereof, of any litigation commenced or threatened against such Borrower or any Subsidiary, and of the institution against it of any suit or administrative proceeding that (a) seeks damages of \$500,000 or more or (b) seeks injunctive relief.

5.5 Insurance. (a) Borrowers shall, at their sole cost and expense, maintain existing or comparable policies of insurance described on Schedule 3.21 (other than those, if any, designated as non-material on Schedule 3.21) in form and with insurers satisfactory to Administrative Agent. Such policies shall be in such amounts as are set forth in Schedule 3.21. Borrowers shall notify Administrative Agent promptly of any occurrence causing a material loss or decline in value of either Borrower's or any Material Subsidiary's real or personal property and the estimated (or actual, if available) amount of such loss or decline. In the event either Borrower at any time or times hereafter shall fail to obtain or maintain any of the policies of insurance required above or to pay any premium in whole or in part relating thereto, Administrative Agent, without waiving or releasing any Obligations or Default or Event of Default hereunder, may at any time or times thereafter (but shall not be obligated to) obtain and maintain such policies of insurance and pay such premiums and take any other action with respect thereto which Administrative Agent deems advisable. All sums so disbursed, including attorneys fees, court costs and other charges related thereto, shall be payable, on demand, by Borrowers to Administrative Agent and shall be additional Obligations hereunder secured by the Collateral; provided that, if and to the extent Borrowers fail to promptly pay any of such sums upon demand therefor, Administrative Agent is authorized to, and at its option may, make or cause to be made Revolving Credit Advances on behalf of US Borrower for payment thereof.

(b) Administrative Agent reserves the right at any time, upon any change in either Borrower's risk profile (including, without limitation, any change in the product mix maintained by either Borrower or any laws affecting the potential liability of such Borrower), to require additional forms and limits of insurance to, in Administrative Agent's reasonable opinion, adequately protect both Administrative Agent and Lenders' interests in all or any portion of the Collateral and to ensure that each Borrower and each Subsidiary is protected by insurance in amounts and with coverage customary for its industry. If requested by Administrative Agent, each Borrower shall deliver to Administrative Agent from time to time a report of a reputable insurance broker, satisfactory to Administrative Agent, with respect to its insurance policies.

(c) Borrowers shall deliver to Administrative Agent certificates to (i) all "All Risk" and business interruption insurance naming Administrative Agent, on behalf of itself and Lenders, as loss payee, and (ii) all general liability and other liability policies (excluding directors' and officers' insurance) naming Administrative Agent, on behalf of itself and Lenders, as additional insured.

(d) Subject to the terms of this Section 5.5(d), so long as no Default or Event of Default has occurred and is continuing, Borrowers are hereby authorized by Administrative Agent and Lenders to settle, adjust or compromise any claim up to \$2,000,000 (i) under any property insurance required to be carried by this Section 5.5 including the filing of appropriate proceedings by Borrowers or their Subsidiaries and (ii) for the proceeds of any award or payment with respect to any condemnation or other eminent domain proceedings by any Governmental Authority. Borrowers or their Subsidiaries shall have the right to use such proceeds to repair or replace the damaged or destroyed property, provided that a Default or an Event of Default shall not have occurred and be continuing at the time the proceeds are paid. If, however, the proceeds of any such claim, award or payment, are greater than \$2,000,000 but not greater than \$12,500,000, Borrowers shall settle, adjust or compromise such claims subject to the reasonable approval of Administrative Agent and all proceeds, awards and payments shall be paid directly to Administrative Agent to be deposited in a cash collateral account as security for the Obligations; provided that, so long as no Default or Event of Default has occurred and is continuing at the time Administrative Agent receives such amount, Administrative Agent shall release such funds to Borrowers to the extent necessary to permit Borrowers to replace, repair, restore or rebuild such property damaged, destroyed or taken (a "Restoration") in a diligent and expeditious manner with materials and workmanship of equal or better quality as existed before such damage, destruction or taking; provided further that if such Restoration shall not have been initiated within forty-five (45) days of receipt of such insurance proceeds, Administrative Agent may apply such amounts, or any part thereof, to the Obligations as set forth in Section 5.5(e).

(e) Notwithstanding anything contained in Section 5.5(d) to the contrary if (i) a Default or Event of Default shall have occurred and be continuing at the time of making any such claim or at the time of receipt of the proceeds of any such claim, award or payment, (ii) such proceeds are more than \$12,500,000 or (iii) the damage, destruction or taking giving rise to such proceeds would have a Material Adverse Effect, Borrowers shall direct all insurers under their "All Risk" policies of insurance and all Governmental Authorities to pay all proceeds of such claims, awards or payments payable thereunder directly to Administrative Agent, and Borrowers appoint Administrative Agent (and all officers, employees or agents designated by Administrative Agent) as Borrowers' true and lawful agent and attorney-in-fact for the purpose of making, settling and adjusting all such claims under such "All Risk" policies and condemnation and eminent domain proceedings and endorsing the name of Borrowers on any check or other item of payment for the proceeds therefrom, and all proceeds of any such claim, award or payment shall be applied to the Obligations in accordance with subsection 1.3(c)(i) or 1.3(c)(ii), as applicable, unless the Requisite Lenders agree to permit part or all of such proceeds to be used for the applicable Restoration.

5.6 Compliance with Laws. Each Borrower shall, and shall cause each Subsidiary to, comply in all material respects with all federal, state, local and foreign laws and regulations applicable to it, including, without limitation, those relating to licensing, ERISA, Environmental Laws and labor matters.

5.7 Agreements. Each Borrower shall, and shall cause each Subsidiary to, perform, within all required time periods (after giving effect to any applicable grace periods), all of its obligations and enforce all of its rights under each material agreement to which it is a party including, without limitation, any lease or customer contract. Neither of the Borrowers and no Subsidiary shall terminate or modify any term or provision of any agreement to which it is a party which termination or modification could have a Material Adverse Effect.

5.8 Supplemental Disclosure. At the request of Administrative Agent (in the event that such information is not otherwise delivered by Borrowers to Administrative Agent pursuant to this Agreement), so long as there are Obligations outstanding hereunder, but not more frequently than quarterly absent the occurrence and continuance of a Default or an Event of Default, Borrowers will supplement each schedule or representation herein with respect to any matter hereafter arising which, if existing or occurring on the Closing Date, would have been required to be set forth or described in such schedule or as an exception to such representation or which is necessary to correct any information in such schedule or representation which has been rendered inaccurate thereby; provided that such supplement to such schedule or representation shall not be deemed an amendment thereof unless expressly consented to in writing by Administrative Agent and Requisite Lenders, and no such amendments, except as the same may be consented to in a writing which expressly includes a waiver, shall be or be deemed a waiver of any Default or Event of Default disclosed therein.

5.9 Employee Plans. Each Borrower shall notify Administrative Agent of (i) all material claims, actions, or lawsuits asserted or instituted, and of any threatened material litigation or claims, against such Borrower, any Subsidiary or ERISA Affiliate thereof in connection with any Plan maintained, at any time, by such Borrower, such Subsidiary or ERISA Affiliate, or to which such Borrower, such Subsidiary or ERISA Affiliate has or had at any time any obligation to contribute, or/and against any such Plan itself, or against any fiduciary of or service provider to any such Plan and (ii) the occurrence of any material "Reportable Event" with respect to any Pension Plan of such Borrower or any Subsidiary or ERISA Affiliate thereof.

5.10 Environmental Matters. Each Borrower shall, and shall cause each Subsidiary to, (i) comply in all material respects with the Environmental Laws applicable to it, (ii) notify Administrative Agent promptly after such Borrower or such Subsidiary becomes aware of any Release of a reportable quantity of Hazardous Materials upon or at any premises owned or occupied by it or of any other quantity of Hazardous Materials that may materially impact the value of such premises, and (iii) promptly forward to Administrative Agent a copy of any order, notice, permit, application, or any communication or report received by such Borrower or such Subsidiary in connection with any such Release or any other matter relating to the Environmental Laws that may

materially affect such premises or such Borrower or such Subsidiary. The provisions of this Section 5.10 shall apply whether or not the Environmental Protection Agency, any other federal agency or any state, local or foreign environmental agency has taken or threatened any action in connection with any Release or the presence of any Hazardous Materials. If an Event of Default shall have occurred and be continuing, Administrative Agent may at its discretion have access to properties owned or leased by either Borrower or the Subsidiaries for the purpose of assessing compliance with applicable Environmental Laws, including without limitation, the preparation of phase two environmental audits. The applicable Borrower shall reimburse Administrative Agent for all reasonable costs and expenses incurred in conducting such assessments.

5.11 Landlords' Agreements, Bailee Letters and Mortgagee Agreements. Each Borrower shall use its best efforts to obtain a landlord's agreement in form and substance acceptable to Administrative Agent from the lessor of each leased property currently being used by such Borrower or any Subsidiary where Collateral is located in the United States or the United Kingdom. Each Borrower shall use its best efforts to obtain a bailee letter in form and substance acceptable to Administrative Agent and with respect to any mill, processor, customer or toll manufacturing facility where Collateral is located in the United States or the United Kingdom. Each Borrower shall use its best efforts to obtain a mortgagee's agreement in form and substance satisfactory to Administrative Agent from the mortgagee of each property owned by such Borrower or any Subsidiary where Collateral is located in the United States or the United Kingdom. With respect to mortgaged or leased premises or premises under the control of third parties at which such Collateral is located in the United States or the United Kingdom, if Borrowers are unable to obtain a landlord or mortgagee agreement or bailee letter, all Inventory and Equipment at that location shall automatically be deemed ineligible without further action by Administrative Agent or any Lender for purposes of calculating (i) Borrowing Availability and (ii) the amount permitted to be outstanding under Term Loan C.

5.12 Consigned Inventory. With respect to consigned Inventory at any location with an aggregate value in excess of \$100,000, each Borrower shall perfect its interest in such Inventory by filing and delivering notice to the creditors of record of the consignee, all as provided in Section 9-114 of the Code or other applicable domestic or foreign law, and in form and substance satisfactory to Administrative Agent, and such Borrower shall execute and deliver all financing statements, security agreements, amendments thereto, or other documents (and pay the cost of filing or recording the same in all public offices deemed necessary by Administrative Agent), as Administrative Agent may request, in form and substance satisfactory to Administrative Agent, to perfect and maintain the Liens on Collateral granted by such Borrower to Administrative Agent.

5.13 Leased Locations of Collateral. Each Borrower shall, and shall cause each Subsidiary to, timely and fully pay and perform its obligations under all leases and other agreements with respect to each leased location or public warehouse where any Collateral is or may be located. Borrowers shall promptly deliver to Administrative Agent copies of (i) any and all default notices received under or with respect to any such leased location or public warehouse, and (ii) such other notices or documents as Administrative Agent may request in its reasonable discretion.

6. NEGATIVE COVENANTS

Each Borrower jointly and severally covenants and agrees that, without the prior written consent of Administrative Agent and the Requisite Lenders, from and after the Closing Date until the Termination Date:

6.1 Mergers, Subsidiaries, Etc. Neither Borrower shall, or shall cause or permit any Subsidiary to, directly or indirectly, by operation of law or otherwise, (i) form or acquire any Subsidiary, or (ii) merge with, consolidate with, acquire all or substantially all of the assets or Stock of, or otherwise combine with, any Person except that any Subsidiary (other than NOW Canada, Venezuela, UK Borrower, Singapore, Australia and the NOW International) may merge into US Borrower; provided that US Borrower is the surviving Person in such merger. Notwithstanding the foregoing, but subject to all other provisions of this Agreement, US Borrower may acquire all or substantially all of the assets of any Person (the "Target") (in each case, a "Permitted Acquisition") or make Investments in newly formed Subsidiaries subject to the satisfaction of the following conditions:

(i) Administrative Agent shall receive at least thirty (30) days' prior written notice of the date upon which such proposed Permitted Acquisition will be made, which notice shall include a reasonably detailed description of such proposed Permitted Acquisition;

(ii) such Permitted Acquisition shall only involve assets or businesses located in the United States (which assets may be contributed to a Subsidiary) or assets located in a foreign country (which assets shall be contributed to a Subsidiary of NOW International) and comprising, in each case, a business, or those assets of a business, of the type engaged in by US Borrower as of the Closing Date, and which business would not subject Administrative Agent or any Lender to regulatory or third party approvals in connection with the exercise of its rights and remedies under this Agreement or any other Loan Documents other than approvals applicable to the exercise of such rights and remedies with respect to US Borrower prior to such Permitted Acquisition;

(iii) no additional Indebtedness, contingent obligations or other liabilities shall be incurred, assumed or otherwise be reflected on a consolidated balance sheet of US Borrower and Target after giving effect to such Permitted Acquisition, except (A) Revolving Credit Advances and (B) ordinary course trade payables and accrued expenses of the Target to the extent no Default or Event of Default shall have occurred and be continuing or would result after giving effect to such Permitted Acquisition;

(iv) the assets acquired in such Permitted Acquisition shall be free and clear of all Liens (other than Permitted Encumbrances);

(v) except as provided in clause (ii) above with respect to a Subsidiary of NOW International, such Subsidiary is incorporated under the laws of a State in the United States and substantially all of its assets are located in the United States;

(vi) at or prior to the closing of any Permitted Acquisition, Administrative Agent will be granted a first priority perfected Lien (A) by the newly formed Subsidiary of US Borrower on all assets of such newly formed Subsidiary or by US Borrower on the assets acquired directly by US Borrower, as applicable, subject, in each case, only to Permitted Encumbrances, or (B) by NOW International, in the case of a newly formed foreign Subsidiary, on sixty-five percent (65%) of the capital stock of such foreign Subsidiary, and Holdings, NOW International and US Borrower shall have executed such other documents and taken such actions as may be required by Administrative Agent in connection therewith;

(vii) each newly formed Subsidiary of US Borrower shall have issued a guaranty of the Obligations to Administrative Agent for the ratable benefit of the Lenders in form and substance satisfactory to Administrative Agent;

(viii) Concurrently with delivery of the notice referred to in clause (i) above, US Borrower shall have delivered to Administrative Agent and Lenders, in form and substance satisfactory to Administrative Agent:

(A) a pro forma consolidated balance sheet of Holdings and its Subsidiaries (the "Acquisition Pro Forma"), based on recent financial data, which shall be complete and shall accurately and fairly represent the assets, liabilities, financial condition and results of operations of Holdings and its Subsidiaries in accordance with GAAP consistently applied, but taking into account such Permitted Acquisition and the funding of all Loans in connection therewith, and such Acquisition Pro Forma shall reflect that (x) average daily unused Borrowing Availability of US Borrower for the 90-day period preceding the consummation of such Permitted Acquisition would have exceeded \$12,500,000 on a pro forma basis (giving effect to such Permitted Acquisition and all Revolving Credit Loans funded in connection therewith as if made on the first day of such period) and the Acquisition Projections (as hereinafter defined) shall reflect that such unused Borrowing Availability of \$12,500,000 shall continue for at least 90 days after the consummation of such Permitted Acquisition, giving effect to the payment of all trade payables and accrued expenses in the ordinary course of business, and (y) on a pro forma basis, Borrowers would have been in compliance with the financial covenants set forth in Schedule I for the four quarter period reflected in the Compliance Certificate most recently delivered to Administrative Agent pursuant to Schedule G prior to the consummation of such Permitted Acquisition (giving effect to such Permitted Acquisition and all Revolving Credit Loans funded in connection therewith as if made on the first day of such period);

(B) updated versions of the most recently delivered Projections covering the three (3) year period commencing on the date of such Permitted Acquisition and otherwise prepared in accordance with the Projections (the "Acquisition Projections") and based upon historical financial data of a recent date satisfactory to Administrative Agent, taking into account such Permitted Acquisition; and

(C) a certificate of the Chief Financial Officer or Treasurer of Holdings and US Borrower to the effect that: (x) US Borrower will be Solvent upon the consummation of the Permitted Acquisition; (y) the Acquisition Pro Forma fairly presents the financial condition of Holdings and US Borrower (on a consolidated basis) as of the date thereof after giving effect to the Permitted Acquisition; and (z) the Acquisition Projections are reasonable estimates of the future financial performance of Holdings and its Subsidiaries subsequent to the date thereof based upon the historical performance of Holdings, its Subsidiaries and the Target and show that Holdings and Borrower shall continue to be in compliance with the financial covenants set forth in Schedule I for the three (3) year period thereafter;

(ix) at least seven (7) days prior to the date upon which such Permitted Acquisition will be made, US Borrower shall have delivered to Administrative Agent, in form and substance satisfactory to Administrative Agent, a certificate of the Chief Financial Officer or Treasurer of Holdings and US Borrower to the effect that Holdings and US Borrower have completed their due diligence investigation with respect to the Target and such Permitted Acquisition, which investigation was conducted in a manner similar to that which would have been conducted by a prudent purchaser of a comparable business and the results of which investigation were delivered to Administrative Agent and Lenders;

(x) on or prior to the date of such Permitted Acquisition, Administrative Agent shall have received, in form and substance satisfactory to Administrative Agent, all opinions, certificates, lien search results and other documents reasonably requested by Administrative Agent; a pro forma Borrowing Base Certificate of US Borrower giving effect to such Permitted Acquisition, accompanied by all related financial and collateral information requested by Administrative Agent (for which Administrative Agent reserves the right to audit any such information);

(xi) after giving effect to any such Investment (other than with respect to a Permitted Acquisition), US Borrower shall have Borrowing Availability in an amount equal to or greater than its working capital requirements for the next thirty (30) days, based upon US Borrower's historical cash needs and taking into account all of its payment obligations under the Loan Documents and under any of its other Indebtedness; and

(xii) at the time of such transaction and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing.

The Accounts, Inventory and Equipment purchased from the Target and located in the United States shall be included in US Borrower's Borrowing Base; provided that such Accounts, Inventory, and Equipment are of the same types and quality as those owned by US Borrower and otherwise meet all of the criteria for eligibility set forth herein and in Schedule C-1 and Schedule D-1 and the definition of Eligible Equipment, as applicable.

6.2 Investments; Loans and Advances. Except as otherwise permitted by Section 6.1, 6.3, 6.4, or 6.22 neither Borrower shall, or shall cause or permit any Subsidiary to, make any Investment except: (i) Investments in Subsidiaries and other Investments, each as in existence on the Closing Date and disclosed on Schedule 6.2, (ii) mergers or consolidations permitted by Section 6.1, and (iii) demand deposit accounts maintained in the ordinary course of business.

6.3 Indebtedness. Neither Borrower shall, or shall cause or permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except (i) Indebtedness secured by Liens permitted under subsection 6.7(iii), (ii) the Revolving Credit Loan, Term Loan C and the other Obligations, (iii) Indebtedness of US Borrower pursuant to the Sellers' Notes, (iv) Indebtedness of NOW Canada pursuant to the NOW Canada Credit Agreement, (v) Indebtedness for borrowed money incurred by Singapore; provided that the aggregate principal amount of (x) Letter of Credit Obligations incurred by US Borrower pursuant to Section 1.2 on behalf of Singapore, (y) Indebtedness incurred by Singapore pursuant to this subsection 6.3(v) and (z) intercompany Indebtedness incurred by Singapore pursuant to subsection 6.22(ii) at any one time outstanding shall not exceed \$2,000,000, (vi) Indebtedness for borrowed money incurred by Australia; provided that the aggregate principal amount of (x) Letter of Credit Obligations incurred by US Borrower pursuant to Section 1.2 on behalf of Australia, (y) Indebtedness incurred by Australia pursuant to this subsection 6.3(vi) and (z) intercompany Indebtedness incurred by Australia pursuant to subsection 6.22(iii) at any one time outstanding shall not exceed \$3,000,000, (vii) Indebtedness for borrowed money incurred by Venezuela; provided that the aggregate principal amount of (x) Letter of Credit Obligations incurred by US Borrower pursuant to Section 1.2 on behalf of Venezuela; (y) Indebtedness incurred by Venezuela pursuant to this subsection 6.3(vii) and (z) intercompany Indebtedness incurred by Venezuela pursuant to subsection 6.22(vii) at any one time outstanding shall not exceed \$4,000,000, (viii) other Indebtedness permitted by Section 6.22, (ix) obligations under or in connection with Currency Agreements, (x) obligations under or in connection with Interest Rate Agreements, (xi) deferred taxes, (xii) unfunded pension fund and other employee benefit plan obligations and liabilities to the extent they are permitted to remain unfunded under applicable law; (xiii) Indebtedness existing on the Closing Date and disclosed on Schedule 6.3; and (xiv) other unsecured Indebtedness incurred by US Borrower not to exceed \$1,000,000 in the aggregate. Except as permitted by this Agreement with respect to the Loans, neither Borrower shall, or shall cause or permit any Subsidiary to, directly or indirectly voluntarily prepay, defease or in substance defease, purchase, redeem, retire or otherwise acquire, any Indebtedness.

6.4 Employee Loans and Affiliate Transactions. (a) Except as permitted by Sections 6.2, 6.14 and 6.22, neither Borrower shall, or shall cause or permit any Subsidiary to, directly or indirectly, enter into or be a party to any transaction with an Affiliate of either Borrower

except in the ordinary course of and pursuant to the reasonable requirements of such Borrower's or such Subsidiary's business and upon fair and reasonable terms that shall be fully disclosed to Administrative Agent in advance to the extent that any such transaction involves payments in excess of \$250,000 (excluding purchases and sales of Inventory between US Borrower and its foreign Subsidiaries solely in the ordinary course of business and between Borrowers and operating companies in which DPI and First Reserve or funds under their management are investors) in the aggregate and are no less favorable to such Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of such Borrower. All such transactions existing as of the Closing Date are described on Schedule 6.4(a).

(b) Neither Borrower shall, or shall cause or permit any Subsidiary to, enter into any lending or borrowing transaction with any of its employees, except (i) loans to their respective employees on an arm's-length basis in the ordinary course of business for travel advances and relocation expenses up to \$100,000 for any single employee and \$500,000 in the aggregate for all such employees at any one time outstanding and (ii) loans to members of senior management of Borrowers or their respective Subsidiaries for the purpose of purchasing capital stock of Holdings up to \$200,000 for any single individual and \$500,000 in the aggregate for all such management personnel at any one time outstanding.

6.5 Capital Structure and Business. Neither Borrower shall, or shall cause or permit any Subsidiary to, (i) make any changes in any of its business or operations which would in any way adversely affect the repayment of the Revolving Credit Loan, Term Loan C or any of the other Obligations or could have or result in a Material Adverse Effect, (ii) except as described on Schedule 3.10, make any change in its capital structure (including the issuance of any shares of Stock, warrants or other securities convertible into Stock or any revision of the terms of its outstanding Stock), or (iii) amend, modify, terminate or waive, nor suffer the amendment, modification, termination or waiver of, any of the terms or provisions of the Partnership Agreement or amend the certificate or articles of incorporation, bylaws (unless required by law), or other constitutional documents of any Subsidiary in a manner which would have a Material Adverse Effect. Neither of the Borrowers nor any Subsidiary shall engage in any business other than the oilfield service industry or any lines of business reasonably related thereto (excluding the wellhead manufacturing business).

6.6 Guaranties. Neither Borrower shall, or shall cause or permit any Subsidiary to, incur any Guaranties except (i) by endorsement of instruments or items of payment for deposit or collection to the general account of such Borrower or such Subsidiary, (ii) Guaranties of the Obligations, (iii) the Holdings Subordinated Canada Guaranty, (iv) the US Borrower Subordinated Canada Guaranty, (v) the NOW International Subordinated Canada Guaranty, (vi) unsecured Guaranties of performance entered into in the ordinary course of business for Holdings' foreign Subsidiaries in connection with purchases and sales of Inventory; and (vii) Guaranties in existence on the Closing Date and disclosed on Schedule 6.6. Neither US Borrower nor NOW International shall change or amend any of the subordination provisions of the US Borrower Subordinated Canada Guaranty or the NOW International Subordinated Canada Guaranty, respectively.

6.7 Liens. Neither Borrower shall, or shall cause or permit any Subsidiary to, create, incur, assume or permit to exist any Lien on or with respect to any of its properties or assets (including Accounts, instruments, or chattel paper), whether now owned or hereafter acquired except (i) Permitted Encumbrances, (ii) presently existing or hereinafter created Liens in favor of Administrative Agent, on behalf of Lenders to secure the Obligations, (iii) Liens granted pursuant to the Stock Pledge Agreements, (iv) Liens granted by NOW International on the Stock of its Subsidiaries to secure its obligations under the NOW International Subordinated Canada Guaranty, (v) Liens created by conditional sale or other title retention agreements (including, without limitation, Capital Leases) or in connection with purchase money indebtedness with respect to Equipment acquired by such Borrower or any of its Subsidiaries in the ordinary course of business, involving the incurrence of an aggregate amount of purchase money indebtedness and Capital Lease Obligations of not more than \$2,000,000 outstanding at any one time for all such Liens (provided that such Liens attach only to the assets subject to such purchase money debt and such Indebtedness is incurred within twenty (20) days following such purchase and does not exceed 100% of the purchase price of the subject assets), (vi) Liens granted by Singapore on its assets to secure Indebtedness permitted by Section 6.3(v), (vii) Liens granted by Australia on its assets to secure Indebtedness permitted by Section 6.3(vi), (viii) Liens granted by Venezuela on its assets to secure Indebtedness permitted by Section 6.3(vii), (ix) Liens granted by NOW Canada on its assets to secure Indebtedness permitted by Section 6.3(iv), (x) Liens granted by US Borrower on its partnership interest in UNOC to secure Indebtedness of UNOC; provided that neither Borrower nor any Subsidiary has any additional or further obligation or liability with respect to such Indebtedness, and (xi) Liens existing on the Closing Date and disclosed on Schedule 6.7. Neither Borrower shall, or shall cause or permit any Subsidiary to, directly or indirectly, enter into, assume or become bound by any agreement, instrument, indenture or other obligation (other than this Agreement, the other Loan Documents and the NOW Canada Credit Agreement) which restricts, prohibits or requires the consent of any Person with respect to the creation or assumption of any Lien upon its property or assets, whether now owned or hereafter acquired, except leases or licenses which prohibit Liens on the property subject thereto.

6.8 Sale of Assets. Neither Borrower shall, or shall cause or permit any Subsidiary to, sell, transfer, lease, sublease, convey, assign or otherwise dispose of or grant any Person an option to acquire, in one transaction or a series of transactions, any of its properties or other assets, including the capital stock of any such Subsidiary or such Borrower or any of its Accounts, other than (i) the sale or lease of Inventory in the ordinary course of business, (ii) the sale, transfer, conveyance or other disposition of fixed assets having a value not exceeding \$250,000 in any single transaction or \$750,000 in the aggregate in any Fiscal Year, (iii) the sale, transfer, conveyance or other disposition of assets which are obsolete, worn-out or otherwise not useable in such Borrower's or such Subsidiary's business (up to \$2,000,000 in sales proceeds in the aggregate for Borrowers and their Subsidiaries in any Fiscal Year), and (iv) assets to be sold pursuant to the Asset Sale Program as set forth on Schedule 6.8. Borrowers shall promptly deliver to Administrative Agent all of the Net Proceeds of sales or dispositions permitted under clauses (ii), (iii) and (iv) of this Section 6.8, which proceeds shall be applied to the repayment of the Obligations in accordance with Section 1.3. With respect to any disposition of assets or other properties permitted pursuant to

this Section 6.8, Administrative Agent agrees on reasonable prior written notice to release its Lien on such assets or other properties in order to permit Borrowers to effect such disposition and shall execute and deliver to Borrowers, at Borrowers' expense, appropriate UCC-3 termination statements and other releases as reasonably requested by Borrowers; provided that Borrowers have delivered to Administrative Agent all Net Proceeds from such disposition required to be delivered to Administrative Agent.

6.9 ERISA. Neither Borrower shall, or shall cause or permit any Subsidiary or ERISA Affiliate thereof (without Administrative Agent's prior written consent) to, (i) acquire any ERISA Affiliate that maintains or has an obligation to contribute to a Pension Plan that has either an "accumulated funding deficiency", as defined in Section 302 of ERISA, or any "unfunded vested benefits", as defined in Section 4006(a)(3)(e)(iii) of ERISA, in the case of any Plan other than a Multiemployer Plan, and in Section 4211 of ERISA in the case of a Multiemployer Plan, in excess of \$500,000, (ii) permit or suffer any representation set forth in Schedule 3.14 to cease to be met and satisfied at any time if the effect thereof would be a liability in excess of \$500,000, (iii) terminate any Pension Plan that is subject to Title IV of ERISA where such termination could reasonably be anticipated to result in liability in excess of \$500,000, (iv) permit any accumulated funding deficiency, as defined in Section 302(a)(2) of ERISA, to be incurred with respect to any Pension Plan, in excess of \$500,000, (v) fail to make any material contributions or fail to pay any material amounts due and owing as required by the terms of any Plan before such contributions or amounts become delinquent, (vi) make a complete or partial withdrawal (within the meaning of Section 4201 of ERISA) from any Multiemployer Plan where such withdrawal could have a Material Adverse Effect, or (vii) fail to promptly provide Administrative Agent with copies of any Plan documents or governmental reports or filings, if requested by Administrative Agent.

6.10 Financial Covenants. Borrowers shall not breach or fail to comply with any of the Financial Covenants (the "Financial Covenants") set forth in Schedule I.

6.11 Hazardous Materials. Neither Borrower shall, or shall cause or permit any Subsidiary or any other Person within its control to, cause or permit a Release or the presence, use, generation, manufacture, installation or storage of any Hazardous Materials on, under, in, above or about any of its real estate or the transportation of any Hazardous Materials to or from any of its real estate that would violate in any material respect, or result in any material liability under, any Environmental Laws. If a Default or Event of Default shall have occurred and be continuing, each Borrower, at its own expense, shall cause the performance of such environmental audits and preparation of such environmental reports as Administrative Agent may from time to time request as to any location at which Collateral is then located, by reputable environmental consulting firms reasonably acceptable to Administrative Agent, and in form and substance reasonably acceptable to Administrative Agent.

6.12 Sale-Leasebacks. Neither Borrower shall, or shall cause or permit any Subsidiary to, engage in any sale-leaseback or similar transaction involving any of its assets; except that US Borrower may sell and leaseback its Store Locations, subject to the following conditions;

(i) aggregate sale proceeds shall be subject to the limitations set forth in clause (ii) of Section 6.8

(ii) no such sale-leaseback transaction shall be entered into with respect to the following locations: New Iberia, Louisiana (Sugarmill Road); McAlester, Oklahoma; Kilgore, Texas; and Casper, Wyoming;

(iii) the lease for each such location shall be on commercially reasonable terms, disclosed to Administrative Agent in advance of the execution thereof; and

(iv) each lessor of any such property shall have entered into a landlord waiver in favor of Administrative Agent for the benefit of Lenders satisfactory in form and substance to Administrative Agent.

6.13 Cancellation of Indebtedness. Neither Borrower shall, or shall cause or permit any Subsidiary to, cancel any claim or debt owing to it, except for reasonable consideration negotiated on an arm's-length basis and in the ordinary course of its business consistent with past practices.

6.14 Restricted Payments. (a) Neither Borrower shall, or shall cause or permit any Subsidiary to, make any Restricted Payment, other than (i) distributions from Borrowers to Holdings in an amount necessary to enable Holdings (x) to satisfy its Federal, state and local income tax obligations to the extent such obligations are the result of the net consolidated income of US Borrower and its Subsidiaries being attributed to Holdings for tax purposes; provided that each Borrower's contribution shall not be greater than or paid sooner than its ratable share of such income taxes then due and payable by Holdings; provided further, that if either Borrower pays more to Holdings than its ratable share of income taxes paid in cash by Holdings for any Fiscal Year, as finally determined, it shall either demand and obtain reimbursement from Holdings or set off the amount of such overpayment against other amounts owing by such Borrower to Holdings, (y) to pay the necessary fees and expenses to maintain its corporate existence and good standing and to pay the reasonable costs of its directors' and officers' insurance, and (z) to pay legal and accounting fees to the extent such fees relate to legal or accounting services provided by entities which are not Affiliates of Borrowers and which services are directly related to Borrowers or their Subsidiaries, (ii) intercompany loans by US Borrower or a Subsidiary to the extent permitted by Section 6.22, (iii) Restricted Payments consisting of reasonable compensation or indemnification to Affiliates who are individuals and serve as directors, officers or employees of a Borrower or any Subsidiary, (iv) so long as no Default or Event of Default has occurred and is continuing, Restricted Payments consisting of distributions of US Borrower to Holdings to enable Holdings to make repurchases of its Stock from members of management pursuant to the terms and conditions of the Stock Incentive Plan in effect as of the Closing Date in form and substance satisfactory to Administrative Agent; provided that the aggregate sum of distributions by US Borrower in any Fiscal Year in connection with all such redemptions shall not exceed \$1,000,000, and (v) redemption of its Stock by NOW Canada permitted by the terms of the NOW Canada Credit Agreement.

(b) In addition to the foregoing but without duplication of distributions under subsection 6.14(a), US Borrower may make distributions to the Partners in an amount necessary to enable the Partners (x) to satisfy its state and local income tax obligations to the extent such obligations are the result of the net consolidated income of US Borrower and its Subsidiaries being attributed to the Partners for tax purposes; provided that US Borrower's contribution shall not be greater than or paid sooner than its ratable share of such income taxes then due and payable by the Partners; provided further, that if US Borrower pays more to the Partners than its ratable share of income taxes paid in cash by each Partner for any Fiscal Year, as finally determined, it shall either demand and obtain reimbursement from the Partners or set off the amount of such overpayment against other amounts owing by US Borrower to the Partners, (y) to pay the necessary fees and expenses to maintain its corporate existence and good standing and to pay the reasonable costs of its directors' and officers', and (z) to pay legal and accounting fees to the extent such fees relate to legal or accounting services provided by entities which are not Affiliates of US Borrower and which services are directly related to US Borrower or its Subsidiaries.

(c) In addition to the foregoing, so long as no Event of Default shall have occurred and be continuing and to the extent that no Event of Default would result after giving effect to the payment thereof, US Borrower may pay management or other fees in the amount of \$300,000 on the Closing Date to DPI and First Reserve and in the aggregate amount of \$1,000,000 to DPI and First Reserve in each Fiscal year in four quarterly installments of \$250,000 each, payable in each year on the first day of each calendar quarter, commencing with a payment on January 1, 1997.

6.15 Leases. (a) Neither Borrower shall, or shall cause or permit any Subsidiary to, enter into any lease of real property or similar agreement or arrangement if the aggregate of all such lease payments payable in any Fiscal Year by Borrowers and their Subsidiaries would exceed \$5,000,000.

(b) Neither Borrower shall, or shall cause or permit any Subsidiary to, enter into any operating lease for equipment or personal property, if the aggregate of all such operating lease payments payable in any Fiscal Year for Borrowers and their Subsidiaries would exceed \$7,500,000.

6.16 Fiscal Year. Neither Borrower shall, or shall cause or permit any Subsidiary to, change its Fiscal Year.

6.17 Change of Corporate Name or Location. (a) Neither Borrower shall, or shall cause or permit any Material Subsidiary to, (i) change its partnership or corporate name, as applicable, or (ii) change its chief executive office, principal place of business, partnership or corporate offices or the location of its records concerning the Collateral, or (iii) change any existing or establish any additional warehouse or other Collateral location, unless such Borrower has given Administrative Agent at least thirty (30) days' prior written notice and Administrative Agent has delivered to such Borrower its written acknowledgment that all reasonable actions requested by Administrative Agent in connection therewith, including, without limitation, to continue the perfection of any Liens in favor of Administrative Agent, on behalf of Lenders, in any Collateral

have been completed or taken; provided that any such new location with respect to US Borrower shall be in the continental United States; and (b) in furtherance of and without limiting the scope of clause (a) above, neither Borrower shall, or shall permit any Subsidiary, to change its name, identity or partnership or corporate structure, as applicable, in any manner which might make any financing or continuation statement or similar filing filed in connection herewith seriously misleading within the meaning of Section 9.402(7) or any other then applicable provision of the Code or any other applicable foreign law except upon prior written notice to Administrative Agent and Lenders and after Administrative Agent's written acknowledgment that any reasonable action requested by Administrative Agent in connection therewith, including, without limitation, to continue the perfection of any Liens in favor of Administrative Agent, on behalf of Lenders, in any Collateral has been completed or taken. All Collateral located at any such new location shall automatically be deemed ineligible without further action by Administrative Agent or any Lender to constitute Eligible Accounts, Eligible Equipment or Eligible Inventory, as applicable, until such Borrower shall have complied with the requirements of this Section 6.17 and Section 5.11.

6.18 Sale of Stock. Neither Borrower shall, or shall cause or permit any Subsidiary to, sell (whether in a public or private offering or otherwise) any of its Stock.

6.19 Cash Management. Neither Borrower shall, or shall cause or permit any Subsidiary to, accumulate or maintain cash in disbursement or payroll accounts as of any date of determination more than \$50,000 in the aggregate in excess of checks outstanding against such accounts as of that date and amounts necessary to meet minimum balance requirements.

6.20 No Impairment of Upstreaming. Neither Borrower shall, or shall cause or permit any Subsidiary to, directly or indirectly, enter into, assume or become bound by any agreement, instrument, indenture or other obligation (other than this Agreement, the other Loan Documents and the NOW Canada Credit Agreement) which could directly or indirectly restrict, prohibit or require the consent of any Person with respect to the payment of dividends or distributions or the making of intercompany loans by a Subsidiary of either Borrower to either Borrower or between Borrowers.

6.21 Subordinated Debt. US Borrower shall not, nor shall it cause or permit any Subsidiary to:

(a) pay any interest or principal on the Sellers' Notes prior to the seventh anniversary of the date thereof; or

(b) prepay, defease, purchase, redeem, retire or otherwise acquire any Subordinated Debt except that US Borrower may make voluntary and mandatory prepayments in accordance with the terms of any Subordinated Debt incurred pursuant to Section 6.22(ii); provided that in each such case (i) no Default or Event of Default has occurred and is continuing or would result after giving effect to any such prepayment, (ii) no mandatory prepayment of the Revolving Credit Loan or Term Loan C is due and owing pursuant to Section 1.3(a) or Section 1.1(b), as

applicable, and (iii) after giving effect to any such payment, US Borrower shall have unused Borrowing Availability equal to at least ten percent (10%) of the Borrowing Base of the US Borrower in effect at the time of such payment.

6.22 Intercompany Loans. Notwithstanding any provision contained in this Section 6 to the contrary, US Borrower and the Subsidiaries may create, incur or permit to exist intercompany loans as follows: (i) Indebtedness existing on the Closing Date owing from a Subsidiary to US Borrower and described on Schedule 6.22; provided that any payment or prepayment of such Indebtedness shall not be reborrowed by such Subsidiary except as permitted by clauses (iii), (iv), (v), (vi) and (vii) of this Section 6.22, (ii) Subordinated Debt incurred after the Closing Date by US Borrower in the form of intercompany loans from a Subsidiary, (iii) additional loans to NOW Canada from US Borrower or UK Borrower; provided that the principal amount of (x) Letter of Credit Obligations incurred by US Borrower on behalf of NOW Canada and (y) loans incurred by NOW Canada under this Section 6.22 at any one time outstanding shall not in the aggregate exceed \$3,000,000; (iv) additional loans to UK Borrower from US Borrower in an aggregate principal amount at any one time outstanding not to exceed \$5,000,000, (v) loans to Singapore from US Borrower or UK Borrower; provided that the principal amount of (x) Letter of Credit Obligations incurred by US Borrower on behalf of Singapore, (y) Indebtedness incurred by Singapore pursuant to subsection 6.3(v), and (z) loans incurred by Singapore under this Section 6.22 at any one time outstanding shall not in the aggregate exceed \$2,000,000; (vi) loans to Australia from US Borrower or UK Borrower; provided that the principal amount of (x) Letter of Credit Obligations incurred by US Borrower on behalf of Australia, (y) Indebtedness incurred by Australia pursuant to subsection 6.3(vi), and (z) loans incurred by Australia under this Section 6.22 at any one time outstanding shall not in the aggregate exceed \$3,000,000; (vii) loans to Venezuela from US Borrower or UK Borrower; provided that the principal amount of (x) Letter of Credit Obligations incurred by US Borrower on behalf of Venezuela, (y) Indebtedness incurred by Venezuela pursuant to subsection 6.3(vii), and (z) loans incurred by Venezuela under this Section 6.22 at any one time outstanding shall not in the aggregate exceed \$4,000,000; provided further that (a) all such intercompany loans shall be unsecured and shall be payable upon demand; (b) after giving effect to each such loan, both US Borrower or UK Borrower, as applicable, and the Subsidiary receiving such intercompany loans shall be Solvent; (c) the obligor of such loan shall use the proceeds thereof for its own working capital requirements and general partnership or corporate purposes, as applicable, arising in the ordinary course of its business; (d) after giving effect to each such loan from US Borrower or UK Borrower, as applicable, US Borrower or UK Borrower, as applicable, shall have Borrowing Availability in an amount equal to or greater than its working capital requirements for the next succeeding thirty (30) days, based upon its historical cash needs and taking into account all of its payment obligations under the Loan Documents and under any of its other Indebtedness; (e) US Borrower shall have delivered to Administrative Agent a current list of intercompany loans outstanding in accordance with clause (l) of Schedule G; and (f) all such intercompany loans by US Borrower or UK Borrower to any Subsidiary shall be evidenced by promissory notes satisfactory in form and substance to Administrative Agent and pledged to Administrative Agent for the ratable benefit of Lenders.

6.23 Inconsistent Agreements. Neither Borrower shall, or shall cause or permit any Subsidiary to, become party to any agreement, note, indenture, instrument or other arrangement, or take any other action, which, directly or indirectly, (i) requires a sharing of any interest in the Collateral or prohibits the creation of a Lien on any of its properties or other assets in favor of Administrative Agent, on behalf of the Lenders, as additional collateral for the Obligations, except operating leases, Capital Leases or intellectual property licenses which prohibit Liens upon the assets that are subject thereto and the documents granting Liens on the assets of Australia and Singapore as permitted by Section 6.7; (ii) prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, the incurrence of the Obligations, the granting of Liens to secure the Obligations, amending the Loan Documents, or (iii) contains any provision which would be violated or breached by the making of the Revolving Credit Advances or by the performance by Borrowers or Holdings or any Subsidiary of any of its obligations under any Loan Document.

6.24 Acquisition Documents. US Borrower shall not, nor shall it cause or permit any Subsidiary to amend, waive or modify in any manner any provision of any of the Acquisition Documents.

7. TERM

7.1 Termination. The Revolving Credit Loan shall be in effect until the Commitment Termination Date, and the Revolving Credit Loan, Term Loan C and all other Obligations related thereto shall be automatically due and payable in full on such date.

7.2 Survival of Obligations Upon Termination of Financing Arrangements. Except as otherwise expressly provided for in the Loan Documents, no termination or cancellation (regardless of cause or procedure) of any financing arrangement under this Agreement shall in any way affect or impair the obligations, duties and liabilities of Borrowers or the rights of Administrative Agent and Lenders relating to any unpaid portion of the Revolving Credit Loan, Term Loan C or any other Obligation, due or not due, liquidated, contingent or unliquidated or any transaction or event occurring prior to such termination, or any transaction or event, the performance of which is required after the Commitment Termination Date. Except as otherwise expressly provided herein or in any other Loan Document, all undertakings, agreements, covenants, warranties and representations of or binding upon Holdings, Borrowers, the Subsidiaries and the Partners, and all rights of Administrative Agent and each Lender, all as contained in the Loan Documents shall not terminate or expire, but rather shall survive such termination or cancellation and shall continue in full force and effect until such time as all of the Obligations have been paid in full in accordance with the terms of the Loan Documents creating such Obligations and the Commitments have been terminated.

8. EVENTS OF DEFAULT: RIGHTS AND REMEDIES

8.1 Events of Default. The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an "Event of Default" hereunder:

(a) Either Borrower shall fail to make any payment of principal of, or interest on, or any other amount owing by it in respect of, the Revolving Credit Loan, Term Loan C or any Fees, costs or expenses payable or reimbursable by it under this Agreement or under any other Loan Document or any of the other Obligations when due and payable or declared due and payable.

(b) Either Borrower shall fail or neglect to perform, keep or observe any of the provisions of (i) Sections 1.4, 1.9, 5.1, 5.2, 5.5 or 6, or any of the provisions set forth in Schedules E, G (paragraph (f) only) or I, respectively.

(c) Either Borrower shall fail or neglect to perform, keep or observe any provisions set forth in Section 4 or Schedules G (other than paragraph (f) thereof) or H, respectively, within twenty (20) days after the earlier to occur of (i) US Borrower's receipt of written notice from Administrative Agent or any Lender or (ii) actual knowledge of such failure by the applicable Borrower.

(d) Either Borrower shall fail or neglect to perform, keep or observe any other provision of this Agreement (other than any provision embodied in or covered by any other clause of this Section 8.1) and the same shall remain unremedied for thirty (30) days or more after the earlier to occur of (i) US Borrower's receipt of written notice of any such failure from Administrative Agent or any Lender or (ii) actual knowledge of such failure by the applicable Borrower.

(e) Any Guarantor shall fail or neglect to perform, keep or observe any provision of any Guaranty Agreement (other than any provision embodied in or covered by any other clause of this Section 8.1) and the same shall remain unremedied for ten (10) days or more after the earlier of (i) US Borrower's receipt of written notice of any such failure from Administrative Agent or any Lender or (ii) actual knowledge of such failure by US Borrower.

(f) A default or breach shall occur under any Loan Document (other than this Agreement or the Notes) or the Acquisition Documents which default or breach continues beyond any period of grace therein provided.

(g) A default or breach shall occur under any other agreement, document or instrument to which Holdings, either Borrower or any Subsidiary is a party and such default is not cured within any applicable grace period and such default or breach (i) involves the failure to make any payment when due in respect of any Indebtedness (other than the Obligations) of Holdings, either Borrower or any Subsidiary in excess of \$1,000,000 in the aggregate, or (ii) causes such Indebtedness or a portion thereof in excess of \$1,000,000 in the aggregate to become due prior to its stated maturity or prior to its regularly scheduled dates of payment, or (iii) permits any holder of such Indebtedness or a trustee to cause such Indebtedness or a portion thereof in excess of \$1,000,000 in the aggregate to become due prior to its stated maturity or prior to its regularly

scheduled dates of payment, regardless of whether such right is exercised or waived by such holder or trustee.

(h) Any representation or warranty herein or in any Loan Document or in any written statement, report, financial statement or certificate made or delivered to any Lender by or on behalf of Holdings, either Borrower or any Subsidiary or either Partner shall be untrue or incorrect in any material respect, as of the date when made or deemed made.

(i) Any representation or warranty in any Guaranty Agreement or in any written statement pursuant thereto, or in any report, financial statement or certificate made or delivered to any Lender by any Guarantor shall be untrue or incorrect in any material respect, as of the date when made or deemed made.

(j) Assets of Holdings, either Borrower or any Subsidiary or either Partner with a fair market value of \$500,000 or more shall be attached, seized, levied upon or subjected to a writ or distress warrant, or come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors of Holdings, either Borrower or any Subsidiary and such condition shall continue for thirty (30) days or more.

(k) A case or proceeding shall have been commenced against Holdings, either Borrower or any Subsidiary or either Partner in a court having competent jurisdiction seeking a decree or order in respect of Holdings, either Borrower or any Subsidiary or either Partner (i) under Title 11 of the United States Code, as now constituted or hereafter amended, the Insolvency Act of 1986, as now constituted or hereafter amended in the case of UK Borrower, or any other applicable federal, state or foreign bankruptcy or other similar law, (ii) appointing a custodian, receiver, administrative receiver, liquidator, assignee, trustee or sequestrator (or similar official) for Holdings, either Borrower or any Subsidiary or either Partner or of any substantial part of any such Person's assets, or (iii) ordering the winding-up, dissolution, or liquidation of the affairs of Holdings, either Borrower or any Subsidiary or either Partner and such case or proceeding shall remain undismitted or unstayed for sixty (60) days or more or such court shall enter a decree or order granting the relief sought in such case or proceeding.

(l) Holdings, either Borrower or any Subsidiary or either Partner shall (i) file a petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, the Insolvency Act of 1986, as now constituted or hereafter amended in the case of UK Borrower, or any other applicable federal, State or foreign bankruptcy or other similar law, (ii) consent to the institution of proceedings thereunder or to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, administrative receiver, liquidator, assignee, trustee or sequestrator (or similar official) of Holdings, either Borrower or any Subsidiary or either Partner or of any substantial part of any such Person's assets, (iii) make an assignment for the benefit of creditors, or proposes or enters into any composition of or other arrangement for the benefit of creditors generally or any class of creditors, (iv) suspend payment of its debts or become

unable to pay its debts as they become due, or (v) take any partnership or corporate action, as applicable, in furtherance of any such action.

(m) A final judgment or judgments for the payment of money in excess of \$750,000 in the aggregate shall be rendered against Holdings, either Borrower or any Subsidiary or either Partner and the same shall not (i) be fully covered by insurance in accordance with Section 5.5, or (ii) within thirty (30) days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged prior to the expiration of any such stay.

(n) With respect to any Plan: (i) either Borrower, any Subsidiary or any ERISA Affiliate thereof or any other party-in-interest or disqualified Person shall engage in any transactions which in the aggregate result in a final assessment to either Borrower or any Subsidiary in excess of \$500,000 under Section 409 or 502 of ERISA or IRC Section 4975 which assessment has not been paid within thirty (30) days of final assessment and which is not being contested pursuant to subsections 6.2(b) or 6.2(c) hereof; (ii) either Borrower, any Subsidiary or any ERISA Affiliate thereof shall incur any accumulated funding deficiency, as defined in IRC Section 412, in the aggregate in excess of \$500,000, or request a funding waiver from the IRS for contributions in the aggregate in excess of \$500,000; (iii) either Borrower, any Subsidiary or any ERISA Affiliate thereof shall not pay any withdrawal liability which involves annual withdrawal liability payments which exceed \$500,000, as a result of a complete or partial withdrawal within the meaning of Section 4203 or 4205 of ERISA, within 30 days after the date such payment becomes due, unless such payment is being contested pursuant to subsections 6.2(b) or (c); (iv) either Borrower, any Subsidiary or any ERISA Affiliate thereof shall fail to make a required contribution by the due date under Section 412 of the IRC or Section 302 of ERISA which would result in the imposition of a lien under Section 412 of the IRC or Section 302 of ERISA within 30 days after the date such payment becomes due; or (v) an ERISA Event (other than an event described in 29 CFR Section 2615.23) with respect to a Pension Plan has occurred which could have a Material Adverse Effect, and within thirty (30) days US Borrower has not contested such ERISA Event by appropriate proceedings.

(o) Any material provision of any Loan Document shall for any reason cease to be valid or enforceable in accordance with its terms or Holdings, either Borrower or any Guarantor or any other Person (other than Administrative Agent or any Lender) shall disavow its obligations thereunder or shall deny that it has any or further obligations thereunder, or shall contest the validity or enforceability of any thereof, or any Lien created under any Loan Document shall cease to be a legal, valid and perfected first priority Lien (except as otherwise permitted herein or therein) in any of the Collateral purported to be covered thereby.

(p) Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of, all or any substantial portion of the property of either Borrower or any Material Subsidiary (other than Venezuela).

(q) A criminal or civil action, suit or proceeding is commenced against any of Holdings, either Borrower or any Subsidiary or either Partner under any federal or state racketeering

statute (including, without limitation, the Racketeer Influenced and Corrupt Organizations Act of 1970), which action, suit or proceeding could reasonably be expected to result in a Material Adverse Effect.

(r) Any Change of Control shall occur.

(s) Any event shall occur that gives any holder of Subordinated Debt a mandatory right of redemption or other right to prepayment with respect thereto.

(t) Holdings or either Partner or NOW International shall conduct or transact any business (other than being the owner of Stock held by it as of the Closing Date) or incur any Indebtedness or other obligation or liability or make any Investment or grant or suffer any Lien or issue any Guaranties other than, in each case, pursuant to, or as permitted by, the Loan Documents.

8.2 Remedies. (a) If any Default shall have occurred and be continuing, Administrative Agent may (and at the written request of the Requisite Lenders shall) terminate this facility with respect to further Revolving Credit Advances or Term Loan C advances, whereupon any further Revolving Credit Advances or Term Loan C advances, shall be made in the sole discretion of Administrative Agent or the sole discretion of the Requisite Lenders' (if termination occurred at the request of the Requisite Lenders); provided that such further Revolving Credit Advance or Term Loan C advance shall not cause the aggregate outstanding principal amount thereof to exceed the Borrowing Availability or the UK Borrowing Base, respectively. Upon such termination, Administrative Agent shall notify US Borrower of such action.

(b) If any Event of Default shall have occurred and be continuing, Administrative Agent may (and at the written request of the Requisite Lenders shall), without notice, (a) terminate or suspend the obligations of the Lenders to make Loans hereunder, (b) declare all or any portion of the Obligations, including all or any portion of the Revolving Credit Loan and/or Term Loan C, to be forthwith due and payable, and require that the Letter of Credit Obligations be cash collateralized as provided on Schedule B; (c) increase the Letter of Credit Fees and rates of interest applicable to the Revolving Credit Loan and/or Term Loan C to the Default Rate, as provided in subsection 1.5(d); and (d) exercise any rights and remedies provided to Administrative Agent under the Loan Documents and/or at law or equity, including all remedies provided under the Code; provided that upon the occurrence of an Event of Default specified in subsections 8.1 (k) or (l), all of the Obligations, including the Revolving Credit Loan, shall become immediately due and payable without declaration, notice or demand by any Person.

8.3 Waivers by Borrowers. Except as otherwise provided for in this Agreement or by applicable law, each of the Borrowers waives: (i) presentment, demand and protest and notice of presentment, dishonor, notice of intent to accelerate, notice of acceleration, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Administrative Agent on which either Borrower may in any way be liable, and

hereby ratifies and confirms whatever Administrative Agent may do in this regard, (ii) all rights to notice and a hearing prior to Administrative Agent's taking possession or control of, or to Administrative Agent's replevy, attachment or levy upon, the Collateral or any part thereof or any bond or security which might be required by any court prior to allowing Administrative Agent to exercise any of its remedies, and (iii) the benefit of all valuation, appraisal and exemption laws. Each of the Borrowers acknowledges that it has been advised by counsel of its choice with respect to this Agreement, the other Loan Documents and the transactions evidenced by this Agreement and the other Loan Documents.

9. ASSIGNMENT AND PARTICIPATIONS; APPOINTMENT OF ADMINISTRATIVE AGENT

9.1 Assignment and Participations. (a) Borrowers hereby consent to Administrative Agent's and any Lender's sale of participations, and to Administrative Agent's and any Lender's assignment, at any time or times, of any of the Loan Documents, any Commitment or of any portion thereof or interest therein, including, without limitation, Administrative Agent's and any Lender's rights, title, interests, remedies, powers or duties thereunder, whether evidenced by a writing or not; provided that any assignment by a Lender of all or any part of its Commitment shall (i) require the consent of Administrative Agent which consent shall not be unreasonably withheld and the execution of a Lender Addition Agreement in form and substance satisfactory to Administrative Agent; (ii) be conditioned on such assignee Lender representing to the assigning Lender and the Administrative Agent that it is purchasing the Revolving Credit Loans and/or Term Loan C to be assigned to it for its own account, for investment purposes and not with a view to the distribution thereof; provided that the foregoing shall not prohibit the sale of such Loans to commercial banks, finance companies and investment funds; (iii) if a partial assignment, be in an amount at least equal to \$5,000,000 and, after giving effect to any such partial assignment, the assigning Lender shall have retained Commitments in an amount at least equal to \$5,000,000; and (iv) include a payment by the assigning Lender to the Administrative Agent of an assignment fee of \$3,500; provided further, that any participation by a Lender of all or any part of its Commitments shall be made with the understanding that all amounts payable by Borrowers hereunder shall be determined as if that Lender had not sold such participation, and that the holder of any such participation shall not be entitled to require such Lender to take or omit to take any action hereunder, except actions directly affecting (i) any reduction in the principal amount, interest rate or fees payable hereunder in which such holder participates, (ii) any extension of the final scheduled maturity date of the principal amount of the Revolving Credit Loan and/or Term Loan C in which such holder participates, (iii) any release of all or substantially all of the Collateral (other than in accordance with the terms of this Agreement or the other Loan Documents) and (iv) any increase in the percentage advance rates set forth in the definition of "Borrowing Base" or "UK Borrowing Base". Each Borrower hereby acknowledges and agrees that any participation will give rise to a direct obligation of Borrowers to the participant and the participant shall for purposes of Sections 1.15, 1.16 and 9.8 be considered to be a "Lender".

(b) In the case of an assignment by a Lender under this Section 9.1, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as it would if it were a Lender hereunder. Except as provided in subsection 9.1(e), the assigning Lender shall be relieved of its obligations hereunder with respect to its Commitments or assigned portion thereof. Each Borrower hereby acknowledges and agrees that any assignment will give rise to a direct obligation of Borrowers to the assignee and that the assignee shall be considered to be a "Lender". In all instances, each Lender's liability to make Loans hereunder shall be several and not joint and shall be limited to such Lender's Pro Rata Share.

(c) Except as otherwise provided in this Section 9.1, no Lender shall, as between any such Borrower and that Lender, be relieved of any of its obligations hereunder as a result of any sale, assignment, transfer or negotiation of, or granting of participation in, all or any part of the Loans, the Notes or other Obligations owed to such Lender.

(d) Borrowers shall assist any Lender permitted to sell assignments or participations under this Section 9.1 as reasonably required to enable the assigning or selling Lender to effect any such assignment or participation, including the execution and delivery of any and all agreements, notes and other documents and instruments as shall be requested and the preparation of informational materials for, and the participation of management in meetings with, potential assignees or participants. Borrowers shall certify the correctness, completeness and accuracy of all descriptions of Borrowers and their affairs contained in any selling materials provided by Borrowers and all other information provided by Borrowers and included in such materials, except that any projections delivered by Borrowers shall only be certified by Borrowers as having been prepared by Borrowers in good faith and based on reasonable assumptions consistent with Borrowers' anticipated business plans.

(e) A Lender may furnish any information concerning Borrowers in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants); provided that such Lender shall utilize commercially reasonable procedures to cause such assignees or participants to maintain the confidentiality of confidential information of Borrowers. In the event Administrative Agent or any Lender assigns or otherwise transfers all or any part of a Note, Administrative Agent or any such Lender shall so notify Borrowers and Borrowers shall, upon the request of Administrative Agent or such Lender, execute new Notes in exchange for the Notes being assigned.

9.2 Appointment of Administrative Agent. GE Capital is hereby appointed Administrative Agent to act on behalf of all Lenders as Administrative Agent under this Agreement and the other Loan Documents. The provisions of this Section 9.2 are solely for the benefit of Administrative Agent and Lenders and neither Borrower, any Subsidiary nor any other Person shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement and the other Loan Documents, Administrative Agent shall act solely as an agent of Lenders and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for either Borrower, any Subsidiary

or any other Person. Administrative Agent shall have no duties or responsibilities except for those expressly set forth in this Agreement and the other Loan Documents. The duties of Administrative Agent shall be mechanical and administrative in nature and Administrative Agent shall not have, or be deemed to have, by reason of this Agreement, any other Loan Document or otherwise a fiduciary relationship in respect of any Lender. Neither Administrative Agent nor any of its officers, directors, partners, employees, agents or representatives shall be liable to any Lender for any action taken or omitted to be taken by it hereunder or under any other Loan Document, or in connection herewith or therewith, except for damages caused by its or their own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted.

If Administrative Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any other Loan Document, then Administrative Agent shall be entitled to refrain from such act or taking such action unless and until Administrative Agent shall have received instructions from Requisite Lenders, and Administrative Agent shall not incur liability to any Person by reason of so refraining. Administrative Agent shall be fully justified in failing or refusing to take any action hereunder or under any other Loan Document (a) if such action would, in the opinion of Administrative Agent, be contrary to law or the terms of this Agreement or any other Loan Document or (b) if Administrative Agent shall not first be indemnified to its satisfaction against any and all liability and expense (including Environmental Liabilities and Costs) which may be incurred by it by reason of taking or continuing to take any such action. Without limiting the foregoing, no Lender shall have any right of action whatsoever against Administrative Agent as a result of Administrative Agent acting or refraining from acting hereunder or under any other Loan Document in accordance with the instructions of Requisite Lenders.

9.3 Administrative Agent's Reliance. Neither Administrative Agent nor any of its directors, officers, partners, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement or the other Loan Documents, except for its or their own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted. Without limitation of the generality of the foregoing, Administrative Agent: (i) may treat the payee of any Amended Revolving Credit Note or Term C Note as the holder thereof until Administrative Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to Administrative Agent; (ii) may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement or the other Loan Documents; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the other Loan Documents on the part of Borrowers or to inspect the Collateral (including the books and records) of Borrowers unless requested to do so by the Requisite Lenders; (v) shall not be responsible to any

Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto; and (vi) shall incur no liability under or in respect of this Agreement or the other Loan Documents by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopy, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

9.4 Administrative Agent and Affiliates. With respect to its commitment hereunder to make or continue Term Loan C advances and Revolving Credit Advances, Administrative Agent shall have the same rights, powers and obligations under this Agreement and the other Loan Documents as any other Lender and may exercise the same as though it were not Administrative Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include GE Capital in its individual capacity. GE Capital and its Affiliates may lend money to, invest in, and generally engage in any kind of business with, either Borrower, any of its Subsidiaries and Affiliates and any Person who may do business with or own securities of either Borrower or any such Subsidiary or Affiliate, all as if GE Capital were not Administrative Agent and without any duty to account therefor to Lenders. GE Capital and its Affiliates may accept fees and other consideration from either Borrower and any of the Subsidiaries for services in connection with this Agreement or otherwise without having to account for the same to Lenders. Each Lender acknowledges the potential conflict of interest between GE Capital as Administrative Agent, GE Capital as a stockholder of Holdings and GE Capital Canada as a lender under the NOW Canada Credit Agreement.

9.5 Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon Administrative Agent or any other Lender and based on the financial statements referred to in Section 3.4 and such other documents and information as it has deemed appropriate, made its own credit and financial analysis of the Loans, the creditworthiness of Borrowers and the Subsidiaries and the value and lien status of the Collateral and its own decision to enter into this Agreement. Each Lender also acknowledges that it will be responsible for making its own independent appraisal of the credit and financial condition of, and all other matters concerning, the Borrowers and will, independently and without reliance upon Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

9.6 Indemnification. Lenders agree to indemnify Administrative Agent (to the extent required to be but not reimbursed by Borrowers and without limiting the Obligations of Borrowers hereunder), ratably according to their respective Pro Rata Shares, from and against any and all liabilities (including Environmental Liabilities and Costs), obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Administrative Agent in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted by Administrative Agent in connection therewith; provided that no Lender shall be liable

for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Administrative Agent's gross negligence or wilful misconduct as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted. Without limiting the foregoing, each Lender agrees to reimburse Administrative Agent promptly after demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement and each other Loan Document, to the extent that Administrative Agent is required to be but not reimbursed for such expenses by Borrowers.

9.7 Successor Administrative Agent. Administrative Agent may resign at any time by giving not less than thirty (30) days' prior written notice thereof to Lenders and US Borrower. Upon any such resignation, the Requisite Lenders shall have the right to appoint a successor Administrative Agent which shall be reasonably acceptable to US Borrower. If no successor Administrative Agent shall have been so appointed by the Requisite Lenders and shall have accepted such appointment, within thirty (30) days after the resigning Administrative Agent's giving notice of resignation then the resigning Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a Lender, if a Lender is willing to accept such appointment, or otherwise shall be a commercial bank or financial institution organized under the laws of the United States of America or of any State thereof having a combined capital and surplus of at least \$300,000,000, which is reasonably acceptable to US Borrower. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Administrative Agent, and the resigning Administrative Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Documents, except that any indemnity rights or other rights in favor of such resigning Administrative Agent shall continue. After any resigning Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

9.8 Setoff and Sharing of Payments. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, subject to subsection 9.10(f) each Lender and each holder of any Note is hereby authorized at any time or from time to time, without notice to either Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all balances held by it at any of its offices for the account of any Borrower (regardless of whether such balances are then due to such Borrower) and any other properties or assets any time held or owing by that Lender or that holder to or for the credit or for the account of Borrowers against and on account of any of the Obligations which are not paid when due. Any Lender or holder of any Note having a right to set off shall, to the extent the amount of any such set off exceeds its Pro Rata Share of the Obligations, purchase for cash (and the other Lenders

or holders shall sell) such participations in each such other Lender's or holder's Pro Rata Share of the Obligations as would be necessary to cause such Lender to share such excess with each other Lender or holder in accordance with their respective Pro Rata Shares. Each Borrower agrees, to the fullest extent permitted by law, that (a) any Lender or holder may exercise its right to set off with respect to amounts in excess of its Pro Rata Share of the Obligations and may sell participations in such excess to other Lenders and holders and (b) any Lender or holders so purchasing a participation in the Revolving Credit Advances or Term Loan C made or other Obligations held by other Lenders or holders may exercise all rights of set-off, bankers' lien, counterclaim or similar rights with respect to such participation as fully as if such Lender or holder were a direct holder of Revolving Credit Advances, Term Loan C and other Obligations in the amount of such participation.

9.9 Disbursement of Funds. Administrative Agent may, on behalf of Lenders, disburse funds to US Borrower for Revolving Credit Advances and Term Loan C advances requested. Each Lender with a Revolving Credit Loan Commitment or a Term Loan C Commitment shall reimburse Administrative Agent on demand for all such funds disbursed on its behalf by Administrative Agent, or if Administrative Agent so requests, such Lender will remit to Administrative Agent its Pro Rata Share of any Revolving Credit Advance or any Term Loan C advance before Administrative Agent disburses same to the applicable Borrower. If any Lender fails to pay the amount of its Pro Rata Share forthwith upon Administrative Agent's demand, Administrative Agent shall promptly notify the applicable Borrower and such Borrower shall immediately repay such amount to Administrative Agent. Nothing in this Section 9.9 or elsewhere in this Agreement or the other Loan Documents shall be deemed to require Administrative Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its Revolving Credit Loan Commitment or Term Loan C Commitment, as applicable, hereunder or to prejudice any rights that Borrowers may have against any such Lender as a result of any default by such Lender hereunder.

9.10 Advances; Payments; Information; Non-Funding Lenders.

(a) Revolving Credit Advances; Term Loan C Advances; Payments; Fee Payments.

(i) The Revolving Credit Loan and the Term Loan C balances may fluctuate from day to day through Administrative Agent's disbursement of funds to, and receipt of funds from, Borrowers. In order to minimize the frequency of transfers of funds between Administrative Agent and each Lender, Revolving Credit Advances and Term Loan C advances and payments in respect thereof will be settled according to the procedures described in subsections 9.10(a)(ii) and 9.10(a)(iii). Notwithstanding these procedures, each Lender's obligation to fund its portion of any advances made by Administrative Agent to either Borrower will commence on the date such advances are made by Administrative Agent. Such payments will be made by each Lender without setoff, counterclaim or reduction of any kind.

(ii) Not later than 12:00 noon (New York time) on the second (2nd) Business Day of each week, or more frequently (including daily) if Administrative Agent so elects or if US Borrower has requested a Revolving Credit Advance in excess of \$5,000,000 (each such day being a "Settlement Date"), Administrative Agent will advise each Lender by telephone, telex or telecopy of the amount of such Lender's Pro Rata Share of the Revolving Credit Loan or Term Loan C balance, as applicable, as of the close of business on the first (1st) Business Day immediately preceding the Settlement Date. In the event that payments are necessary to adjust the amount of such Lender's portion of the Revolving Credit Loan or Term Loan C to such Lender's Pro Rata Share of the Revolving Credit Loan or Term Loan C as of any Settlement Date, the party from which such payment is due will pay the other, in same day funds, by wire transfer to the other's account not later than 2:00 p.m. (Chicago time) on the Settlement Date (excluding amounts charged to the Revolving Loan Account pursuant to Section 1.11, and which do not constitute Revolving Credit Advances). Notwithstanding the foregoing, if Administrative Agent so elects, Administrative Agent may require that each Lender make its Pro Rata Share of any requested Revolving Credit Advance or Term Loan C advance, as applicable, available to Administrative Agent for disbursement prior to the funding of such Revolving Credit Advance or Term Loan C advance. If Administrative Agent elects to require that such funds be so made available, Administrative Agent shall advise each Lender by telephone, telex or telecopy of the amount of such Lender's Pro Rata Share of such Loan no later than 12:00 noon (New York time) on the date of funding thereof, and each such Lender shall pay Administrative Agent such Lender's Pro Rata Share of such requested Revolving Credit Advance or Term Loan C advance, in same day funds, by wire transfer to the Administrative Agent's account not later than 2:00 p.m. (New York time) on the date of funding such Loan.

(iii) For purposes of this subsection 9.10(a)(iii), the following terms and conditions will have the following meanings:

(A) "Daily Loan Balance" means, with respect to the Revolving Credit Loan or Term Loan C, an amount calculated as of the end of each calendar day by subtracting (i) the cumulative principal amount paid by Administrative Agent to a Lender with respect to such Loan from the Funding Date through and including such calendar day, from (ii) the cumulative principal amount of such Loan advanced by such Lender to Administrative Agent from the Funding Date through and including such calendar day.

(B) "Daily Interest Rate" means, with respect to the Revolving Credit Loan or Term Loan C, an amount calculated by dividing the interest rate payable to a Lender on such Loan (as set forth in Section 1.5) as of each calendar day by three hundred sixty (360) days.

(C) "Daily Interest Amount" means, with respect to the Revolving Credit Loan or Term Loan C, an amount calculated by multiplying the Daily Loan Balance of such Loan by the associated Daily Interest Rate applicable to such Loan.

(D) "Interest Ratio" means, with respect to the Revolving Credit Loan or Term Loan C, a number calculated by dividing the total amount of interest on such Loan received by Administrative Agent during the immediately preceding month by the total amount of interest on such Loan due from Borrowers during the immediately preceding month.

On the first (1st) Business Day of each calendar month (an "Interest Settlement Date"), Administrative Agent will advise each Lender by telephone, telex or telecopy of the amount of such Lender's Pro Rata Share of principal, interest and Fees paid for the benefit of Lenders on the Revolving Credit Loan and Term Loan C as of the end of the last day of the immediately preceding month. Provided that such Lender has made all payments required to be made by it under this Agreement and the other Loan Documents, Administrative Agent will pay to such Lender, by wire transfer to such Lender's account (as specified by such Lender on Schedule K or the applicable Lender Addition Agreement, as amended by such Lender from time to time after the Closing Date pursuant to the notice provisions contained herein or in the applicable Lender Addition Agreement) not later than 11:00 a.m. (New York time) on the next Business Day following the Interest Settlement Date, such Lender's Pro Rata Share of principal, interest and Fees paid for the benefit of Lenders on the Revolving Credit Loan and Term Loan C, as applicable. Such Lender's Pro Rata Share of interest on the Revolving Credit Loan and the Term Loan C, as applicable, will be calculated by adding together the Daily Interest Amounts for each calendar day of the prior month for such Loan and multiplying the total thereof by the Interest Ratio for such Loan.

(b) Availability of Lender's Pro Rata Share.

(i) Administrative Agent may assume that each Lender will make its Pro Rata Share of each Revolving Credit Advance or Term Loan C advance, as applicable, available to Administrative Agent on the first (1st) Business Day following each Settlement Date. If such Pro Rata Share is not, in fact, paid to Administrative Agent by such Lender when due, Administrative Agent will be entitled to recover such amount on demand from such Lender without set-off, counterclaim or deduction of any kind.

(ii) Nothing contained in this subsection 9.10(b) will be deemed to relieve any Lender of its obligation to fulfill its Commitments or to prejudice any rights Administrative Agent or Borrowers may have against any Lender as a result of any default by such Lender under this Agreement.

(c) Return of Payments.

(i) If Administrative Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Administrative Agent from either Borrower and such related payment is not received by Administrative Agent, then Administrative Agent will be entitled to recover such amount from such Lender on demand without set-off, counterclaim or deduction of any kind.

(ii) If Administrative Agent determines at any time that any amount received by it under this Agreement must be returned to either Borrower or paid to any other Person pursuant to any insolvency law or otherwise, then, notwithstanding any other term or condition of this Agreement or any other Loan Document, Administrative Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Administrative Agent on demand any portion of such amount that Administrative Agent has distributed to such Lender, together with interest at such rate, if any, as Administrative Agent is required to pay to either Borrower or such other Person, without set-off, counterclaim or deduction of any kind.

(d) Dissemination of Information. Administrative Agent will use reasonable efforts to provide Lenders with any information received by Administrative Agent from any Borrower which is required to be provided to Lenders hereunder, with any notice of Default or Event of Default received by Administrative Agent from either Borrower, with any notice of Default or Event of Default delivered by Administrative Agent to Borrowers, with notice of any Default or Event of Default of which Administrative Agent has actually become aware and with notice of any action taken by Administrative Agent following any Default or Event of Default; provided that Administrative Agent shall not be liable to any Lender for any failure to do so, except to the extent that such failure is attributable to Administrative Agent's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted.

(e) Non-Funding Lenders. The failure of any Lender with a Revolving Credit Loan Commitment or Term Loan C Commitment (such Lender, a "Non-Funding Lender") to make any Revolving Credit Advance or Term Loan C advance to be made by it on the date specified therefor shall not relieve any other applicable Lender (each such other Lender, an "Other Lender") of its obligations to make its Revolving Credit Advance or Term Loan C advance on such date, but neither any Other Lender nor Administrative Agent shall be responsible for the failure of any Non-Funding Lender to make a Revolving Credit Advance or Term Loan C advance to be made by such Non-Funding Lender, and no Non-Funding Lender shall have any obligation to Administrative Agent or any Other Lender for the failure by such Non-Funding Lender. Notwithstanding anything set forth herein to the contrary, a Non-Funding Lender shall not have any voting or consent rights under or with respect to any Loan Document or constitute a "Lender" (or be included in the calculation of "Requisite Lenders" hereunder) for any voting or consent rights under, or with respect to, any Loan Document.

(f) Actions in Concert. Anything in this Agreement to the contrary notwithstanding, each Lender hereby agrees with each other Lender that no Lender shall take any action to protect or enforce its rights arising out of this Agreement or the Notes (including, without limitation, exercising any rights of set-off) without first obtaining the prior written consent of Administrative Agent or Requisite Lenders, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the Notes shall be taken in concert and at the direction of Administrative Agent.

10. SUCCESSORS AND ASSIGNS

10.1 Successors and Assigns. This Agreement and the other Loan Documents shall be binding on and shall inure to the benefit of Borrowers, Administrative Agent, Lenders and their respective successors and assigns, except as otherwise provided herein or therein. A Borrower's successors and assigns shall include, without limitation, any trustee, receiver or debtor in possession of or for such Borrower. Neither Borrower may assign, transfer, hypothecate or otherwise convey its rights, benefits, obligations or duties hereunder or under any of the other Loan Documents without the prior express written consent of Administrative Agent and all Lenders. Any such purported assignment, transfer, hypothecation or other conveyance by either Borrower without the prior express written consent of Administrative Agent and the Lenders shall be void. The terms and provisions of this Agreement are for the purpose of defining the relative rights and obligations of Borrowers, Administrative Agent and Lenders with respect to the transactions contemplated hereby and there shall be no third party beneficiaries of any of the terms and provisions of this Agreement or any of the other Loan Documents.

11. MISCELLANEOUS

11.1 Complete Agreement; Modification of Agreement. The Loan Documents constitute the complete agreement between the parties with respect to the subject matter thereof and may not be modified, altered or amended except as set forth in Section 11.2. As of the Closing Date, any letter of interest or commitment letter and/or fee letter (other than the GE Capital Fee Letter) between either Borrower and Administrative Agent or any of their respective affiliates, predating this Agreement and relating to a financing of substantially similar form, purpose or effect shall be superseded by this Agreement.

11.2 Amendments and Waivers. (a) Except as otherwise provided herein, no amendment, modification, termination or waiver of any provision of this Agreement or any of the Notes or consent to any departure by either Borrower or any of the Subsidiaries therefrom, shall in any event be effective unless the same shall be in writing and signed by Administrative Agent, Requisite Lenders and Borrowers.

(b) Notwithstanding the foregoing, no amendment, modification, termination or waiver shall, unless in writing and signed by Administrative Agent and each affected Lender, do any of the following: (i) increase the principal amount of the Commitment of any affected Lender; (ii)

reduce the principal of, rate of interest on or Fees payable with respect to any Revolving Credit Advance or Letter of Credit Obligations or Term Loan C; (iii) extend the final scheduled maturity date of any Loan or any scheduled installment or mandatory prepayment of the principal amount of any Loan; (iv) increase the percentage advance rates above that set forth on the Closing Date in the definition of "Borrowing Base" or "UK Borrowing Base"; (v) waive, forgive, defer, extend or postpone any payment of Obligations including interest or Fees required hereunder; (vi) release any Guaranty Agreement; (vii) except as otherwise contemplated herein or in one of the other Loan Documents, release all or any material portion of the Collateral; (viii) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans which shall be required for Lenders or any of them to take any action hereunder; and (ix) amend or waive Section 10.1 or this Section 11.2 or the definitions of the terms used in this Section 11.2 insofar as the definitions affect the substance of this Section 11.2 or subordinate the Obligations to any other Indebtedness; and provided further that no amendment, modification, termination or waiver affecting the rights or duties of an Administrative Agent under this Agreement or any other Loan Document shall in any event be effective, unless in writing and signed by such Administrative Agent, in addition to Lenders required hereinabove to take such action. Each amendment, modification, termination or waiver shall be effective only in the specific instance and for the specific purpose for which it was given. No amendment, modification, termination or waiver shall be required for Administrative Agent to take additional Collateral pursuant to any Loan Document. No amendment, modification, termination or waiver of any provision of any Note shall be effective without the written concurrence of the holder of that Note. No notice to or demand on either Borrower in any case shall entitle either Borrower to any other or further notice or demand in similar or other circumstances. Any amendment, modification, termination, waiver or consent effected in accordance with this Section 11.2 shall be binding upon each holder of the Notes at the time outstanding and each future holder of the Notes.

(c) Upon indefeasible payment in full of all of the Obligations, other than Indemnified Liabilities under Section 1.13 hereof and termination of the Commitments; provided that no suits, actions, proceedings, or claims are pending or threatened against any Indemnified Person asserting any damages, losses or liabilities that are Indemnified Liabilities, Administrative Agent shall deliver to Borrowers termination statements, mortgage releases and other documents necessary or appropriate to evidence the termination of the Liens securing payment of the Obligations.

11.3 Fees and Expenses. Borrowers shall jointly and severally reimburse Administrative Agent for all reasonable out-of-pocket expenses incurred in connection with (a) the preparation of the Loan Documents (including the reasonable fees and expenses of all of its special loan counsel, advisors, consultants and auditors retained in connection with the Loan Documents and the transactions contemplated thereby and advice in connection therewith), and (b) wire transfers to the account of Borrowers. Borrowers shall reimburse Administrative Agent (and, with respect to clauses (iii), (iv) and (v) below, each Lender) for all fees, costs and expenses, including the reasonable fees, costs and expenses of counsel or other advisors (including environmental and management consultants) for advice, assistance, or other representation in connection with:

(i) the forwarding to either Borrower or any other Person on behalf of either Borrower by Administrative Agent of the proceeds of the Revolving Credit Advances and Term Loan C advances;

(ii) consent with respect to, any of the Loan Documents or advice in connection with the administration of the loans made pursuant hereto or its rights hereunder or thereunder;

(iii) any litigation, contest, dispute, suit, proceeding or action (whether instituted by Administrative Agent, any Lender, either Borrower or any other Person) in any way relating to the Collateral, any of the Loan Documents or any other agreement to be executed or delivered in connection therewith or herewith, whether as party, witness, or otherwise, including any litigation, contest, dispute, suit, case, proceeding or action, and any appeal or review thereof, in connection with a case commenced by or against any or all of the Borrowers or any other Person that may be obligated to Administrative Agent by virtue of the Loan Documents;

(iv) any attempt to enforce any rights of Administrative Agent or any Lender against any or all of the Borrowers or any other Person that may be obligated to Administrative Agent or any Lender by virtue of any of the Loan Documents;

(v) any refinancing or restructuring of the credit arrangements provided under the Loan Documents, whether in the nature of a "workout" or in connection with any insolvency or bankruptcy proceeding;

(vi) efforts to (A) monitor the Loans or any of the other Obligations, (B) evaluate, observe, assess any or all of the Borrowers, any Subsidiary thereof or their respective affairs, and (C) verify, protect, evaluate, assess, appraise, collect, sell, liquidate or otherwise dispose of any of the Collateral;

including, without limitation, all the attorneys' and other professional and service providers' fees arising from such services, including those in connection with any appellate proceedings; and all expenses, costs, charges and other fees incurred by such counsel and others in any way or respect arising in connection with or relating to any of the events or actions described in this Section 11.3 shall be payable, on demand, by Borrowers to Administrative Agent. Without limiting the generality of the foregoing, such expenses, costs, charges and fees may include: fees, costs and expenses of accountants, environmental advisors, appraisers, investment bankers, management and other consultants and paralegals; court costs and expenses; photocopying and duplication expenses; court reporter fees, costs and expenses; long distance telephone charges; air express charges; telegram charges; secretarial overtime charges; and expenses for travel, lodging and food paid or incurred in connection with the performance of such legal or other advisory services.

11.4 No Waiver. Administrative Agent's or any Lender's failure, at any time or times, to require strict performance by Borrowers of any provision of this Agreement and any of the

other Loan Documents shall not waive, affect or diminish any right of Administrative Agent or such Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver of an Event of Default under this Agreement or any of the other Loan Documents shall not suspend, waive or affect any other Event of Default under this Agreement and any of the other Loan Documents whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of either Borrower contained in this Agreement or any of the other Loan Documents and no Default or Event of Default by either Borrower under this Agreement and no defaults by either Borrower under any of the other Loan Documents shall be deemed to have been suspended or waived by Administrative Agent or any Lender, unless such waiver or suspension is by an instrument in writing signed by an officer of or other authorized employee of Administrative Agent and Requisite Lenders and directed to Borrowers specifying such suspension or waiver.

11.5 Remedies. Administrative Agent's and Lenders' rights and remedies under this Agreement shall be cumulative and nonexclusive of any other rights and remedies which Administrative Agent or any Lender may have under any other agreement, including the other Loan Documents, by operation of law or otherwise. Recourse to the Collateral shall not be required.

11.6 Severability. Wherever possible, each provision of this Agreement and the other Loan Documents shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

11.7 Conflict of Terms. Except as otherwise provided in this Agreement or any of the other Loan Documents by specific reference to the applicable provisions of this Agreement, if any provision contained in this Agreement is in conflict with, or inconsistent with, any provision in any of the other Loan Documents, the provision contained in this Agreement shall govern and control.

11.8 Authorized Signature. Until Administrative Agent shall be notified by the applicable Borrower to the contrary, the signature upon any document or instrument delivered pursuant hereto of an officer of such Borrower listed on Schedule 11.8 shall bind such Borrower and be deemed to be the act of such Borrower affixed pursuant to and in accordance with resolutions duly adopted by such Borrower's Board of Directors.

11.9 GOVERNING LAW. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN ANY OF THE LOAN DOCUMENTS, IN ALL RESPECTS, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS AGREEMENT AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO CONFLICT OF LAW PROVISIONS) AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. EACH BORROWER

HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN THE CITY OF NEW YORK, NEW YORK, SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN BORROWERS, ADMINISTRATIVE AGENT AND LENDERS PERTAINING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS; PROVIDED THAT ADMINISTRATIVE AGENT, LENDERS AND BORROWERS ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF THE CITY OF NEW YORK, NEW YORK; AND PROVIDED FURTHER THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE ADMINISTRATIVE AGENT FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF ADMINISTRATIVE AGENT. EACH BORROWER EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND EACH BORROWER HEREBY WAIVES ANY OBJECTION WHICH SUCH BORROWER MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. EACH BORROWER HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO SUCH BORROWER AT THE ADDRESS SET FORTH IN SCHEDULE J AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER OF SUCH BORROWER'S ACTUAL RECEIPT THEREOF OR THREE (3) DAYS AFTER DEPOSIT IN THE U.S. MAILED, PROPER POSTAGE PREPAID.

11.10 Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by any other party, or whenever any of the parties desires to give or serve upon any other party any communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be deemed to have been validly served, given or delivered (i) upon the earlier of actual receipt and three (3) Business Days after deposit in the United States Mail, registered or certified mail, return receipt requested, with proper postage prepaid, (ii) upon transmission, when sent by telecopy or other similar facsimile transmission (with such telecopy or facsimile promptly confirmed by delivery of a copy by personal delivery or United States Mail as otherwise provided in this Section 11.10), (iii) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid or (iv) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address or facsimile number indicated on Schedule J or to such other address (or facsimile number) as may be substituted by notice given as

herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to any Person (other than Borrowers or Administrative Agent) designated on Schedule J to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

11.11 Section Titles. The Section titles and Table of Contents contained in this Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of this Agreement between the parties hereto.

11.12 Counterparts. This Agreement may be executed in any number of separate counterparts, each of which shall collectively and separately constitute one agreement.

11.13 WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG ADMINISTRATIVE AGENT, LENDERS AND BORROWERS ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

11.14 Press Releases and Public Announcements. Each Borrower hereby agrees that neither it nor its Subsidiaries is on the Closing Date issuing any press releases or other public announcements with respect to this Agreement or the Related Transactions which mentions or uses the name of GE Capital or any of its affiliates. Each Borrower further agrees that neither it nor its Subsidiaries will make in the future any press releases or other public announcements using the name of GE Capital or any of its affiliates referring to this Agreement without their prior written consent unless such Borrower or such Subsidiary is required to do so under law and then, in any event, such Borrower or such Subsidiary will consult with GE Capital before issuing such press release or other public announcements.

11.15 Reinstatement. This Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Borrower for liquidation or reorganization, should any Borrower become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any

Borrower's assets, and shall continue to be effective or to be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

11.16 Domicile of Loans. Each Lender may transfer and carry its Loans at, to or for the account of any office or lending installation of such Lender. Notwithstanding anything to the contrary contained herein, to the extent that a transfer of Loans pursuant to this Section 11.16 would, at the time of such transfer, result in increased costs under Section 1.16 from those being charged by the respective Lender prior to such transfer, then no Borrower shall be obligated to pay such increased costs (although each Borrower shall be obligated to pay any other increased costs of the type described above resulting from changes after the date of the respective transfer).

11.17 Judgment Currency. If for the purposes of obtaining judgment against either Borrower in any court in any jurisdiction with respect to this Agreement, it becomes necessary to convert into the currency of such jurisdiction (herein called the "Judgment Currency") any amount due hereunder in Dollars, then conversion shall be made at the rate of exchange prevailing on the Business Day before the day on which judgment is given. For this purpose, "rate of exchange" means the rate at which Administrative Agent would, on the relevant date at or about 12:00 noon (Chicago time), be prepared to sell a similar amount of Dollars in Chicago against the Judgment Currency. In the event that there is a change in the rate of exchange prevailing between the Business Day before the day on which the judgment is given and the date of payment of the amount due, such Borrower will, on the date of payment, pay such additional amounts (if any) as may be necessary to ensure that the amount paid on such date is the amount in the Judgment Currency which, when converted at the rate of exchange prevailing on the date of payment, is the amount then due under this Agreement in Dollars. Any additional amount due from such Borrower under this Section 11.17 will be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under or in respect of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered October 23, 1996.

NATIONAL-OILWELL, L.P.

By: NOW OILFIELD SERVICES, INC.
its general partner

By: _____
Title: _____

NATIONAL OILWELL (U.K.) LIMITED

By: _____
Title: _____

Revolving Credit Loan
Commitment:
\$41,517,000
Term Loan C
Commitment:
\$1,977,000

GENERAL ELECTRIC CAPITAL
CORPORATION,
as Administrative Agent and Lender

By: _____
Title: _____

Revolving Credit Loan
Commitment:
\$17,493,000
Term Loan C
Commitment:
\$833,000

THE BANK OF NEW YORK COMMERCIAL
CORPORATION

By: _____
Title: _____

Revolving Credit Loan
Commitment:
\$20,002,500
Term Loan C
Commitment:
\$952,500

BTM CAPITAL CORPORATION

By: -----
Title: -----

Revolving Credit Loan
Commitment:
\$8,494,500
Term Loan C
Commitment:
\$404,500

THE MITSUBISHI TRUST AND BANKING
CORPORATION

By: -----
Title: -----

Revolving Credit Loan
Commitment:
\$17,493,000
Term Loan C
Commitment:
\$833,000

SANWA BUSINESS CREDIT CORPORATION

By: -----
Title: -----

SCHEDULE A
to
CREDIT AGREEMENT

DEFINITIONS

Capitalized terms used in the Agreement shall have (unless otherwise provided elsewhere in the Agreement) the following respective meanings and all section references in the following definitions shall refer to Sections of the Agreement:

"Account Debtor" shall mean any Person who may become obligated under, with respect to, or on account of, an Account.

"Accounts" shall mean, as to any Person, all "accounts," as such term is defined in the Code, now owned or hereafter acquired by such Person and, in any event, including (a) all accounts receivable, other receivables, book debts and other forms of obligations (other than forms of obligations evidenced by chattel paper, documents or instruments) now owned or hereafter received or acquired by or belonging or owing to such Person, whether arising out of goods sold or services rendered by it or from any other transaction (including any such obligations which may be characterized as an account or contract right under the Code), (b) all of such Person's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services, (c) all of such Person's rights to any goods represented by any of the foregoing (including unpaid sellers' rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), (d) all monies due or to become due to such Person, under all purchase orders and contracts for the sale of goods or the performance of services or both by such Person or in connection with any other transaction (whether or not yet earned by performance on the part of such Person, as appropriate) now or hereafter in existence, including the right to receive the proceeds of said purchase orders and contracts, and (e) all collateral security and guarantees of any kind, now or hereafter in existence, given by any Person with respect to any of the foregoing.

"Acquired Companies" shall mean, collectively, Australia, Singapore and National-Oilwell and its Subsidiaries.

"Acquisition" shall mean the acquisition by US Borrower of all of the issued and outstanding Partnership Interests and Purchased Stock pursuant to the Purchase Agreement.

"Acquisition Documents" shall mean the Purchase Agreement, the Sellers' Notes, the Shareholders Agreement and all other documents, agreements and certificates executed in connection therewith excluding, however, all Loan Documents.

"Administrative Agent" shall mean GE Capital in its capacity as administrative agent and not in its individual capacity, or its successor appointed pursuant to Section 9.2.

"Affiliate" shall mean, with respect to any Person, (i) each Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary, five percent (5%) or more of any class of the Stock or other equity interests of such Person or possesses, directly or indirectly, the power to direct or cause the direction of the management of such Person, whether through ownership of Stock or other equity interests, by contract or otherwise, (ii) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (iii) each of such Person's employees, officers, directors, joint venturers and partners. For the purposes of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise; provided that, when used in reference to US Borrower or any Subsidiary, the term "Affiliate" shall specifically exclude Administrative Agent, Documentation Agent and each Lender.

"Agreement" shall mean the Amended and Restated Credit Agreement by and among Borrowers, GE Capital, as Administrative Agent and Lender, and the other Lenders signatory from time to time to the Agreement, dated as of October 23, 1996, and shall include all restatements and modifications thereof and amendments and supplements thereto from time to time and any appendices, exhibits or schedules to any of the foregoing, and shall refer to the Agreement as the same may be in effect at any and all times such reference becomes operative.

"Amended Revolving Credit Note" shall have the meaning assigned thereto in Section 1.1(a)(ii) and shall be substantially in the form of Exhibit A.

"Amended Term C Note" shall have the meaning assigned thereto in Section 1.1(b) and shall be substantially in the form of Exhibit B.

"Applicable Index Margin" shall mean the per annum interest rate margin from time to time in effect and payable in addition to the Index Rate, as determined by reference to Section 1.5(a).

"Applicable L/C Margin" shall mean the per annum fee, from time to time in effect, payable with respect to outstanding Letter of Credit Obligations as determined by reference to Section 1.5(a).

"Applicable LIBOR Margin" shall mean the per annum interest rate from time to time in effect and payable in addition to the LIBOR Rate, as determined by reference to Section 1.5(a).

"Applicable Line Margin" shall mean the per annum fee, from time to time in effect, payable with respect to the unused portion of the total Revolving Credit Commitment as determined by reference to Section 1.5(a).

"Applicable Margins" shall mean collectively the Applicable L/C Margin, the Applicable Line Margin, the Applicable Index Margin, and the Applicable LIBOR Margin.

"Asset Sale Program" shall mean the planned sale by US Borrower of the assets listed on Schedule 6.8 subject to the terms and conditions set forth in Schedule 6.8, which terms and conditions shall be satisfactory to Administrative Agent.

"Australia" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Borrowers" shall mean UK Borrower and US Borrower, collectively.

"Borrower Representative" shall mean National-Oilwell, L.P. in its capacity as Borrower Representative pursuant to the provisions of subsection 1.1(c).

"Borrowing Availability" shall have the meaning assigned thereto in subsection 1.1(a).

"Borrowing Base" shall mean, as of any date of determination by Administrative Agent, in its reasonable discretion from time to time, an amount equal to the sum at such time of:

(a) eighty-five percent (85%) of US Borrower's Eligible Accounts, less reserves established by Administrative Agent from time to time in accordance with the Agreement; plus

(b) sixty percent (60%) of the book value of US Borrower's Eligible Inventory valued on a first-in, first-out basis (at the lower of cost or market), less reserves established by Administrative Agent from time to time in accordance with the Agreement; plus

(c) the lesser of \$5,000,000 or fifty percent (50%) of the book value of Eligible On-Lease Inventory; plus

(d) the lesser of \$15,000,000 or the sum of:

(i) 80% of the orderly liquidation value of Eligible Equipment owned as of the Closing Date based upon appraisals provided to Administrative Agent pursuant to the Prior Credit Agreement, subject to reserves established by Administrative Agent from time to time in accordance with the Agreement; plus

(ii) 50% of the net book value (not to exceed fair market value) of Eligible Equipment acquired after the Closing Date, including Equipment acquired as part of Permitted Acquisitions, subject to reserves established by Administrative Agent from time to time in accordance with the Agreement; plus

(iii) 50% of the fair market value of Eligible Real Estate owned as of the Closing Date based upon appraisals provided to Administrative Agent

pursuant to the Prior Credit Agreement, subject to reserves established by Administrative Agent from time to time in accordance with the Agreement.

"Borrowing Base Certificate" shall mean a certificate of US Borrower or UK Borrower in form and substance satisfactory to the Administrative Agent.

"Borrowing Notice" shall mean a notice in form and substance satisfactory to Administrative Agent specifying therein (i) the requested date of a Loan, (ii) the amount and type of advance, conversion or continuation, as applicable, (iii) in the case of a Revolving Credit Advance or a Term Loan C advance at the LIBOR Rate, or a conversion into, or continuation of, a LIBOR Loan, the duration of the LIBOR Period applicable thereto, and (iv) such other information as may be required by Administrative Agent.

"Business Day" shall mean (a) any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of Illinois or the State of New York, and (b) with respect to all notices, determinations, fundings and payments in connection with the LIBOR Rate or LIBOR Loans, any day that is a Business Day pursuant to clause (a) above and that is also a day on which banks in the city of London are generally open for interbank or foreign exchange transactions.

"Capital Expenditures" shall mean expenditures (whether paid in cash or property or accrued as liabilities and including the principal portion of payments under Capital Leases, installment purchase agreements and other similar purchase money financing arrangements) for any fixed assets or improvements or for replacements, substitutions or additions thereto, that have a useful life of more than one year and that are required to be capitalized under GAAP, excluding expenditures of insurance proceeds in accordance with the terms of this Agreement to rebuild or replace any asset after a casualty loss.

"Capital Lease" shall mean, with respect to any Person, any lease of any property (whether real, personal or mixed) by such Person as lessee that, in accordance with GAAP, either would be required to be classified and accounted for as a capital lease on a balance sheet of such Person or otherwise be disclosed as such in a note to such balance sheet, other than any such lease under which such Person is the lessor.

"Capital Lease Obligation" shall mean, with respect to any Capital Lease, the amount of the obligation of the lessee thereunder that, in accordance with GAAP, would appear on a balance sheet of such lessee in respect of such Capital Lease or otherwise be disclosed in a note to such balance sheet.

"Certificate of Exemption" shall have the meaning assigned thereto in subsection 1.16(e).

"Change of Control" shall mean (i) relative to the Partners, the failure of Holdings at all times to own, beneficially and of record, with full voting and economic rights associated with

ownership of 100% of the issued and outstanding Voting Stock of all classes of the Partners, (ii) relative to US Borrower, the failure of the Partners at all times to own 100% of the partnership interests of US Borrower and the economic benefits associated therewith, (iii) relative to Holdings, any Person or group of Persons (within the meaning of the Securities and Exchange Act of 1934, as amended (the "Exchange Act")) other than DPI and/or First Reserve shall have acquired beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the issued and outstanding Stock of Holdings.

"Charges" shall mean, as to any Person, all federal, state, county, city, municipal, local, foreign or other governmental taxes (including, without limitation, taxes owed to the PBGC at the time due and payable), levies, assessments, charges, liens, claims or encumbrances upon or relating to (i) the Collateral, (ii) the Obligations, (iii) the employees, payroll, income or gross receipts of such Person, (iv) such Person's ownership or use of any properties or other assets, or (v) any other aspect of such Person's business.

"Chattel Paper" shall mean, as to any Person, any "chattel paper," as such term is defined in the Code, now owned or hereafter acquired by such Person, wherever located.

"Closing Date" shall mean the effective date of the Amended and Restated Credit Agreement which shall be any date prior to December 31, 1996 on which the conditions precedent to effectiveness thereof have been met or waived by Administrative Agent.

"Code" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of Administrative Agent's or any Lender's security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "Code" shall mean the Uniform Commercial Code as in effect in such other jurisdiction solely for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

"Collateral" shall mean the property covered by the Security Agreement, the Mortgages and the other Collateral Documents and any other property, real or personal, tangible or intangible, now existing or hereafter acquired, that may at any time be or become subject to a security interest or Lien in favor of Administrative Agent, on behalf of itself and Lenders, to secure the Obligations.

"Collateral Documents" shall mean the Security Agreement, the Guaranty Agreements, the Partner Assignment, the Stock Pledge Agreements, the Mortgages, the Intellectual Property Security Agreements, the Pledge and Security Agreement, and all similar agreements entered into guarantying payment of, or granting a Lien upon property as security for payment of, the Obligations.

"Collateral Reports" shall mean the reports with respect to the Collateral referred to in Schedule H.

"Collection Account" shall mean that certain account of Administrative Agent, account number 50-232-854 in the name of Administrative Agent at Bankers Trust Company in New York, New York.

"Commitment Termination Date" shall mean the earliest of (i) the fifth (5th) anniversary of the Closing Date, (ii) the date of termination of Lenders' obligation to make Revolving Credit Advances and Term Loan C advances pursuant to Section 8.2(b), and (iii) the date of indefeasible prepayment in full by US Borrower and UK Borrower of the Obligations, and the termination of the Revolving Credit Loan Commitment and Term Loan C Commitment.

"Commitments" shall mean (a) as to any Lender, the aggregate commitment of such Lender to make Revolving Credit Advances and Term Loan C advances as set forth on the signature page to the Agreement or in the most recent Lender Addition Agreement executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make Revolving Credit Advances and Term Loan C advances, which aggregate commitment shall be One Hundred Five Million Dollars (\$105,000,000) on the Closing Date as such amount may be adjusted, if at all, from time to time in accordance with the Agreement.

"Concentration Account" shall have the meaning assigned thereto in Schedule E.

"Contracts" shall mean, as to any Person, all "contracts," as such term is defined in the Code, now owned or hereafter acquired by such Person, and, in any event, including all contracts, undertakings, or agreements (other than rights evidenced by Chattel Paper, Documents or Instruments) in or under which such Person may now or hereafter have any right, title or interest, including any agreement relating to the terms of payment or the terms of performance of any Account.

"Copyright License" shall mean, as to any Person, any and all rights now owned or hereafter acquired by such Person under any written agreement granting any right to use any Copyright or Copyright registration.

"Currency Agreement" shall mean, as to any Person, any foreign exchange contract, currency swap agreement, futures contract, option contract, synthetic cap or other similar agreement designed to protect such Person entering into same against fluctuations in currency values.

"Debt Service" shall mean, for any period, an amount equal to the sum of (i) the Interest Charges for such period plus (ii) the scheduled or mandatory payments of any outstanding Indebtedness during such period.

"Debt Service Coverage Ratio" shall mean, for any period, the ratio of EBITDA to Debt Service.

"Default" shall mean any event which, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

"Default Rate" shall have the meaning assigned thereto in subsection 1.5(d).

"Documents" shall mean, as to any Person, any "documents," as such term is defined in the Code, now owned or hereafter acquired by such Person, wherever located.

"DOL" shall mean the United States Department of Labor or any successor thereto.

"Dollars or \$" shall mean lawful currency of the United States of America.

"DPI" shall mean Duff & Phelps/Inverness L.L.C., a Connecticut limited liability company.

"EBIT" shall mean, for any period, Holdings' consolidated net income from operations (before interest and income taxes) all as determined in accordance with GAAP.

"EBITDA" shall mean, for any period, Holdings' consolidated net income from operations (before interest, taxes, depreciation, amortization and management fees paid, and expenses and costs directly incurred, in connection with the Acquisition and the consummation of the transactions contemplated by the Loan Documents), all as determined in accordance with GAAP.

"Eligible Accounts" shall have the meaning assigned thereto (i) in Schedule C-1 with respect to US Borrower and (ii) in Schedule C-2 with respect to UK Borrower.

"Eligible Equipment" shall mean Equipment (i) owned by US Borrower; (ii) located in the United States; (iii) in which Administrative Agent has a first and prior perfected security interest, subject to no other Liens, except Permitted Encumbrances as described in clauses (i) and (v) of the definition of that term; (iv) which is not a Fixture; (v) which, if located at leased premises, is covered by a landlord waiver acceptable to Administrative Agent; (vi) is in good operating condition; and (vii) is at a location where the aggregate fair market value of all Eligible Equipment and Eligible Inventory exceeds \$100,000.

"Eligible Inventory" shall have the meaning assigned thereto (i) in Schedule D-1 with respect to US Borrower and (ii) in Schedule D-2 with respect to UK Borrower.

"Eligible On-Lease Inventory" shall mean Inventory consisting of power swivels, mud pumps or drawworks leased by U.S. Borrower to its customers as to which (i) Administrative Agent shall have a first and prior perfected security interest on the chattel paper constituting the underlying equipment leases, subject to no other Liens or Permitted Encumbrances; (ii) each of the original copies of the leases of such Inventory shall reflect the following legend on the cover page and signature page thereof: "This lease constitutes chattel paper in which National-Oilwell, L.P. has granted a security interest to General Electric Capital Corporation, as agent."; (iii) copies of each of

those leases shall have been provided to Administrative Agent; (iv) the lessee's headquarters and the location at which such leased Inventory is used are in the United States; (v) US Borrower has perfected its interest in such leased Inventory by filing under the Code (which filings designate Administrative Agent as assignee); (vi) US Borrower has obtained casualty insurance in the fair value of such leased Inventory naming US Borrower and Administrative Agent as loss payees; and (vii) the lease payments from time to time owing by the lessee would qualify as Eligible Accounts, if permitted to be included therein.

"Eligible Real Estate" shall mean Real Estate (i) fee simple title to which is held by US Borrower; (ii) located in the United States; (iii) in which Administrative Agent has a first mortgage Lien, subject to no other Liens, except Permitted Encumbrances as described in clauses (i), (v), (viii) and (ix) of the definition of that term; and (iv) as to which all material buildings and improvements are structurally sound and no material casualty event has occurred since the Closing Date which has not been repaired.

"Environmental Laws" shall mean all federal, state, local and foreign laws, statutes, ordinances and regulations, now or hereafter in effect, and in each case as amended or supplemented from time to time, and any applicable judicial or administrative interpretation thereof, including any applicable judicial or administrative order, consent decree or judgment, relative to the applicable real estate, and any permit, license or authorization relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation). Environmental Laws include, but are not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Sections 9601 et seq.) ("CERCLA"); the Hazardous Material Transportation Act, as amended (49 U.S.C. Sections 1801 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. Sections 136 et seq.); the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901 et seq.) ("RCRA"); the Toxic Substance Control Act, as amended (15 U.S.C. Sections 2601 et seq.); the Clean Air Act, as amended (42 U.S.C. Sections 740 et seq.); the Federal Water Pollution Control Act, as amended (33 U.S.C. Sections 1251 et seq.); the Occupational Safety and Health Act, as amended (29 U.S.C. Sections 651 et seq.) ("OSHA"); and the Safe Drinking Water Act, as amended (42 U.S.C. Sections 300(f) et seq.), and any and all regulations promulgated thereunder, and all analogous state, local and foreign counterparts or equivalents and any transfer of ownership notification or approval statutes.

"Environmental Liabilities and Costs" shall mean all liabilities, obligations, responsibilities, remedial actions, removal actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all fees, disbursements and expenses of counsel, experts and consultants and costs of investigation and feasibility studies), fines, penalties, sanctions and interest incurred as a result of any claim, suit, action or demand by any Person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law (including any thereof arising under any Environmental Law, permit, order or agreement with any Governmental Authority) and which relate to the environment, health and safety as regulated under any Environmental Law or in connection with any other environmental matter or

Release, threatened Release or the presence of a Hazardous Material or threatened Release of a Hazardous Material.

"Equipment" shall mean, as to any Person, all "equipment," as such term is defined in the Code, now owned or hereafter acquired by such Person, wherever located and, in any event, including all of such Person's machinery and equipment, including processing equipment, conveyors, machine tools, data processing and computer equipment with software and peripheral equipment (other than software constituting part of the Accounts), and all engineering, processing and manufacturing equipment, office machinery, furniture, materials handling equipment, tools, attachments, accessories, automotive equipment, trailers, trucks, forklifts, molds, dies, stamps, motor vehicles, rolling stock and other equipment of every kind and nature, trade fixtures and fixtures not forming a part of real property, all whether now owned or hereafter acquired, and wherever situated, together with all additions and accessions thereto, replacements therefor, all parts therefor, all substitutes for any of the foregoing, fuel therefor, and all manuals, drawings, instructions, warranties and rights with respect thereto, and all products and proceeds thereof and condemnation awards and insurance proceeds with respect thereto.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time, and any regulations promulgated thereunder.

"ERISA Affiliate" shall mean, with respect to any plan subject to Section 412 of the IRC or any obligation arising under Section 4980B of the IRC, any trade or business (whether or not incorporated) under common control with any Borrower or any Subsidiary thereof, and which, together with such Borrower or such Subsidiary, are treated as a single employer within the meaning of Sections 414(b), (c), (m) or (o) of the IRC and with respect to any plan subject to Title IV of ERISA, any trade or business (whether or not incorporated) under common control with any Borrower or any Subsidiary, and which, together with such Borrower or such Subsidiary is required to be aggregated under Section 4001 of ERISA.

"ERISA Event" shall mean, with respect to any of the Borrowers, any Subsidiary or any ERISA Affiliate, (i) a Reportable Event with respect to a Title IV Plan or a Multiemployer Plan; (ii) the withdrawal of any Borrower or any Subsidiary or ERISA Affiliate thereof from a Title IV Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (iii) the complete or partial withdrawal of any Borrower, or any Subsidiary or ERISA Affiliate thereof from any Multiemployer Plan; (iv) the filing of a notice of intent to terminate a Title IV Plan or the treatment of a plan amendment as a termination under Section 4041 of ERISA; (v) the institution of proceedings to terminate a Title IV Plan or Multiemployer Plan by the PBGC; (vi) the failure to make required contributions to a Qualified Plan; or (vii) any other event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Title IV Plan or Multiemployer Plan or the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA.

"Event of Default" shall have the meaning assigned thereto in Section 8.1.

"Federal Reserve Board" shall have the meaning assigned thereto in Section 3.11.

"Fees" shall mean any and all fees payable to Administrative Agent or any Lender pursuant to the Agreement or any of the other Loan Documents.

"Financial Statements" shall have the meaning assigned thereto in Section 3.4.

"First Reserve" shall mean First Reserve Corporation, a Delaware corporation.

"Fiscal Month" shall mean any of the monthly accounting periods of Holdings.

"Fiscal Quarter" shall mean any of the quarterly accounting periods of Holdings.

"Fiscal Year" shall mean, as to any Person, any of the annual accounting periods of such Person ending on December 31 of each year.

"Fixtures" shall mean, as to any Person, any "fixtures" as such term is defined in the Code, now owned or hereafter acquired by such Person.

"Foreign Lender" shall have the meaning assigned thereto in Section 1.16(e).

"Funded Debt" shall mean, with respect to Holdings and its Subsidiaries, on a consolidated and consolidating basis, all of its Indebtedness which by the terms of the agreement governing or instrument evidencing such Indebtedness matures more than one year from, or is directly or indirectly renewable or extendible at its option under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of more than one year from the date of creation thereof, including current maturities of long-term debt, revolving credit and short-term debt extendible beyond one year at the option of the debtor, and shall also include, without limitation, the Revolving Credit Loan, Term Loan C and the other Obligations.

"Funded Debt/EBIT Ratio" shall mean, as of the last day of any Fiscal Quarter, the ratio of Funded Debt as of such date to EBIT for the four Fiscal Quarters ending on such date.

"Funding Arrangements" shall have the meaning assigned thereto in Section 1.13(c).

"Funding Date" shall mean January 17, 1996, which is the date on which the initial Revolving Credit Advances and Loans were made under the Prior Credit Agreement.

"GAAP" shall mean (a) with respect to US Borrower, generally accepted accounting principles in the United States of America as in effect on the Closing Date, consistently applied and (b) with respect to UK Borrower, generally accepted accounting principles in the United Kingdom as in effect on the Closing Date, consistently applied (subject, in each case, to Accounting Changes

agreed to in accordance with the provisions set forth in the first paragraph under the heading "Other Definitional Provisions" in this Schedule A).

"GE Capital" shall mean General Electric Capital Corporation, a New York corporation, in its individual capacity and not as Administrative Agent hereunder.

"GE Capital Fee Letter" shall mean that certain fee letter between GE Capital and US Borrower dated October 1, 1996.

"General Intangibles" shall mean, as to any Person, any "general intangibles," as such term is defined in the Code, now owned or hereafter acquired by such Person, and, in any event, including, without limitation, all right, title and interest which such Person may now or hereafter have in or under any Contract, all customer lists, Copyrights, Trademarks, Patents, service marks, trade names, business names, corporate names, trade styles, logos and other source or business identifiers, and all applications therefor and reissues, extensions or renewals thereof, rights in intellectual property, interests in partnerships, joint ventures and other business associations, licenses, permits, copyrights, trade secrets, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials and records, goodwill (including the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark license), all rights and claims in or under insurance policies (including insurance for fire, damage, loss and casualty, whether covering personal property, real property, tangible rights or intangible rights, all liability, life, key man and business interruption insurance, and all unearned premiums), uncertificated securities, choses in action, deposit, checking and other bank accounts, rights to receive tax refunds and other payments and rights of indemnification.

"General Partner" shall mean NOW Oilfield Services, Inc. f/k/a National-Oilwell, Inc., a Delaware corporation, in its capacity as the general partner of US Borrower, and its successors and assigns.

"Goods" shall mean, as to any Person, all "goods" as such term is defined in the Code, now owned or hereafter acquired by such Person, wherever located.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantors" shall mean Holdings, US Borrower, each Partner, NOW International, and each other Person, if any, which executes a Guaranty in favor of Administrative Agent, for the benefit of the Lenders, in connection with the transactions contemplated by the Agreement and the other Loan Documents.

"Guaranty" shall mean, as to any Person, any obligation of such Person guaranteeing any indebtedness, lease, dividend, or other obligation ("primary obligations") of any other Person (the "primary obligor") in any manner, including any obligation or arrangement of such Person (i) to purchase or repurchase any such primary obligation, (ii) to advance or supply funds (a) for the purchase or payment of any such primary obligation or (b) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) to indemnify the owner of such primary obligation against loss in respect thereof. The amount of any Guaranty at any time shall be deemed to be an amount equal to the lesser at such time of (y) the stated or determinable amount of the primary obligation in respect of which such Guaranty is made or (z) the maximum amount for which such Person may be liable pursuant to the terms of the instrument embodying such Guaranty; or, if not stated or determinable, the maximum reasonably anticipated liability (assuming full performance) in respect thereof.

"Guaranty Agreements" shall mean the Holdings Senior Guaranty, the Holdings Subordinated UK Guaranty, the US Borrower Subordinated UK Guaranty, the NOW Guaranty, the National Guaranty, the NOW International Senior Guaranty, the NOW International Subordinated UK Guaranty and any other guaranty or support agreement or similar agreement made in favor of Administrative Agent, for the benefit of Lenders, in form and substance satisfactory to Administrative Agent, together with all amendments, modifications and supplements thereto consented to in writing by Administrative Agent (subject to Section 11.2(b) of the Agreement), and shall refer to any such Guaranty as the same may be in effect at the time such reference becomes operative.

"Hazardous Material" shall mean any substance, material or waste, the generation, handling, storage, treatment or disposal of which is regulated by or forms the basis of liability now or hereafter under, any Environmental Law in any jurisdiction in which any Borrower or any Subsidiary has owned, leased, or operated real property or disposed of hazardous waste or currently owns, leases or operates real property or disposes of hazardous waste including, without limitation, any material or substance which is (i) defined as a "solid waste," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste" or "restricted hazardous waste" or other similar term or phrase under any Environmental Laws, (ii) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB's), any radioactive substance emitting radiation in excess of prevailing background conditions, methane, volatile organic compounds or any industrial solvent, (iii) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Sections 1251 et seq. (33 U.S.C. Sections 1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. Section 1317), (iv) defined as a "hazardous waste" pursuant to Section 1004 of the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq. (42 U.S.C. Section 6903), or (v) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601).

"Holdings" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Holdings Senior Guaranty" shall mean the Guaranty dated as of the Funding Date executed by Holdings in favor of Administrative Agent, on behalf of itself and Lenders, guarantying the Obligations of US Borrower, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"Holdings Senior Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by Holdings in favor of Administrative Agent, on behalf of itself and Lenders, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"Holdings Subordinated Acquisition Guaranty" shall mean the Guaranty dated as of the Funding Date executed by Holdings in favor of Sellers, guarantying the obligations of US Borrower under the Sellers' Notes, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing.

"Holdings Subordinated Canada Guaranty" shall mean the Guaranty dated as of the Funding Date executed by Holdings in favor of General Electric Capital Canada Inc., on behalf of itself and the lenders party to the NOW Canada Credit Agreement, guarantying the obligations of NOW Canada under the NOW Canada Credit Agreement, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing.

"Holdings Subordinated Canada Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by Holdings in favor of General Electric Capital Canada Inc., on behalf of itself and the lenders party to the NOW Canada Credit Agreement, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing.

"Holdings Subordinated UK Guaranty" shall mean the Guaranty dated as of the Funding Date executed by Holdings in favor of Administrative Agent, on behalf of itself and Lenders, guarantying the obligations of UK Borrower, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"Holdings Subordinated UK Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by Holdings in favor of Administrative Agent, on behalf of itself and Lenders, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"Indebtedness" shall mean, as to any Person, without duplication, (i) all obligations of such Person for borrowed money or for the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (ii) reimbursement and all other obligations with respect to letters of credit,

bankers' acceptances and surety bonds, whether or not matured, (iii) all obligations evidenced by notes, bonds, debentures or similar instruments, (iv) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (v) all Capital Lease Obligations, (vi) all obligations of such Person under Interest Rate Agreements, Currency Agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging arrangements, (vii) all Indebtedness referred to in clause (i), (ii), (iii), (iv), (v) or (vi) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property or other assets (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, and (viii) the Obligations.

"Indemnified Liabilities" shall have the meaning assigned thereto in subsection 1.13(a).

"Index Rate" shall mean, for any day, a fluctuating rate equal to the higher of (i) the highest of the most recently published or announced prime, corporate base, reference or similar benchmark rate announced by the five largest member banks of the New York Clearing House Association, or (ii) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as most recently published by the Federal Reserve Bank of New York plus one half of one percent (0.5%) per annum.

"Index Rate Loan" shall mean a Revolving Credit Advance and/or portion of Term Loan C bearing interest by reference to the Index Rate.

"Instruments" shall mean, as to any Person, any "instrument," as such term is defined in the Code, now owned or hereafter acquired by such Person, wherever located, and, in any event, including all certificated securities, all certificates of deposit, and all notes and other, without limitation, evidences of indebtedness, other than instruments that constitute, or are a part of a group of writings that constitute, Chattel Paper.

"Intellectual Property Security Agreements" shall mean, collectively, the Patent Security Agreement and the Trademark Security Agreement.

"Interest Charges" shall mean, for any period, the aggregate of all interest paid in cash by Holdings and its Subsidiaries on a consolidated basis including the interest portion of any Capital Lease Obligation and all Non-use Fees and Letter of Credit fees and expenses payable pursuant to Schedule B but excluding interest on any intercompany Indebtedness permitted by Section 6.22, all as determined in accordance with GAAP for the relevant period.

"Interest Coverage Ratio" shall mean, for any period, the ratio of EBITDA to Interest Charges.

"Interest Payment Date" shall mean (a) as to any Index Rate Loan, the first Business Day of each month to occur while such Loan is outstanding, and (b) as to any LIBOR Loan, the last day of the LIBOR Period applicable thereto and, in the case of a LIBOR Period of six months, on the last day of each three-month interval during such LIBOR Period; provided that, in addition to the foregoing, each of (x) the date upon which both the Commitments have been terminated and the Loans have been paid in full; and (y) the Commitment Termination Date shall be deemed to be an "Interest Payment Date" with respect to any interest which is then accrued hereunder.

"Interest Rate Agreement" shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate futures contract, interest rate option contract or other similar agreement or arrangement to which any Borrower is a party, designed to protect such Borrower against fluctuations in interest rates.

"Inventory" shall mean, as to any Person, any "inventory," as such term is defined in the Code, now or hereafter owned or acquired by, such Person, wherever located, and, in any event, including inventory, merchandise, goods and other personal property which are held by or on behalf of such Person, for sale or lease or are furnished or are to be furnished under a contract of service or which constitute raw materials, work in process or materials used or consumed or to be used or consumed in such Person's business or in the processing, production, packaging, promotion, delivery or shipping of the same, including other supplies.

"Investments" shall mean, as to any Person, any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than Investments consisting of accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the Stock, notes, debentures or other securities of any other Person made by such Person.

"IPO" means an initial public offering of common stock on Form S-1 by Holdings pursuant to a firm commitment underwriting by nationally recognized underwriters pursuant to which Holdings shall receive at least \$45 million of Net Proceeds.

"IRC" shall mean the Internal Revenue Code of 1986, as amended, and any successor thereto.

"IRS" shall mean the Internal Revenue Service, or any successor thereto.

"L/C Issuer" shall have the meaning assigned thereto in Schedule B.

"Leases" shall mean all leasehold estates in Real Estate now owned or hereafter acquired by either Borrower or any Subsidiary thereof, as lessee.

"Lender Addition Agreement" shall mean an agreement in form and substance satisfactory to, and acknowledged by, Administrative Agent, whereby a portion of the Revolving

Credit Loan Commitment or Term Loan C Commitment is assigned to a Lender after the Closing Date.

"Lenders" shall mean GE Capital, the other Lenders named on the signature pages of the Agreement, and, if any such Lender shall assign all or any portion of the Obligations in accordance with the terms of the Agreement, such term shall include such assignee.

"Letter of Credit Obligations" shall mean all outstanding obligations incurred by Administrative Agent and Lenders at the request of US Borrower, whether direct or indirect, contingent or otherwise, due or not due, in connection with the issuance of a reimbursement agreement or a guaranty by Administrative Agent and Lenders with respect to or of Letters of Credit issued by the L/C Issuers. The amount of such Letter of Credit Obligations shall equal the maximum amount which may be payable by Administrative Agent or another Lender thereupon or pursuant thereto.

"Letters of Credit" shall mean commercial or standby letters of credit issued at the request and for the account of US Borrower, and bankers' acceptances issued by US Borrower, for which Administrative Agent or another Lender has incurred Letter of Credit Obligations pursuant hereto.

"LIBOR Lending Office" shall mean, as to any Lender, the first office of such Lender specified as its "LIBOR Lending Office" opposite its name on Schedule J or on the signature page of the applicable Lender Addition Agreement (or, if no such office is specified, its domestic lending office) or such other office of such Lender as such Lender may from time to time specify to Borrowers and the Administrative Agent.

"LIBOR Loan" shall mean a Loan bearing interest by reference to the LIBOR Rate.

"LIBOR Period" shall mean, as to any LIBOR Loan, each period commencing on a Business Day selected by either Borrower pursuant to this Agreement and ending one, two, three or six months thereafter, as selected by such Borrower's irrevocable Borrowing Notice to Administrative Agent as set forth in subsection 1.5(e); provided that the foregoing provision relating to LIBOR Periods is subject to the following:

(1) if any LIBOR Period pertaining to a LIBOR Loan would otherwise end on a day that is not a Business Day, such LIBOR Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such LIBOR Period into another calendar month in which event such LIBOR Period shall end on the immediately preceding Business Day;

(2) any LIBOR Period that would otherwise extend beyond the Commitment Termination Date with respect to the Revolving Credit Loan or the date of the last scheduled principal installment payment date of Term Loan C shall end two (2) Business Days prior to such date;

(3) any LIBOR Period pertaining to a LIBOR Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such LIBOR Period) shall end on the last Business Day of a calendar month;

(4) Such Borrower shall select LIBOR Periods so as not to require a payment or prepayment of any LIBOR Loan during a LIBOR Period for such Loan; and

(5) Such Borrower shall select LIBOR Periods so that there shall be no more than five (5) separate LIBOR Loans in existence at any one time.

"LIBOR Rate" shall mean for each LIBOR Loan for the relevant LIBOR Period, a rate of interest determined by Administrative Agent equal to:

(a) the offered rate for deposits in United States Dollars which appears on Telerate Page 3750 as of 11:00 a.m., London time, on the second full Business Day next preceding the first day of each LIBOR Period (unless such date is not a Business Day, in which event the next succeeding Business Day will be used) for the applicable LIBOR Period and in an amount approximately equal to the amount of the LIBOR Loan; divided by

(b) a number equal to 1.0 minus the aggregate (but without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on the day which is two (2) Business Days prior to the beginning of such LIBOR Period (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve system or other governmental authority having jurisdiction with respect thereto, as now and from time to time in effect) for Eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of such Board), which are required to be maintained by a member bank of the Federal Reserve System.

If such interest rates shall cease to be available from Telerate News Service, the LIBOR Rate shall be determined from such financial reporting service or other information as shall be mutually acceptable to Administrative Agent and Borrowers.

"License" shall mean, as to any Person, any Copyright License, Patent License, Trademark License or other license of rights or interests now held or hereafter acquired by such Person.

"Lien" shall mean any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the Code or comparable law of any jurisdiction).

"Limited Partner" shall mean Natoil, Inc. (f/k/a NOW, Inc. and National-Oilwell, Inc.), a Delaware corporation in its capacity as the limited partner of US Borrower, and its successors and assigns.

"Loan Account" shall have the meaning assigned thereto in Section 1.12.

"Loan Documents" shall mean the Agreement, the Amended Revolving Credit Notes, the Amended Term C Note, the Security Agreements, the Mortgages, the other Collateral Documents, all other agreements, instruments, documents and certificates identified in the Schedule of Documents in favor of Administrative Agent and/or Lenders all other pledges, powers of attorney, consents, assignments, contracts, notices, and all other agreements, instruments, documents, certificates and other written matter whether heretofore executed in connection with the Prior Credit Agreement, now or hereafter executed by or on behalf of any Borrower or any of its Affiliates, or any employee of any Borrower, or any of its Affiliates, and delivered to Administrative Agent or any Lender in connection with the Agreement or the transactions contemplated hereby, in each case as the same may have been heretofore or may hereafter be amended, modified or supplemented from time to time.

"Loans" shall mean the Revolving Credit Loan and Term Loan C.

"Lock Box Account" shall have the meaning assigned thereto on Schedule E.

"Margin Stock" shall have the meaning assigned thereto in Section 3.12.

"Material Adverse Effect" shall mean a material adverse effect on (i) the business, properties, assets, operations, prospects or financial or other condition of Holdings and its Subsidiaries considered as a whole, (ii) the industry in which Holdings or any of its Subsidiaries operates, (iii) Borrowers' ability to perform their Obligations under the Loan Documents, (iv) the Collateral or Administrative Agent's Liens, on behalf of itself and Lenders, on the Collateral or the priority of any such Lien, or (v) Administrative Agent's or any Lender's rights and remedies under the Agreement and the other Loan Documents. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event does not of itself have such effect, a Material Adverse Effect shall be deemed to have occurred if the cumulative effect of such event and all other then existing events would result in a Material Adverse Effect.

"Material Subsidiaries" shall mean, collectively, NOW Canada, UK Borrower, Australia, Singapore, Venezuela and NOW International.

"Maximum Lawful Rate" shall have the meaning assigned to it in subsection 1.5(g).

"Maximum Revolving Credit Loan" shall mean, at any particular time, an amount equal to the Revolving Credit Loan Commitment of all Lenders.

"Mortgages" shall mean each of the mortgages, deeds of trust, leasehold mortgages, leasehold deeds of trust, collateral assignments of leases or other real estate security documents delivered by Borrowers to Administrative Agent, with respect to the Mortgaged Properties, all in form and substance satisfactory to Administrative Agent.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA, and to which any Borrower, or any Subsidiaries or any ERISA Affiliate is making, is obligated to make, has made or been obligated to make, contributions on behalf of participants who are or were employed by any of them.

"National Guaranty" shall mean the Guaranty dated as of the Funding Date executed by the General Partner in favor of Administrative Agent, on behalf of itself and Lenders, guarantying the Obligations of US Borrower, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"National-Oilwell" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Net Proceeds" shall mean (a) with respect to any asset disposition permitted by subsections 6.8(ii), (iii) or (iv) ("Asset Disposition"), the sum of cash or readily marketable cash equivalents received (including by way of a cash generating sale or discounting of a note or receivable, but excluding any other consideration received in the form of assumption by the acquiring Person of debt or other obligations relating to the assets so disposed of or received in any other non-cash form) therefrom, whether at the time of such disposition or subsequent thereto, or (b) with respect to any sale or issuance of any Stock of Holdings or any of its Subsidiaries after the Funding Date, cash or readily marketable cash equivalents received (but excluding any other non-cash form) therefrom, whether at the time of such disposition or subsequent thereto, net, in either case, of all legal, title and recording tax expenses, underwriting discounts, commissions and other reasonable fees, costs and expenses incurred and all federal, state, local and other taxes required to be accrued as a liability as a consequence of such transactions and, in the case of an Asset Disposition, net of all payments made on any Indebtedness which is secured by such assets pursuant to a permitted Lien upon or with respect to such assets or which must by the terms of such Lien, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition.

"Net Worth" shall mean the book value of the assets of Holdings and its Subsidiaries on a consolidated basis (inclusive of goodwill, patents, trademarks, tradenames, copyrights, organization expenses, treasury stock, debt discount and expense, deferred charges and other like intangibles), minus (i) reserves applicable thereto, and (ii) all liabilities of Holdings and its Subsidiaries on a consolidated basis (including accrued and deferred income taxes), all as determined in accordance with GAAP, but excluding Net Proceeds of the IPO and extraordinary items incurred as of the Closing Date..

"Non-Use Fee" shall have the meaning assigned to it in Section 1.8(b).

"Notes" shall mean, collectively, the Amended Revolving Credit Notes and the Amended Term C Note.

"Notice of Revolving Credit Advance" shall have the meaning assigned thereto in Section 1.1.

"NOW Canada" shall mean National-Oilwell Canada Ltd., a British Columbia corporation.

"NOW Canada Credit Agreement" shall mean that certain Credit Agreement dated as of the Funding Date between General Electric Capital Canada Inc. and NOW Canada, as the same may be amended, restated, modified or otherwise supplemented from time to time in accordance with the terms thereof and the terms of the Agreement.

"NOW Guaranty" shall mean the Guaranty dated as of the Funding Date executed by the Limited Partner in favor of Administrative Agent, on behalf of itself and Lenders, guarantying the Obligations of US Borrower, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"NOW International" shall mean NOW International, Inc., a Delaware corporation.

"NOW International Senior Guaranty" shall mean the Guaranty dated as of the Funding Date executed by NOW International in favor of Administrative Agent, on behalf of itself and Lenders, guarantying the Obligations of US Borrower, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"NOW International Senior Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by NOW International in favor of Administrative Agent, on behalf of itself and Lenders, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"NOW International Senior (Australia) Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by NOW International in favor of Administrative Agent, on behalf of itself and Lenders, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"NOW International Subordinated Canada Guaranty" shall mean the Guaranty dated as of the Funding Date executed by NOW International in favor of General Electric Capital Canada Inc., on behalf of itself and the lenders party to the NOW Canada Credit Agreement, guarantying the Obligations of NOW Canada under the NOW Canada Credit Agreement, together with all amendments, modification and supplements thereto consented to by Administrative Agent in writing.

"NOW International Subordinated Canada Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by NOW International in favor of General Electric Capital Canada Inc., on behalf of itself and the lenders party to the NOW Canada Credit Agreement, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing.

"NOW International Subordinated (Australia) Canada Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by NOW International in favor of General Electric Capital Canada Inc., on behalf of itself and the lenders party to the NOW Canada Credit Agreement, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing.

"NOW International Subordinated UK Guaranty" shall mean the Guaranty dated as of the Funding Date executed by NOW International in favor of Administrative Agent, on behalf of itself and Lenders, guarantying the Obligations of UK Borrower, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2).

"NOW International Subordinated UK Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by NOW International in favor of Administrative Agent, on behalf of itself and Lenders, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"NOW International Subordinated (Australia) UK Stock Pledge Agreement" shall mean the stock pledge agreement dated as of the Funding Date executed by NOW International in favor of Administrative Agent, on behalf of itself and Lenders, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"Obligations" shall mean all loans, advances, debts, liabilities and obligations (including any obligations to cash collateralize Letter of Credit Obligations), for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or amounts are liquidated or determinable) owing by either Borrower or any Subsidiary thereof to Administrative Agent or any Lender, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, arising under the Prior Credit Agreement, the Agreement or any of the other Loan Documents. This term includes all principal, interest (including, without limitation, all interest which accrues after the commencement of any case or proceeds in bankruptcy after the insolvency of, or for the reorganization of, either Borrower or any Subsidiary thereof, whether or not allowed in such proceeding), Letter of Credit Obligations, Fees, Charges, expenses, indemnification obligations, attorneys' fees and any other sum chargeable to any Borrower or Subsidiary thereof under the Agreement or any of the other Loan Documents.

"Other Taxes" shall have the meaning assigned thereto in Section 1.15.

"Partner Assignment" shall mean that certain Collateral Assignment of Partnership Interests dated as of the Funding Date entered into by Administrative Agent, on behalf of itself and Lenders, and the Partners, including all amendments, restatements, modifications and supplements thereto.

"Partners" shall mean, collectively, the General Partner and the Limited Partner.

"Partnership Agreement" shall mean that certain Amended and Restated Partnership Agreement, dated the Funding Date, among the Partners, as the same may hereafter be amended, modified or supplemented from time to time in accordance with the terms of the Agreement.

"Partnership Interests" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Patent License" shall mean, as to any Person, rights under any written agreement now owned or hereafter acquired by such Person granting any right with respect to any invention on which a Patent is in existence.

"Patent Security Agreement" shall mean that certain Patent Security Agreement dated as of the Funding Date entered into by Administrative Agent, on behalf of itself and Lenders, and U.S. Borrower, including all amendments, restatements, modifications and supplements thereto.

"Patents" shall mean, as to any Person, all of the following in which such Person now holds or hereafter acquires any interest: (i) all letters patent of the United States or any other country, all registrations and recordings thereof, and all applications for letters patent of the United States or any other country, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state or territory thereof, or any other country, and (ii) all reissues, continuations, continuations-in-part or extensions thereof.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any successor thereto.

"Pension Plan" shall mean an employee pension benefit plan, as defined in Section 3(2) of ERISA (other than a Multiemployer Plan), which is not an individual account plan, as defined in Section 3(34) of ERISA, and which either of the Borrowers or any Subsidiary thereof or, if a Title IV Plan, any ERISA Affiliate maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Permitted Acquisitions" shall have the meaning ascribed thereto in Section 6.1.

"Permitted Encumbrances" shall mean the following encumbrances:

(i) Liens for taxes or assessments or other governmental Charges or levies, not yet due and payable; (ii) pledges or deposits securing obligations under workmen's compensation, unemployment insurance, social security or public liability laws or similar legislation; (iii) pledges or deposits securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which any Borrower or any Subsidiary is a party as lessee made in the ordinary course of business; (iv) deposits securing statutory obligations of any Borrower or any Subsidiary; (v) inchoate and unperfected workers', mechanics', suppliers' or similar liens arising in the ordinary course of business; (vi) carriers', warehousemen's or other similar possessory liens arising in the ordinary course of business of any Borrower or the applicable Subsidiary and securing liabilities (which are not overdue) in an outstanding aggregate amount not in excess of \$25,000 at any time; (vii) deposits securing, or in lieu of, surety, appeal or customs bonds in proceedings to which any Borrower or any Subsidiary is a party; (viii) any attachment or judgment lien, unless the judgment it secures shall not, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 30 days after the expiration of any such stay; and (ix) zoning restrictions, easements, licenses, or other restrictions on the use of real property or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value, or marketability of such real property, lease or leasehold estate.

"Person" shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, other entity or government (whether federal, state, county, city, municipal, local, foreign, or otherwise, including any instrumentality, division, agency, body or department thereof).

"Plan" shall mean, with respect to any Borrower or any Subsidiary or ERISA Affiliate thereof at any time, an employee benefit plan, as defined in Section 3(3) of ERISA, which any Borrower or any Subsidiary thereof maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Pledge and Security Agreement" shall mean that certain Pledge and Security Agreement dated as of the Funding Date entered into between Administrative Agent, on behalf of itself and Lenders, and the Partners, including all amendments, restatements, modifications and supplements thereto (subject to Section 11.2(b)).

"Prior Credit Agreement" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Pro Forma" shall mean the unaudited consolidated balance sheet of Holdings and its Subsidiaries and the balance sheets of US Borrower, UK Borrower and NOW Canada, each as of September 30, 1996 after giving effect to the IPO, and the payment of the Subordinated Loan, Term Loan A and Term Loan B, as such terms are defined in the Prior Credit Agreement.

"Proceeds" shall mean, as to any Person, "proceeds," as such term is defined in the Code and, in any event, shall include (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to such Person from time to time with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due and payable to such Person from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau or agency (or any person acting under color of governmental authority), (iii) any claim of such Person against third parties (a) for past, present or future infringement of any Patent or Patent License, (b) for past, present or future infringement or dilution of any Copyright or Copyright License or (c) for past, present or future infringement or dilution of any Trademark or Trademark License or for injury to the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark License, (iv) any recoveries by such Person against third parties with respect to any litigation or dispute concerning any of the Collateral, and (v) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral, upon disposition or otherwise.

"Projections" shall mean Holdings' forecasted consolidated and consolidating: (a) balance sheets; (b) profit and loss statements; (c) cash flow statements; and (d) capitalization statements, all prepared on a subsidiary by subsidiary or division by division basis, if applicable, and otherwise consistent with the historical financial statements of the Acquired Companies, together with appropriate supporting details and a statement of underlying assumptions.

"Pro Rata Share" shall mean with respect to all matters relating to any Lender (a) with respect to the Revolving Credit Loan, the percentage (to the third decimal point) obtained by dividing (i) the Revolving Credit Loan Commitment of that Lender by (ii) the aggregate Revolving Credit Loan Commitments of all Lenders, and, (b) with respect to Term Loan C, the percentage obtained by dividing (i) the Term Loan C Commitment of that Lender by (ii) the aggregate Term Loan C Commitments of all Lenders, as all such percentages may be adjusted by assignments permitted pursuant to Section 9.1.

"Purchase Agreement" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Purchased Stock" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Qualified Plan" shall mean an employee pension benefit plan, as defined in Section 3(2) of ERISA, which is intended to be tax-qualified under Section 401(a) of the IRC, and which any Borrower or any Subsidiary or ERISA Affiliate thereof maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Real Estate" shall have the meaning assigned to it in Section 3.7.

"Related Transactions" shall mean the IPO, each borrowing under the Revolving Credit Loan and Term Loan C on the Closing Date, the repayment of the Subordinated Loan and Term Loan A and Term Loan B (as such terms are defined in the Prior Credit Agreement), the payment of all fees, costs and expenses associated with all of the foregoing and the execution and delivery of all agreements and documents necessary to consummate all such transactions.

"Release" shall mean, as to any Person, any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Materials in the indoor or outdoor environment by such Person, including the movement of Hazardous Materials through or in the air, soil, surface water, ground water or property.

"Reportable Event" shall mean any of the events described in Section 4043(b)(1),(2),(3),(5),(6),(8) or (9) of ERISA except to the extent the reporting requirements have been waived or are not required.

"Requisite Lenders" shall mean (a) Lenders having more than sixty-six and two-thirds percent (66 2/3%) of the Commitments of all Lenders, or (b) if the Commitments have been terminated, more than sixty-six and two-thirds percent (66 2/3%) of the aggregate outstanding principal amount of the outstanding Loans and Letter of Credit Obligations.

"Restricted Payment" shall mean, as to any Person, (i) the declaration or payment of any dividend or other distribution of cash or other property or assets or the incurrence of any liability to make any payment or distribution of cash or other property or assets in respect of such Person's Stock, (ii) any payment on account of the purchase, prepayment, conversion, exchange, surrender, redemption, defeasance or other retirement of such Person's Stock or any other payment or distribution made in respect thereof, either directly or indirectly, (iii) any payment, loan, contribution, or other transfer of funds or other property to any stockholder, partner or other equity owner or Affiliate of such Person, either directly or indirectly, (iv) any payment made to redeem, purchase, repurchase or retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire Stock of any class of such Person now or hereafter outstanding, either directly or indirectly, and (v) any payment or prepayment of principal or premium, if any, or interest on, fees with respect to, redemption, conversion, exchange, purchase, retirement, defeasance, sinking fund or similar payment with respect to Subordinated Debt of such Person.

"Retiree Welfare Plan" shall mean any Welfare Plan providing for continuing coverage or benefits for any participant or any beneficiary of a participant after such participant's termination of employment, other than continuation coverage provided pursuant to Section 4980B of the IRC and at the sole expense of the participant or the beneficiary of the participant.

"Revolving Credit Advance" shall have the meaning assigned thereto in Section 1.1(a)(i).

"Revolving Credit Loan" shall mean, as the context may require, the aggregate amount of Revolving Credit Advances outstanding at any time to US Borrower.

"Revolving Credit Loan Commitment" shall mean (a) as to any Lender, the aggregate commitment of such Lender to make Revolving Credit Advances as set forth in the signature page to the Agreement or in the most recent Lender Addition Agreement executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make Revolving Credit Advances, which aggregate commitment shall be in an amount equal to One Hundred Five Million Dollars (\$105,000,000), as such amount may be adjusted, if at all, from time to time in accordance with the Agreement minus the outstanding balance of Term Loan C from time to time.

"Schedule of Documents" shall mean the schedule, including all appendices, exhibits or schedules thereto, listing certain documents and information to be delivered in connection with the Agreement, the other Loan Documents and the transactions contemplated thereunder, substantially in the form attached hereto as Schedule F.

"Security Agreements" shall mean those Security Agreements dated as of the Funding Date entered into between Administrative Agent, on behalf of itself and Lenders, and the respective Borrowers including all amendments, restatements, modifications and supplements thereto.

"Sellers" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Sellers' Notes" shall mean those certain Subordinated Promissory Notes, dated as of the Funding Date, each in the original principal amount of \$10,000,000 executed by US Borrower in favor of the Sellers, respectively, as the same may be amended, restated, modified or otherwise supplemented from time to time as permitted hereunder.

"Shareholders Agreement" shall mean that certain Shareholder Agreement dated as of the Funding Date among the shareholders of Holdings, in form and substance satisfactory to Administrative Agent.

"Singapore" shall have the meaning assigned thereto in the Recitals to the Agreement.

"Solvent" shall mean, with respect to any Person, that (i) the fair salable value of its assets exceeds the fair present value of its liabilities (including all liabilities whether reflected on a balance sheet prepared in accordance with GAAP or otherwise and whether direct, indirect, fixed, contingent, disputed or undisputed); (ii) such Person is able to pay its debts when due; and (iii) such Person has capital sufficient to carry on its current business and all businesses in which it is about to engage. "Solvency" shall have a correlative meaning.

"Stock" shall mean all shares, options, warrants, limited liability company units, participations, general or limited partnership interests or other equivalents (regardless of how designated) of or in a corporation, partnership or equivalent entity whether voting or nonvoting, including common stock, preferred stock or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended), and all agreements, instruments and documents convertible, in whole or in part, into any one or more of the foregoing.

"Stock Incentive Plan" shall mean that certain stock incentive plan of Holdings in form and substance satisfactory to Administrative Agent.

"Stock Pledge Agreements" shall mean the Holdings Senior Stock Pledge Agreement, the Holdings Subordinated UK Stock Pledge Agreement, the NOW International Senior Stock Pledge Agreement the NOW International Senior (Australia) Stock Pledge Agreement, the NOW International Subordinated UK Stock Pledge Agreement, the NOW International Subordinated (Australia) UK Stock Pledge Agreement and any other stock pledge agreement made in favor of Administrative Agent, on behalf of itself and Lenders, in form and substance satisfactory to Administrative Agent, together with all amendments, modifications and supplements thereto consented to in writing by Administrative Agent (subject to Section 11.2(b)), and shall refer to any such Stock Pledge Agreement as the same may be in effect at the time such reference becomes operative.

"Store Locations" shall mean those owned or leased locations at which US Borrower maintains inventories for sale to its customers and at which no manufacturing activities occur.

"Subordinated Debt" shall mean any Indebtedness (a) the payment of which is subordinated to the payment of the Obligations and (b) which is incurred pursuant to terms, conditions and documentation in form and substance satisfactory to the Lenders. Subordinated Debt shall include, without limitation, the Indebtedness of US Borrower in respect of the Sellers' Notes.

"Subsidiary" shall mean, with respect to any Person, (i) any corporation of which an aggregate of more than fifty percent (50%) of the outstanding Stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, owned legally or beneficially by such Person and/or one or more Subsidiaries of such Person, or with respect to which any such Person has the right to vote or designate the vote of fifty percent (50%) or more of such Stock whether by proxy, agreement, operation of law or otherwise and (ii) any partnership, association, trust, joint venture or similar business organization in which such Person and/or one or more Subsidiaries of such Person shall have an interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%) or of which any such Person is a general partner or may exercise the powers of a general partner. Notwithstanding the fact that NOW International is a direct wholly-owned Subsidiary of Holdings and each of the foreign Subsidiaries are direct wholly-owned Subsidiaries of NOW International, all of such Persons shall be deemed to be Subsidiaries of US Borrower for purposes of the representations, warranties and covenants of US Borrower as set forth in the Agreement.

"Taxes" shall mean taxes, levies, imposts, deductions, Charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on or measured by the net income of Administrative Agent or a Lender by the jurisdictions under the laws of which Administrative Agent and Lenders are organized or any political subdivision thereof.

"Term Loan C" shall mean the aggregate amount of Term Loan C advances outstanding at any time to UK Borrower pursuant to Section 1.1(b).

"Term Loan C Commitment" shall mean (a) as to any Lender with a Term Loan C Commitment, the aggregate commitment of such Lender to make Term Loan C as set forth on the signature page to the Agreement, and (b) as to all Lenders, the aggregate commitment of all Lenders to make Term Loan C advances, which aggregate commitment shall be in an amount equal to Five Million Dollars (\$5,000,000), as such amount may be adjusted, if at all, from time to time in accordance with the Agreement.

"Termination Date" shall mean the date on which the Revolving Credit Loan and the Term Loans have been repaid in full in cash and all other Obligations under this Agreement and the other Loan Documents have been completely discharged and none of the Borrowers shall not have any further right to borrow any monies thereunder and the Lenders shall not have any further obligation to make any credit extensions or financial accommodations hereunder.

"Title IV Plan" shall mean a Pension Plan, other than a Multiemployer Plan, which is covered by Title IV of ERISA.

"Trademark License" shall mean rights under any written agreement now owned or hereafter acquired by any Borrower or any of its Subsidiaries granting any right to use any Trademark or Trademark registration.

"Trademark Security Agreement" shall mean that certain Trademark Security Agreement dated as of the Funding Date entered into by Administrative Agent, on behalf of itself and Lenders, and U.S. Borrower, including all amendments, restatements, modifications and supplements thereto.

"Trademarks" shall mean all of the following now owned or hereafter acquired by any Borrower or any of its Subsidiaries: (i) all trademarks, trade names, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of like nature (whether registered or unregistered), now owned or existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state or territory thereof, or any other country or any political subdivision thereof; and (ii) all reissues, extensions or renewals thereof.

"UK Borrower" shall mean National Oilwell (U.K.) Limited, an English corporation, and its successors and assigns.

"UK Borrowing Base" shall mean, as any date of determination by Administrative Agent, in its reasonable discretion from time to time, an amount equal to the sum at such time of:

a) eighty-five percent (85%) of UK Borrower's Eligible Accounts, less reserves established by Administrative Agent from time to time in accordance with the Agreement; plus

b) sixty percent (60%) of the book value of UK Borrower's Eligible Inventory valued on a first-in, first-out basis (at the lower of cost or market), less reserves established by Administrative Agent from time to time in accordance with the Agreement.

"UK Eligible Accounts" shall have the meaning assigned thereto on Schedule C-2.

"UK Eligible Inventory" shall have the meaning assigned thereto on Schedule D-2.

"UNOC" shall mean UNOC Equipment and Supply, L.L.C., a Delaware limited liability company, in which US Borrower holds a thirty percent (30%) interest.

"Unfunded Pension Liability" shall mean, at any time, the aggregate amount, if any, of the sum of (i) the amount by which the present value of all accrued benefits under each Title IV Plan exceeds the fair market value of all assets of such Title IV Plan allocable to such benefits in accordance with Title IV of ERISA, all determined as of the most recent valuation date for each such Title IV Plan using the actuarial assumptions in effect under such Title IV Plan, and (ii) for a period of five (5) years following a transaction reasonably likely to be covered by Section 4069 of ERISA, the liabilities (whether or not accrued) that could be avoided by any Borrower, any Subsidiary thereof or any ERISA Affiliate as a result of such transaction.

"US Borrower" shall mean National-Oilwell, L.P., a Delaware limited partnership, and its permitted successors and assigns.

"US Borrower Accounts" shall have the meaning assigned thereto in Schedule E.

"US Borrower Subordinated Canada Guaranty" shall mean the Guaranty dated as of the Funding Date executed by US Borrower in favor of General Electric Capital Canada Inc., on behalf of itself and the lenders party to the NOW Canada Credit Agreement, guarantying the obligations of NOW Canada under the NOW Canada Credit Agreement, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing.

"US Borrower Subordinated UK Guaranty" shall mean the Guaranty dated as of the Funding Date executed by US Borrower in favor of Administrative Agent, on behalf of itself and Lenders, guarantying the Obligations of UK Borrower, together with all amendments, modifications and supplements thereto consented to by Administrative Agent in writing (subject to Section 11.2(b)).

"US Disbursement Account" shall have the meaning assigned thereto in Schedule E.

"Venezuela" shall mean National-Oilwell de Venezuela, C.A., a Venezuelan corporation.

"Voting Stock" shall mean, as to any Person, Stock of such Person of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of members of the board of directors (or Persons performing similar functions) of such Person.

"Welfare Plans" shall mean any welfare plan, as defined in Section 3(1) of ERISA, which is maintained or contributed to by either of the Borrowers, any Subsidiary thereof or ERISA Affiliate thereof.

"Withdrawal Liability" shall mean, at any time, the aggregate amount of the liabilities, if any, pursuant to Section 4201 of ERISA, and any increase in contributions pursuant to Section 4243 of ERISA with respect to all Multiemployer Plans.

OTHER DEFINITIONAL PROVISIONS

Any accounting term used in the Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given such term in accordance with GAAP, and all financial computations hereunder shall be computed, unless otherwise specifically provided herein, in accordance with GAAP consistently applied. That certain items or computations are explicitly modified by the phrase "in accordance with GAAP" shall in no way be construed to limit the foregoing. In the event that any "Accounting Changes" (as defined below) occur and such changes result in a change in the calculation of the financial covenants, standards or terms used in the Agreement or any other Loan Document, then Borrowers, Administrative Agent and Lenders agree to enter into negotiations in order to amend such provisions of the Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating Holdings and its Subsidiaries' financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made; provided, that the agreement of Requisite Lenders to any required amendments of such provisions shall be sufficient to bind all Lenders. "Accounting Changes" means (a) (i) with respect to US Borrower, changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants (or successor thereto or any agency with similar functions) and (ii) with respect to UK Borrower, changes in accounting principles or standards required by the promulgation of any rule, regulation, pronouncement or opinion by the Accounting Standards Board of the United Kingdom (or successor thereto or any agency with similar functions) or (b) changes in accounting principles concurred in by Holdings' certified public accountants. In the event, if any, that Administrative Agent, Borrowers and Requisite Lenders shall have agreed upon the required amendments, then after such agreement has been evidenced in writing and the underlying Accounting Change with respect thereto has been implemented, any reference to GAAP contained in the Agreement or in any other Loan Document shall, only to the extent of such Accounting Change, refer to GAAP, consistently applied after giving effect to the implementation of such Accounting Change. If Administrative Agent, Borrowers and

Requisite Lenders cannot agree upon the required amendments within thirty (30) days following the date of implementation of any Accounting Change, then all financial statements delivered and all calculations of financial covenants and other standards and terms in accordance with the Agreement and the other Loan Documents shall be prepared, delivered and made without regard to the underlying Accounting Change.

All other undefined terms contained in the Agreement or any of the other Loan Documents shall, unless the context indicates otherwise, have the meanings provided for by the Code as in effect in the State of New York to the extent the same are used or defined therein. The words "herein," "hereof" and "hereunder" and other words of similar import refer to the Agreement as a whole, including the Exhibits and Schedules hereto, as the same may from time to time be amended, modified or supplemented, and not to any particular section, subsection or clause contained in the Agreement.

Wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and neuter genders. Unless otherwise expressly provided or the context requires otherwise, all references in the Agreement to Sections, subsections, clauses, Schedules and Exhibits shall mean and refer to Sections, subsections, clauses, Schedules and Exhibits of this Agreement. The words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to Persons include their respective successors and assigns (to the extent and only to the extent permitted by the Loan Documents) or, in the case of governmental Persons, Persons succeeding to the relevant functions of such Persons; and all references to statutes and related regulations shall include any amendments of the same and any successor statutes and regulations.

SCHEDULE B (Section 1.2)
to
CREDIT AGREEMENT

LETTERS OF CREDIT

(a) Issuance. Subject to the terms and conditions of the Agreement, the Revolving Credit Loan Commitment may, in addition to Revolving Credit Loan Advances, be utilized, upon the request of US Borrower, for the issuance of Letters of Credit by any bank (including any bank that is a Lender) or the issuance of reimbursement agreements with respect thereto by Administrative Agent so long as GE Capital is Administrative Agent, on behalf of each Lender (severally and not jointly) according to such Lender's Pro Rata Share of the Revolving Credit Loan Commitment to guaranty payment to banks (whether or not such banks are Lenders) which issue (or have previously issued prior to the Funding Date) Letters of Credit for the account of US Borrower or any Subsidiary. The aggregate amount of all Letter of Credit Obligations incurred by Administrative Agent and the Lenders pursuant to this paragraph (a) shall not at any time exceed Twenty-Five Million Dollars (\$25,000,000) and (1) no such Letter of Credit shall have an expiry date which is more than two years following the date of issuance thereof and (2) Administrative Agent and the Lenders shall be under no obligation to incur Letter of Credit Obligations in respect of any Letter of Credit having an expiry date which is later than the Commitment Termination Date. It is understood that the selection of the bank or other legally authorized Person (including any Lender) which shall issue any Letter of Credit contemplated by this paragraph (a) shall be made by Administrative Agent, in its sole discretion.

(b) Advances Automatic. In the event that Administrative Agent or any Lender shall make any payment on or pursuant to any Letter of Credit Obligation, to satisfy its reimbursement obligation US Borrower hereby authorizes and directs Administrative Agent to make a Revolving Credit Advance under Section 1.1(a) in the amount of such payment regardless of whether a Default or Event of Default shall have occurred and be continuing.

(c) Cash Collateral. In the event that any Letter of Credit Obligation, whether or not then due and payable, shall for any reason be outstanding on the Commitment Termination Date including upon termination of the Commitments pursuant to Section 8.2(b), US Borrower will pay to Administrative Agent for the benefit of the Lenders cash or cash equivalents acceptable to Administrative Agent ("Cash Equivalents") in an amount equal to the maximum amount then available to be drawn under the applicable Letter of Credit. Such funds or Cash Equivalents shall be held by Administrative Agent in a cash collateral account (the "Cash Collateral Account") maintained at a bank or financial institution acceptable to Administrative Agent. The Cash Collateral Account shall be in the name of Administrative Agent (as a cash collateral account), and shall be under the sole dominion and control of Administrative Agent and subject to the terms of this Schedule B. US Borrower hereby pledges, and grants to Administrative Agent, on behalf of Lenders, a security interest in all such funds and Cash Equivalents held in the Cash Collateral Account from time to time and all proceeds thereof, as security for the payment of all amounts due in respect of the

Letter of Credit Obligations, whether or not then due. The Agreement, including this Schedule B, shall constitute a security agreement under applicable law.

From time to time after funds are deposited in the Cash Collateral Account, Administrative Agent may apply such funds or Cash Equivalents then held in the Cash Collateral Account to the payment of any amounts, in such order as Administrative Agent may elect, as shall be or shall become due and payable by US Borrower to the Lenders with respect to such Letter of Credit Obligations, or, if all Letter of Credit Obligations have been satisfied, to other Obligations then due.

Neither US Borrower nor any Person claiming on behalf of or through US Borrower shall have any right to withdraw any of the funds or Cash Equivalents held in the Cash Collateral Account, except that upon indefeasible payment in full of all the Obligations, any funds remaining in the Cash Collateral Account shall be returned to US Borrower or as otherwise required by law.

Administrative Agent shall at the direction of US Borrower invest the funds in the Cash Collateral Account in short term investments guaranteed by the United States government or an agency thereof, and to the extent not necessary to satisfy the Obligations, interest and earnings thereon, if any, shall be the property of US Borrower.

(d) Fees and Expenses. In the event that the Lenders shall incur any Letter of Credit Obligation pursuant hereto at the request or on behalf of US Borrower, US Borrower agrees to pay (I) to Administrative Agent for the benefit of the Lenders, as compensation to the Lenders for such Letter of Credit Obligation, (i) all reasonable costs and expenses incurred by Administrative Agent or any Lender on account of such Letter of Credit Obligation, (ii) commencing with the month in which such Letter of Credit Obligation is incurred by the Lenders and monthly thereafter for each month during which such Letter of Credit Obligation shall remain outstanding, a fee in an amount equal to the Applicable L/C Margin per annum from time to time in effect multiplied by the maximum amount available from time to time to be drawn under the applicable Letter of Credit, and (II) to any issuer of a Letter of Credit, if not Administrative Agent (the "L/C Issuer"), on demand, such fees (including, without limitation, all per annum fees), charges and expenses of the L/C Issuer in respect of the issuance, negotiation, acceptance, amendment, transfer and payment of such Letter of Credit or otherwise payable pursuant to the application and related documentation under which such Letter of Credit is issued. All fees due under this paragraph (d) shall be calculated on the basis of a 360-day year and the actual number of days elapsed and shall be paid to Administrative Agent for the benefit of the Lenders or the L/C Issuer, as the case may be, in arrears, on the first day of each month.

(e) Request for Lender Guaranty Agreements. US Borrower shall give Administrative Agent at least two (2) Business Days prior written notice as to the issuance of a Letter of Credit or a reimbursement agreement with respect thereto, specifying the date such Letter of Credit or reimbursement agreement is to be issued, identifying the beneficiary and describing the nature of the transactions proposed to be supported thereby. The notice shall be accompanied by the form of the Letter of Credit acceptable to the L/C Issuer to be guaranteed or issued.

(f) **Obligation Absolute.** US Borrower shall be irrevocably and unconditionally obligated without presentment, demand, protest or other formalities of any kind, to reimburse Administrative Agent and Lenders for any amounts paid by Administrative Agent or any Lender with respect to Letter of Credit Obligations including, without limitation, all amounts paid under any draw with respect to a Letter of Credit, any guaranty or reimbursement obligation paid upon any draw of a Letter of Credit and all fees, costs and expenses paid by Administrative Agent or any Lender to any L/C Issuer. The obligation of US Borrower to reimburse Administrative Agent and Lenders for payments made with respect to any Letter of Credit Obligation shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms hereof under all circumstances including the following circumstances:

(1) any lack of validity or enforceability of any Letter of Credit or any other agreement;

(2) the existence of any claim, set-off, defense or other right which US Borrower or any of its Affiliates or any Lender may at any time have against a beneficiary or any transferee of any Letter of Credit (or any Persons for whom any such transferee may be acting), any Lender, or any other Person, whether in connection with the Agreement, the transactions contemplated herein or therein or any unrelated transaction (including any underlying transaction between US Borrower or any of its Affiliates and the beneficiary for which the Letter of Credit was procured);

(3) any draft, demand, certificate or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(4) payment by Administrative Agent, any Lender, or the L/C Issuer under or in connection with any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit; provided that, in the case of any payment by Administrative Agent or any Lender under or in connection with any Letter of Credit, Administrative Agent or such Lender has not acted with gross negligence or willful misconduct (as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted) in determining that the demand for payment under such Letter of Credit or guaranty thereof complies on its face with any applicable requirements for a demand for payment under such Letter of Credit or guaranty thereof;

(5) any other circumstance or happening whatsoever, which is similar to any of the foregoing; or

(6) the fact that a Default or an Event of Default shall have occurred and be continuing.

(g) **Indemnification; Nature of Lenders' Duties.** In addition to amounts payable as elsewhere provided in the Agreement, US Borrower hereby agrees to pay, and to protect, indemnify and save harmless each Agent, each Lender and any L/C Issuer from and against any and

all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees and allocated costs of internal counsel) which such Agent, Lender or L/C Issuer may incur or be subject to as a consequence, direct or indirect, of (1) the issuance of any Letter of Credit or guaranty thereof, other than primarily as a result of the gross negligence or willful misconduct of the Agent, Lender or L/C Issuer seeking indemnification (as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted) or (2) the failure of any Agent, any Lender or any L/C Issuer to honor a demand for payment under or in connection with any Letter of Credit or guaranty thereof as a result of any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or Governmental Authority.

As among Administrative Agent, any Lender and any L/C Issuer and US Borrower, US Borrower assumes all risks of the acts and omissions of, or misuse of any Letter of Credit by beneficiaries of any Letter of Credit. In furtherance and not in limitation of the foregoing, to the fullest extent permitted by law neither Administrative Agent, any L/C Issuer nor any Lender shall be responsible: (i) for the form, validity, sufficiency, accuracy, genuineness or legal effect of any document issued by any party in connection with the application for and issuance of any Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (ii) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) for failure of the beneficiary of any Letter of Credit to comply fully with conditions required in order to demand payment under such Letter of Credit; provided that, in the case of any payment by Administrative Agent, any Lender or any L/C Issuer under or in connection with any Letter of Credit or guaranty thereof, Administrative Agent or any L/C Issuer has not acted with gross negligence or willful misconduct (as finally determined by a court of competent jurisdiction after all possible appeals have been exhausted) in determining that the demand for payment under such Letter of Credit or guaranty thereof complies on its face with any applicable requirements for a demand for payment under such Letter of Credit or guaranty thereof; (iv) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (v) for errors in interpretation of technical terms; (vi) for any loss or delay in the transmission or otherwise of any document required in order to make a payment under any Letter of Credit or guaranty thereof or of the proceeds thereof; (vii) for the credit of the proceeds of any drawing under any Letter of Credit or guaranty thereof; and (viii) for any consequences arising from causes beyond the control of Administrative Agent, any Lender or any L/C Issuer. None of the above shall affect, impair, or prevent the vesting of any of Administrative Agent's, any L/C Issuer's or any Lender's rights or powers hereunder or under the Agreement.

SCHEDULE C-1 (Section 1.6)
to
CREDIT AGREEMENT

ELIGIBLE ACCOUNTS

Eligible Accounts shall include all Accounts of US Borrower, except any Account:

- (a) which does not arise from the sale of goods or the performance of services by US Borrower in the ordinary course of its business or which constitutes payments receivable under leases for Eligible On-Lease Inventory;
- (b) upon which (i) US Borrower's right to receive payment is not absolute or is contingent upon the fulfillment of any condition whatsoever or (ii) US Borrower is not able to bring suit or otherwise enforce its remedies against the Account Debtor through judicial process;
- (c) against which is asserted any defense, counterclaim, setoff or dispute;
- (d) that is not a true and correct statement of bona fide indebtedness incurred in the amount of the Account for merchandise sold to or services rendered and accepted by the Account Debtor obligated upon such Account;
- (e) with respect to which an invoice, acceptable to Administrative Agent in form and substance, has not been sent;
- (f) that (i) is not owned by US Borrower or (ii) is subject to any right, claim, security interest or other interest of any other Person, other than the Lien in favor of Administrative Agent, on behalf of itself and Lenders;
- (g) that arises from a sale to any director, officer, other employee or Affiliate of US Borrower or any Subsidiary (other than operating companies in which First Reserve or DPI is an investor so long as the same arise in the ordinary course on an arm's-length basis);
- (h) that is the obligation of an Account Debtor that is the United States government or a political subdivision thereof, unless Administrative Agent, in its sole discretion, has agreed to the contrary in writing and the US Borrower, if necessary or desirable, has complied with the Federal Assignment of Claims Act of 1940, and any amendments thereto, with respect to such obligation;
- (i) that is the obligation of an Account Debtor not located in the United States or Canada (other than the provinces of Prince Edward Island, Newfoundland and Nova Scotia and the Northwest Territories) unless such Account Debtor has supplied the US Borrower with an irrevocable letter of credit denominated in U.S. Dollars in form and substance satisfactory to the

Administrative Agent, issued by a financial institution satisfactory to the Administrative Agent, sufficient to cover the applicable Account and without right to setoff;

(j) that is the obligation of an Account Debtor to whom US Borrower or any Subsidiary is liable for goods sold or services rendered by the Account Debtor to US Borrower or any Subsidiary (but such Account shall be ineligible only to the extent of such liability);

(k) that arises with respect to goods which are delivered on a bill-and-hold, cash-on-delivery basis or placed on consignment, guaranteed sale or other terms by reason of which the payment by the Account Debtor is or may be conditional;

(l) that is in default; provided that, without limiting the generality of the foregoing, an Account shall be deemed in default upon the occurrence of any of the following:

(i) the Account is not paid within the earlier of: sixty (60) days following its due date or ninety (90) days following its original invoice date;

(ii) if any Account Debtor obligated upon such Account suspends business, makes a general assignment for the benefit of creditors or fails to pay its debts generally as they come due; or

(iii) if any petition is filed by or against any Account Debtor obligated upon such Account under any bankruptcy law or any other federal, state or foreign (including any provincial) receivership, insolvency relief or other law or laws for the relief of debtors;

(m) which is the obligation of an Account Debtor that is in default (as defined in subparagraph (l)(i) above) on fifty percent (50%) or more of the dollar amount of Accounts upon which such Account Debtor is obligated;

(n) as to which Administrative Agent's security interest, on behalf of itself and Lenders, therein is not a first priority perfected security interest or as to which any other Person has a security interest;

(o) as to which any of the representations or warranties pertaining to Accounts set forth in the Agreement or any of the other Loan Documents is untrue;

(p) to the extent such Account exceeds any credit limit established by Administrative Agent in its reasonable discretion;

(q) to the extent such Account is evidenced by a judgment, Instrument or Chattel Paper; or

(r) which is otherwise unacceptable to Administrative Agent in its reasonable discretion.

SCHEDULE C-2 (Section 1.6)
to
CREDIT AGREEMENT

ELIGIBLE ACCOUNTS

Eligible Accounts shall include all Accounts of UK Borrower, except any Account:

(a) which does not arise from the sale of goods or the performance of services by UK Borrower in the ordinary course of its business;

(b) upon which (i) UK Borrower's right to receive payment is not absolute or is contingent upon the fulfillment of any condition whatsoever or (ii) UK Borrower is not able to bring suit or otherwise enforce its remedies against the Account Debtor through judicial process;

(c) against which is asserted any defense, counterclaim, setoff or dispute;

(d) that is not a true and correct statement of bona fide indebtedness incurred in the amount of the Account for merchandise sold to or services rendered and accepted by the Account Debtor obligated upon such Account;

(e) with respect to which an invoice, acceptable to Administrative Agent in form and substance, has not been sent;

(f) that (i) is not owned by UK Borrower or (ii) is subject to any right, claim, security interest or other interest of any other Person, other than the Lien in favor of Administrative Agent, on behalf of itself and Lenders;

(g) that arises from a sale to any director, officer, other employee or Affiliate of UK Borrower, US Borrower or any Subsidiary (other than operating companies in which First Reserve or DPI is an investor so long as the same arise in the ordinary course on an arm's-length basis);

(h) that is the obligation of an Account Debtor not located in England unless such Account Debtor has supplied UK Borrower with an irrevocable letter of credit denominated in U.S. Dollars in form and substance satisfactory to the Administrative Agent, issued by a financial institution satisfactory to the Administrative Agent, sufficient to cover the applicable Account and without right to setoff;

(i) that is the obligation of an Account Debtor to whom UK Borrower, US Borrower or any Subsidiary is liable for goods sold or services rendered by the Account Debtor to UK Borrower, US Borrower or any Subsidiary (but such Account shall be ineligible only to the extent of such liability);

(j) that arises with respect to goods which are delivered on a bill-and-hold, cash-on-delivery basis or placed on consignment, guaranteed sale or other terms by reason of which the payment by the Account Debtor is or may be conditional;

(k) that is in default; provided that, without limiting the generality of the foregoing, an Account shall be deemed in default upon the occurrence of any of the following:

(i) the Account is not paid within the earlier of: sixty (60) days following its due date or ninety (90) days following its original invoice date;

(ii) if any Account Debtor obligated upon such Account suspends business, makes a general assignment for the benefit of creditors or fails to pay its debts generally as they come due; or

(iii) if any petition is filed by or against any Account Debtor obligated upon such Account under any bankruptcy law or any other foreign (including any provincial) receivership, insolvency relief or other law or laws for the relief of debtors;

(l) which is the obligation of an Account Debtor that is in default (as defined in subparagraph (l)(i) above) on fifty percent (50%) or more of the dollar amount of Accounts upon which such Account Debtor is obligated;

(m) as to which Administrative Agent's security interest, on behalf of itself and Lenders, therein is not a first priority perfected security interest or as to which any other Person has a security interest;

(n) as to which any of the representations or warranties pertaining to Accounts set forth in the Agreement or any of the other Loan Documents is untrue;

(o) to the extent such Account exceeds any credit limit established by Administrative Agent in its reasonable discretion;

(p) to the extent such Account is evidenced by a judgment, Instrument or Chattel Paper; or

(q) which is otherwise unacceptable to Administrative Agent in its reasonable discretion.

SCHEDULE D-1 (Section 1.7)
to
CREDIT AGREEMENT

ELIGIBLE INVENTORY

Eligible Inventory shall include all Inventory of US Borrower, except any Inventory which:

(a) is not owned by US Borrower free and clear of all Liens and rights of any other Person, except the Liens in favor of Administrative Agent, on behalf of itself and Lenders;

(b) is not (i) located on premises owned, leased or operated by US Borrower or its Subsidiaries or (ii) stored with a bailee, warehouseman or similar person, with Administrative Agent's prior consent and, except as provided in Section 5.11, as to which a satisfactory landlord or bailee letter has been delivered to Administrative Agent;

(c) is placed on consignment (unless such Inventory otherwise meets the criteria herein set forth and unless the Administrative Agent shall otherwise consent), in transit or is otherwise not located on premises owned or leased by US Borrower;

(d) is covered by a negotiable document of title, unless such document and evidence of acceptable insurance covering such Inventory have been delivered to Administrative Agent;

(e) in Administrative Agent's reasonable determination, is excess, obsolete, unsalable, shopworn, seconds, damaged or unfit for sale;

(f) consists of display items or packing or shipping materials, work-in-process Inventory or replacement parts for Equipment;

(g) consists of goods which have been returned by the buyer if defective or otherwise not salable;

(h) is not of a type held for sale in the ordinary course of US Borrower's business;

(i) as to which Administrative Agent's interest, on behalf of itself and Lenders, therein is not a first priority perfected security interest;

(j) as to which any of the representations or warranties pertaining to Inventory set forth in the Agreement or any of the other Loan Documents is untrue;

(k) inventory consisting of any costs associated with "freight-in" charges other than the initial transportation thereof to a location under US Borrower's control;

(l) is Eligible On-Lease Inventory; or

(m) is otherwise unacceptable to Administrative Agent in its reasonable discretion.

In addition, Eligible Inventory shall be subject to the reserve provisions set forth in Section 5.11.

SCHEDULE D-2 (Section 1.7)
to
CREDIT AGREEMENT

ELIGIBLE INVENTORY

Eligible Inventory shall include all Inventory of UK Borrower, except any Inventory which:

(a) is not owned by UK Borrower free and clear of all Liens and rights of any other Person, except the Liens in favor of Administrative Agent, on behalf of itself and Lenders;

(b) is not (i) located on premises owned, leased or operated by UK Borrower or its Subsidiaries or (ii) stored with a bailee, warehouseman or similar person, with Administrative Agent's prior consent and, except as provided in Section 5.11, as to which a satisfactory landlord or bailee letter has been delivered to Administrative Agent;

(c) is placed on consignment (unless such Inventory otherwise meets the criteria herein set forth and unless the Administrative Agent shall otherwise consent), in transit or is otherwise not located on premises owned or leased by UK Borrower;

(d) is covered by a negotiable document of title, unless such document and evidence of acceptable insurance covering such Inventory have been delivered to Administrative Agent;

(e) in Administrative Agent's reasonable determination, is excess, obsolete, unsalable, shopworn, seconds, damaged or unfit for sale;

(f) consists of display items or packing or shipping materials, work-in-process Inventory or replacement parts for Equipment;

(g) consists of goods which have been returned by the buyer if defective or otherwise not salable;

(h) is not of a type held for sale in the ordinary course of UK Borrower's business;

(i) as to which Administrative Agent's interest, on behalf of itself and Lenders, therein is not a first priority perfected security interest;

(j) as to which any of the representations or warranties pertaining to Inventory set forth in the Agreement or any of the other Loan Documents is untrue;

(k) inventory consisting of any costs associated with "freight-in" charges other than the initial transportation thereof to a location under UK Borrower's control; or

(1) is otherwise unacceptable to Administrative Agent in its reasonable discretion.

In addition, Eligible Inventory shall be subject to the reserve provisions set forth in Section 5.11.

SCHEDULE E (Section 1.9)
to
CREDIT AGREEMENT

CASH MANAGEMENT SYSTEMS

US Borrower shall establish and maintain the Cash Management Systems described below:

(a) On or before the Closing Date and for so long as the Revolving Credit Loan or any other Obligations are outstanding, US Borrower shall (i) establish lock boxes ("Lock Boxes") at one or more of the banks set forth on Schedule 3.22 (each, a "Relationship Bank"), and shall request in writing and otherwise take such reasonable steps to ensure that all Account Debtors forward payment directly to such Lock Boxes, and (ii) deposit or cause to be deposited promptly, and in any event no later than the first Business Day after the date of receipt thereof, all cash, checks, drafts or other similar items of payment relating to or constituting payments made in respect of any and all Collateral (whether or not otherwise delivered to a Lock Box) into bank accounts in US Borrower's name (collectively, the "Borrower Accounts") at Relationship Banks. On or before the Closing Date, the US Borrower shall have established a concentration account in US Borrower's name (the "Concentration Account") at the bank which shall be designated as the Concentration Account bank on Schedule 3.22 (the "Concentration Account Bank"), in accordance with a blocked account agreement in form and substance and with such bank as shall be satisfactory to Administrative Agent, in its sole discretion.

(b) On or before the Closing Date, the Concentration Account Bank, the bank where the Disbursement Account (as hereinafter defined) is located and all Relationship Banks, shall have entered into tri-party blocked account agreements with Administrative Agent, for the benefit of itself and Lenders, and US Borrower, in form and substance acceptable to Administrative Agent, which shall become operative on or prior to the Closing Date at the applicable banks at which accounts are maintained. Each such blocked account agreement shall provide, among other things, that (i) all items of payment deposited in such account and proceeds thereof deposited in such Concentration Account are held by such bank as agent or bailee-in-possession for Administrative Agent, on behalf of itself and Lenders, (ii) the bank executing such agreement has no rights of setoff or recoupment or any other claim against such account, as the case may be, other than for payment of its service fees and other charges directly related to the administration of such account and for returned checks or other items of payment, and (iii) from and after the Closing Date (A) with respect to banks at which a Borrower Account is located, such bank agrees to forward immediately all amounts in each Borrower Account to the Concentration Account Bank and to commence the process of daily sweeps from such Borrower Account into the Concentration Account and (B) with respect to the Concentration Account Bank, such bank agrees to forward immediately all amounts received in the Concentration Account to the Collection Account through daily sweeps from such Concentration Account into the Collection Account.

(c) US Borrower shall cause each Relationship Bank at which any Borrower Account and Lock Box is located to (i) deposit any checks, drafts or other similar items of payment received in any Lock Box directly into a Borrower Account, (ii) forward immediately, and in no event less frequently than once each Business Day, all amounts in the Borrower Accounts at such bank to the Concentration Account and (iii) commence, and continue each Business Day, the process of daily sweeps from each Borrower Account into the Concentration Account. From and after the Closing Date, US Borrower shall cause the Concentration Account Bank to forward immediately all amounts received in the Concentration Account to the Collection Account through daily sweeps from such Concentration Account into the Collection Account.

(d) So long as no Default or Event of Default has occurred and is continuing, US Borrower may amend Schedule 3.22 to add or replace a Lock Box or Borrower Account or to replace the Concentration Account; provided that (i) Administrative Agent shall have consented in writing to the opening of such Borrower Account or Lock Box or replacement of the Concentration Account with the relevant bank and (ii) prior to the time of the opening of such US Borrower Account or Lock Box or replacement of the Concentration Account, US Borrower and such bank shall have executed and delivered to Administrative Agent a tri-party blocked account agreement, in form and substance satisfactory to Administrative Agent.

(e) The Lock Boxes, Borrower Accounts, Disbursement Account and the Concentration Account shall be cash collateral accounts, with all cash, checks and other similar items of payment in such accounts securing payment of the Loans and all other Obligations, and in which US Borrower shall have granted a Lien to Administrative Agent, on behalf of itself and Lenders, pursuant to the Security Agreement.

(f) All amounts deposited in the Collection Account shall be deemed received by Administrative Agent in accordance with Section 1.10 of the Agreement and shall be applied (and allocated) by Administrative Agent in accordance with Section 1.11 of the Agreement. In no event shall any amount be so applied unless and until such amount shall have been credited in immediately available funds to the Collection Account.

(g) US Borrower may maintain, in its name, an account (the "Disbursement Account") at a bank acceptable to Administrative Agent into which, Administrative Agent shall, from time to time, deposit proceeds of Revolving Credit Advances made pursuant to Section 1.1 for use by US Borrower solely in accordance with the provisions of Section 1.4.

(h) US Borrower shall (i) hold in trust for the Administrative Agent, for the benefit of itself and Lenders, all checks, cash and other items of payment received by US Borrower, and (ii) within one (1) Business Day after receipt by US Borrower of any checks, cash or other items or payment, deposit the same into a Borrower Account. US Borrower acknowledges and agrees that all cash, checks or items of payment constituting proceeds of Collateral are the property of Administrative Agent and Lenders. All proceeds of the sale or other disposition of any Collateral, shall be deposited directly into the Borrower Accounts.

(i) Notwithstanding the foregoing, US Borrower may maintain a local store cash deposit account at First Nichols National Bank, P.O. Box 18, Kenedy, Texas 78119-0018 (Account No. 58853901) (the "First Nichols Bank Account") into which not more than one thousand five hundred dollars (\$1,500) shall be deposited each month and as to which no tri-party blocked account agreements shall be required; provided that not more than five thousand dollars (\$5,000) shall be accumulated at any time in the First Nichols Bank Account.

SCHEDULE G (Section 4.1(a))
to
CREDIT AGREEMENT

FINANCIAL STATEMENTS AND PROJECTIONS -- REPORTING

US Borrower shall deliver or cause to be delivered to Administrative Agent or to Administrative Agent and Lenders, as indicated, the following:

(a) Monthly Financials. To Administrative Agent and Lenders, within twenty-five (25) days after the end of each Fiscal Month, financial information regarding Holdings and its Subsidiaries, certified by the Chief Financial Officer of US Borrower, consisting of consolidated (and consolidating as to US Borrower, NOW Canada and UK Borrower only) unaudited balance sheets and statements of income and cash flow for such Fiscal Month and for the period from the beginning of the then current Fiscal Year to the end of such Fiscal Month, setting forth in each case, in comparative form, the figures for the corresponding periods in the preceding Fiscal Year and a comparison to budget for such Fiscal Year, all prepared in accordance with GAAP (subject to normal year-end adjustments), with all of such financial information for the last Fiscal Month of each Fiscal Quarter to be accompanied by a statement in reasonable detail showing the calculations used in determining compliance with the financial covenants set forth on Schedule I and a management discussion and analysis which includes a comparison to budget for that Fiscal Quarter and a comparison of performance for that period to the corresponding period in the preceding Fiscal Year.

All of such financial information shall be accompanied by the certification of the Chief Financial Officer of US Borrower that (i) such financial information presents fairly in accordance with GAAP (subject to normal year-end adjustments) the financial position, results of operations and statements of cash flows of Holdings and its Subsidiaries, on both a consolidated and consolidating basis, in each case as at the end of such Fiscal Month and for the period then ended and (ii) any other information presented is true, correct and complete in all material respects and that there was no Default or Event of Default in existence as of such time or, if a Default or Event of Default shall have occurred and be continuing, describing the nature thereof and all efforts undertaken to cure such Default or Event of Default;

(b) Operating Plan. To Administrative Agent and Lenders, as soon as available, but not later than thirty (30) days after the end of each Fiscal Year, an annual operating plan, approved by the Board of Directors of Holdings, for the following year, which will include a statement of all of the material assumptions on which such plan is based, will include monthly balance sheets and a monthly budget for the following year and will integrate sales, gross profits, operating expenses, operating profit, cash flow projections and borrowing availability projections, all prepared on the same basis and in similar detail as that on which operating results are reported (and, in the case of cash flow projections, representing management's good faith estimates of future financial performance based on historical performance), and plans for personnel, Capital Expenditures and facilities;

(c) Annual Audited Financials. To Administrative Agent and Lenders, within ninety (90) days after the end of each Fiscal Year, audited financial statements, for Holdings and its Subsidiaries on a consolidated (and consolidating as to US Borrower, NOW Canada and UK Borrower only) basis, consisting of balance sheets and statements of income and retained earnings and cash flows, setting forth in comparative form in each case the figures for the previous Fiscal Year, which financial statements shall be prepared in accordance with GAAP, certified without qualification by an independent certified public accounting firm of national standing or otherwise acceptable to Administrative Agent, and accompanied by (i) a statement prepared in reasonable detail showing the calculations used in determining compliance with each of the financial covenants set forth on Schedule I, (ii) a report from such accounting firm to the effect that, in connection with their audit examination, nothing has come to their attention to cause them to believe that a Default or Event of Default has occurred (or specifying those Defaults and Events of Default that they became aware of), it being understood that such audit examination extended only to accounting matters and that no special investigation was made with respect to the existence of Defaults or Events of Default, (iii) a letter addressed to Administrative Agent, on behalf of itself and Lenders, in form and substance reasonably satisfactory to Administrative Agent and subject to standard qualifications taken by nationally recognized accounting firms, signed by such accounting firm acknowledging that Administrative Agent and Lenders are entitled to rely upon such accounting firm's certification of such audited financial statements, (iv) the annual letters to such accountants in connection with their audit examination detailing contingent liabilities and material litigation matters and (v) the certification of the Chief Executive Officer or Chief Financial Officer of US Borrower that all such financial statements present fairly in accordance with GAAP the financial position, results of operations and statements of cash flows of Holdings and its Subsidiaries on a consolidated and consolidating basis, as at the end of such year and for the period then ended, and that there was no Default or Event of Default in existence as of such time or, if a Default or Event of Default shall have occurred and be continuing, describing the nature thereof and all efforts undertaken to cure such Default or Event of Default;

(e) Management Letters. To Administrative Agent and Lenders, within ten (10) Business Days after receipt thereof by Holdings or US Borrower, copies of all management letters, exception reports or similar letters or reports from its independent certified public accountants;

(f) Default Notices. To Administrative Agent and Lenders, as soon as practicable, and in any event within ten (10) Business Days after an executive officer of US Borrower has actual knowledge of the existence of any Default, Event of Default or the existence of any other event which has had a Material Adverse Effect, telephonic or telecopied notice specifying the nature of such Default or Event of Default or other event including the anticipated effect thereof, which notice, if given telephonically, shall be promptly confirmed in writing on the next Business Day;

(g) SEC Filings and Press Releases. To Administrative Agent and Lenders, promptly upon their becoming available, copies of: (1) all financial statements, reports, notices and proxy statements made publicly available by Holdings, US Borrower or any of their respective Subsidiaries to its security holders; (2) all regular and periodic reports and all registration statements

and prospectuses, if any, filed by Holdings, US Borrower or any of their respective Subsidiaries with any securities exchange or with the Securities and Exchange Commission or any Governmental Authority or private regulatory authority; and (3) all press releases and other statements made available by Holdings, US Borrower or any of their respective Subsidiaries to the public concerning material adverse changes or developments in the business of any such Person;

(h) Subordinated Debt and Equity Notices. To Administrative Agent and Lenders, as soon as practicable, copies of all material written notices given or received by Holdings, US Borrower or any of their respective Subsidiaries with respect to any of the Subordinated Debt or Stock of such Person, and US Borrower shall notify Administrative Agent within two (2) Business Days after US Borrower obtains knowledge of any matured or unmatured event of default with respect to the Sellers' Notes or any other Subordinated Debt;

(i) Supplemental Schedules. To Administrative Agent, supplemental disclosures, if any, required by Section 5.8.

(j) Insurance Notices. To Administrative Agent, disclosure of losses or casualties required by Section 5.5;

(k) Claims under Purchase Agreement. To Administrative Agent, as soon as practicable, and in any event within ten (10) business days after Holdings or US Borrower makes any indemnity claim or demand under the Purchase Agreement in excess of \$100,000 individually or together with related claims, a copy of each such claim or demand, together with any other documents of a material nature delivered to or sent by it in any way relating to such claim or demand; and

(l) Other Documents. To Administrative Agent and Lenders, such other financial and other information respecting US Borrower's or any Subsidiary's businesses, financial condition as Administrative Agent or any Lender shall, from time to time, request.

Administrative Agent shall deliver copies of materials received pursuant to paragraphs (i) through (k) above to any Lender requesting copies thereof in writing.

SCHEDULE H (Section 4.1(b))
to
CREDIT AGREEMENT

COLLATERAL REPORTS

(a) To Administrative Agent and each Lender, upon its request, and in no event less frequently than fifteen (15) days after the end of each Fiscal Month, each of the following:

(i) a Borrowing Base Certificate, in each case accompanied by such supporting detail and documentation as shall be requested by Administrative Agent in its reasonable discretion;

(ii) a summary of Inventory by location and type with a supporting perpetual Inventory report, in each case accompanied by such supporting detail and documentation as shall be requested by Administrative Agent in its reasonable discretion;

(iii) a monthly trial balance showing Accounts outstanding aged from invoice due date as follows: 1 to 30 days, 31 to 60 days, 61 to 90 days and 90 days or more, accompanied by such supporting detail and documentation as shall be requested by Administrative Agent in its reasonable discretion; and

(iv) upon the request of Administrative Agent from time to time (together with a copy of all or any part of such delivery requested by any Lender in writing after the Closing Date), collateral reports including all additions and reductions (cash and non-cash) with respect to Accounts, in each case accompanied by such supporting detail and documentation as shall be requested by Administrative Agent in its reasonable discretion;

(b) To Administrative Agent, at the time of delivery of each of the monthly financial statements delivered pursuant to Schedule G, a reconciliation of the Accounts trial balance and month-end Inventory reports to the applicable Borrower's general ledger and monthly financial statements delivered pursuant to such Schedule G, in each case accompanied by such supporting detail and documentation as shall be requested by Administrative Agent in its reasonable discretion;

(c) To Administrative Agent, at the time of delivery of the financial statements for the last Fiscal Month of each Fiscal Quarter delivered pursuant to Schedule G, a listing, as to US Borrower only, of government contracts subject to the Federal Assignment of Claims Act of 1940;

(d) Each Borrower, at its own expense, shall deliver to Administrative Agent the results of each physical verification, if any, which such Borrower may in its discretion have made, or caused any other Person to have made on its behalf, of all or any portion of its Inventory; and

(e) Such other reports, statements and reconciliations with respect to the Borrowing Base or Collateral as Administrative Agent shall from time to time request in its reasonable discretion.

SCHEDULE I (Section 6.10)
to
CREDIT AGREEMENT
FINANCIAL COVENANTS

Borrowers shall not breach or fail to comply with any of the following financial covenants, each of which shall be calculated in accordance with GAAP consistently applied:

(a) Maximum Capital Expenditures. Borrowers and their Subsidiaries on a consolidated basis shall not make Capital Expenditures (other than Capital Expenditures incurred as part of a Permitted Acquisition) during the following periods that exceed in the aggregate the amounts set forth opposite each of such periods:

| Period ----- | Maximum Capital ----- Expenditures per Period ----- |
|---|--|
| Fiscal Year 1996 | \$ 6,000,000 ----- |
| Fiscal Year 1997 | \$ 8,000,000 ----- |
| Fiscal Year 1998 | \$ 8,000,000 ----- |
| Fiscal Year 1999 and each Fiscal Year thereafter | \$ 10,000,000 ----- |

(b) Minimum Net Worth. Borrowers and their Subsidiaries on a consolidated basis shall maintain at all times during each of the Fiscal Years set forth below, a minimum Net Worth equal to or greater than the following:

| Period ----- | Minimum Net Worth ----- per Period ----- |
|------------------|---|
| Fiscal Year 1997 | \$ 40,000,000 ----- |
| Fiscal Year 1998 | \$ 51,300,000 ----- |
| Fiscal Year 1999 | \$ 64,700,000 ----- |
| Fiscal Year 2000 | \$ 79,700,000 ----- |
| Fiscal Year 2001 | \$ 85,000,000 ----- |

(c) Minimum Interest Coverage Ratio. Borrowers and their Subsidiaries on a consolidated basis shall have at the end of each Fiscal Quarter set forth below, an Interest Coverage Ratio for the 12-month period then ended, of not less than the following:

3.5 to 1 for the Fiscal Quarter ending December 31, 1996;
4.1 to 1 for each Fiscal Quarter ending during Fiscal Year 1997;
4.5 to 1 for each Fiscal Quarter ending during Fiscal Year 1998
and for each Fiscal Quarter ending thereafter.

SCHEDULE J (Section 11.10)
to
CREDIT AGREEMENT

- (a) If to Administrative Agent or GE Capital, at

General Electric Capital Corporation
105 West Madison Street - Suite 1600
Chicago, Illinois 60602
Attention: National-Oilwell Account Manager
Telecopier No.: (312) 419-5992
Telephone No.: (312) 419-0985

with copies to:

Winston & Strawn
35 West Wacker Drive
Chicago, Illinois 60601
Attention: David G. Crumbaugh, Esq.
Telecopier No.: (312) 558-5700
Telephone No.: (312) 558-5600

and

General Electric Capital Corporation
201 High Ridge Road
Stamford, Connecticut 06927-5100
Telecopier No.: (203) 316-7889
Telephone No.: (203) 316-7556

- (b) If to any Lender (copies should also be sent in accordance with paragraph (a) above)

BTM Capital Corporation
Trammel Crow Center
Suite 3160
2001 Ross Avenue
L.B. 101
Dallas, Texas 75201
Attention: H. Milton Amos, Vice President
Telecopier No.: (214) 954-0781
Telephone No.: (214) 954-0770

BNY Commercial Corporation
1290 Avenue of the Americas
3rd Floor
New York, New York 10104
Attention: Daniel Murray, Vice President
Telecopier No.: (212) 408-4313
Telephone No.: (212) 408-4088

Mitsubishi Trust
520 Madison Avenue
25th Floor
New York, New York 10022
Attention: Susan Le Fevre, Vice President
Telecopier No.: (212) 644-6825
Telephone No.: (212) 891-8243

Sanwa Business Credit
500 Glenpointe Centre West
4th Floor
Teaneck, New Jersey 07666-6803
Attention: Oleh Szczupak
Telecopier No.: (201) 836-4744
Telephone No.: (201) 836-4006

(c) If to either Borrower, at

National-Oilwell
P.O. Box 4638
Houston, Texas 77210-4638
Attention: Chief Financial Officer
Telecopier No.: (713) 960-5212
Telephone No.: (713) 960-5506

With copies to:

National-Oilwell
P.O. Box 4638
Houston, Texas 77210-4638
Attention: General Counsel
Telecopier No.: (713) 960-5237
Telephone No.: (713) 960-5406

SCHEDULE K (Section 9.10(a)(iii))
to
CREDIT AGREEMENT

WIRE TRANSFER INFORMATION

1. For The Bank of New York Commercial Corporation:

The Bank of New York
48 Wall Street
New York, NY 10015
Account No.: 0000016608
ABA No.: 021000018
Re: National-Oilwell
Attn: Guardatt Jagnanan
Phone No.: (212) 408-4188
Fax No.: (212) 408-4319

2. For Sanwa Business Credit Corporation:

Harris Bank & Trust Company
111 West Monroe Street
Chicago, Illinois 60690
Account No.: 401-686-1
ABA No.: 071-000-288
Re: National-Oilwell
Attn: Robert Nadler, Operations Supervisor
Phone No.: (201) 836-4006
Fax No.: (201) 836-4744

3. For BTM Capital Corporation:

Bank of Boston
125 Summer Street
Boston, MA 02110
Account No.: 521-11235
ABA No.: 011-000-390
Attn: Tim Gilbert
Phone No.: (617) 345-5614
Fax No.: (617) 345-5250

4. For The Mitsubishi Trust and Banking Corporation:

Bankers Trust
1 Bankers Trust Plaza
New York, NY 10006
Account No.: MTBC, New York
MTBC Account No.: 04201547
ABA No.: 0210-0103-3
Ref.: SL-840 National-Oilwell
Attn: Loan Administration
Phone No.: (212) 891-8256
Fax No.: (212) 755-2349

K-2

DEFERRED FEE AGREEMENT

This Agreement is made as of October 18, 1996, effective as of , 1996 (the "Effective Date"), by and between National-Oilwell, Inc., a Delaware corporation (the "Company"), Inverness/Phoenix LLC, a Connecticut limited liability company ("Inverness") and First Reserve Corporation, a Delaware corporation ("First Reserve").

WHEREAS, the Company (under its former name, NOW Holdings, Inc.) and Inverness (under its former name, Duff & Phelps/Inverness LLC) entered into a Management Services Agreement dated as of January 16, 1996 (the "Management Services Agreement"), and

WHEREAS, the Company and Inverness desire to terminate the Management Services Agreement and replace it with this Deferred Fee Agreement (the "Agreement"), and

WHEREAS, the Company, Inverness and First Reserve desire to set forth certain agreements with respect to the termination of the Management Services Agreement and its replacement by the Agreement,

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties agree as follows:

1. DEFINITIONS.

(a) Seller Notes. The Seller Notes are the two subordinated promissory notes issued by the Company on January 16, 1996 to Oilwell, Inc., a Delaware corporation, and National Supply Company, Inc., a Delaware corporation, each in the principal amount of \$10,000,000 bearing interest at 9% per annum and due January 16, 2005.

(b) Transaction. A Transaction is an acquisition, merger, consolidation or divestiture involving the Company immediately after which the consolidated net worth of the Company is equal to or greater than such consolidated net worth immediately prior to such transaction.

2. TERMINATION OF MANAGEMENT SERVICES AGREEMENT. As of the Effective Date, the Management Services Agreement shall be terminated and replaced with this Agreement and all unpaid amounts accrued through September 30, 1996 under the Management Services Agreement shall be paid by the Company to Inverness on the Effective Date.

3. PAYMENTS.

The Company shall make the following payments:

(a) Beginning on the first day of the calendar quarter following the Effective Date and continuing through December 31, 1999, the Company shall pay to Inverness a quarterly fee of \$250,000 payable on the first day of each calendar quarter, provided, however, that the first quarterly payment under this section 3(a) shall be paid on the Effective Date; and

(b) The Company shall pay to Inverness fees aggregating \$1,050,000 and pay to First Reserve fees aggregating \$225,000 on the first date that such payments will not result in an event of default under the Seller Notes; provided, however, that (i) if a Transaction occurs prior to January 1, 2000, a portion of the \$1,275,000 aggregate fee payable to Inverness and First Reserve under this paragraph shall be considered, and paid as, a transaction fee to the extent that such payment does not cause an event of default under the Seller Notes and (ii) any portion of the \$1,275,000 aggregate fee payable to Inverness and First Reserve under this paragraph remaining unpaid as of January 1, 2000 shall be considered as a management or similar fee and shall be paid by the Company beginning on January 1, 2000, until the remaining unpaid portion of the \$1,275,000 has been paid in full, with such payments to be made by the Company quarterly in advance in the aggregate amount of \$250,000 per quarter and such payments being allocated proportionally to Inverness and First Reserve based on the outstanding amount of the \$1,275,000 aggregate fee owed to each of them respectively.

4. NOTICES. All notices hereunder shall be in writing and shall be delivered personally or mailed by United States mail, postage prepaid, addressed to the parties as follows:

To the Company:

National-Oilwell, Inc.
5555 San Felipe
Houston, TX 77056
Attn: Chief Executive Officer

To First Reserve:

First Reserve Corporation
475 Steamboat Road
Greenwich, CT 06380
Attn: William E. Macaulay

To Inverness:

Phoenix/Inverness LLC
666 Steamboat Road
Greenwich, CT 06830
Attn: W. McComb Dunwoody

with a copy to:

Vinson & Elkins L.L.P.
2300 First City Tower
1001 Fannin Street
Houston, TX 77002-6760
Attn: John S. Watson

5. ASSIGNMENT. No party may assign any obligations hereunder to any other party without the prior written consent of the other parties; such consent shall not be unreasonably withheld; provided, however, that Inverness may assign its rights and obligations under this Agreement to any of its affiliates or successors without the consent of the Company.

6. SUCCESSORS. This Agreement and all the obligations and benefits hereunder shall inure to the successors and assigns of the parties.

7. COUNTERPARTS. This Agreement may be executed and delivered by each party hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original and both of which taken together shall constitute but one and the same agreement.

8. ENTIRE AGREEMENT; MODIFICATION; GOVERNING LAW. The terms and conditions hereof constitute the entire agreement between the parties hereto with respect to the subject matter of this Agreement and supersede all previous communications, either oral or written, representations or warranties of any kind whatsoever, except as expressly set forth herein. No modifications of this Agreement nor waiver of the terms or conditions thereof shall be binding upon either party unless approved in writing by an authorized representative of such party. All issues concerning this agreement shall be governed by and construed in accordance with the laws of the State of Connecticut, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Connecticut or any other jurisdiction) that would cause the application of the law of any jurisdiction other than the State of Connecticut.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date first above written.

NATIONAL-OILWELL, INC.

By -----
Joel V. Staff
Chief Executive Officer

INVERNESS/PHOENIX LLC

By -----
W. McComb Dunwoody
President

FIRST RESERVE CORPORATION

By -----
William E. Macaulay
President

FIRST AMENDMENT TO
NATIONAL-OILWELL, INC.
VALUE APPRECIATION AND INCENTIVE PLAN A

WHEREAS, NATIONAL-OILWELL, INC. (formerly Now Holdings, Inc.) (the "Company") has heretofore adopted the NOW HOLDINGS, INC. VALUE APPRECIATION AND INCENTIVE PLAN A (the "Plan"); and

WHEREAS, the Company desires to rename and amend the Plan;

NOW, THEREFORE, the Plan shall be renamed and amended as follows:

1. Effective as of August 28, 1996, the Plan shall be renamed "National-Oilwell, Inc. Value Appreciation and Incentive Plan A" and references in the Plan to "Now Holdings, Inc." shall be replaced with references to "National- Oilwell, Inc."

2. Effective as of October 1, 1996, Paragraphs (b), (c), (d), (e) and (f) of Article IV of the Plan shall be deleted and the following shall be substituted therefor:

"(b) FORM AND TIME OF DISTRIBUTIONS. Distributions under the Plan resulting from a Triggering Event other than a Qualified Public Offering Triggering Event shall be paid in single lump sum cash payments which are paid within the 30 day period immediately following the Triggering Event. If the Triggering Event results from a Qualified Public Offering, the distribution to a Participant of the Base Distribution Amount determined pursuant to Paragraph (a) above for such Participant shall be paid as follows:

If the Triggering Event occurs on or before January 17, 1998: One-third of the Base Distribution Amount determined pursuant to Paragraph (a) above will be paid in cash within 30 days of the date of the Triggering Event and the remainder of such Base Distribution Amount will be paid by distribution of a number of shares of Common Stock determined by dividing the dollar value of such remainder by the per share initial public offering price, with one-half of such shares of Common Stock being distributed on the first anniversary of the Triggering Event and with the remainder of such shares of Common Stock being distributed on January 17, 1999.

If the Triggering Event occurs after January 17, 1998 but on or before January 17, 1999: One-half of the Base Distribution Amount determined pursuant to Paragraph (a) above will be paid in cash within 30 days of the date of the Triggering Event and the remainder of such Base Distribution Amount will be paid by distribution of a number of shares of Common Stock determined by dividing the dollar value of such remainder by the per share initial public offering price, with such shares of Common Stock being distributed on January 17, 1999.

If the Triggering Event occurs after January 17, 1999: All of the Base Distribution Amount determined pursuant to Paragraph (a) above will be paid in cash within 30 days after the Triggering Event.

Notwithstanding the foregoing, no shares of Common Stock shall be transferred to a Participant except upon payment by such Participant to the Company of \$0.01 per share cash.

(c) FORFEITURES. If a Participant who was employed by the Company as of a Triggering Event is later involuntarily terminated by the Company without cause, or if employment is terminated due to the death of the employee, any Base Distribution Amounts then remaining payable to him or her pursuant to Paragraph (b) above shall be paid to him or her within 30 days after the date of such employment termination. If the employment of a Participant who was employed by the Company as of a Triggering Event is later terminated by the Company for cause, all Base Distribution Amounts then remaining payable to him or her pursuant to Paragraph (b) above shall be forfeited. If a Participant who was employed by the Company as of a Triggering Event terminates employment for any reason other than a reason described in the preceding sentences, all Base Distribution Amounts payable to him or her pursuant to Paragraph (b) above shall be paid in accordance with Paragraph (b) above.

(d) COMMON STOCK ISSUANCE. The aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 300,000 shares. Any of such shares which remain unissued at the termination of the Plan shall cease to be subject to the Plan, but, until termination of the Plan, the Company shall at all times reserve a sufficient number of shares to meet the requirements of the Plan. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered. Shares to be distributed pursuant to the Plan may be authorized but unissued Common Stock or Common Stock previously issued and outstanding and reacquired by the Company. Stock required to be distributed pursuant to the Plan:

- (1) shall be subject to adjustment by the Committee at its discretion as to the number and price of shares of Common Stock in the event of changes in the outstanding Common Stock by reason of dividends payable in stock of the Company, stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant thereof;
- (2) shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities having any priority or preference with respect to or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding;
- (3) shall be appropriately adjusted if the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock payable in stock of the Company; and
- (4) shall, if the Company recapitalizes or otherwise changes its capital structure, be appropriately adjusted to reflect such recapitalization.

The Company intends to register for issuance and, to the extent required to achieve liquidity for Participants, for resale under the Securities Act of 1933, as amended (the 'Act') the shares of Common Stock acquired by a Participant pursuant to Plan distributions and to keep such registration effective. In the absence of such effective registration or an available exemption from registration under the Act, issuance of shares of Common Stock acquired under the Plan will be delayed until registration of such shares is effective or an exemption from registration under the Act is available. The Company intends to use its best efforts to ensure that no such delay will occur. In the event exemption from registration under the Act is available with respect to shares of Common Stock acquired by a Participant pursuant to Plan distributions, the Participant (or the person acquiring such Common Stock in the event of Participant's death or incapacity), if requested by the Company to do so, will execute and deliver to the Company in writing an agreement containing such provisions as the Company may require to assure compliance with applicable securities laws.

(e) EXTRAORDINARY EVENT ADJUSTMENTS. If an extraordinary event outside of the control of the Company occurs which would result in a substantial distortion from the ordinary operation of the Plan, the Board of Directors of the

Company, in its sole discretion, may make such adjustment to the operation of the Plan as it determines to be appropriate.

(f) TAX BONUS. In addition to amounts payable under the Plan pursuant to Paragraphs (a) and (b) above, the Company shall pay to any Participant with respect to any distributions under the Plan which are subject to the tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, (the 'Code') a tax bonus as described in this Paragraph (f). The tax bonus payable to a Participant under this Paragraph (f) shall be equal to the amount determined by (i) determining the aggregate amounts distributed to the Participant pursuant to Paragraphs (a) and (b) above which are treated as excess parachute payments (within the meaning of Section 280G of the Code or the corresponding provision of any successor statute) (adjusted, as appropriate, to reflect any delayed or installment payments) and which are subject to the tax imposed under Section 4999 of the Code or the corresponding provision of any successor statute (the 'Parachute Amount'), (ii) determining the decimal which expresses the maximum rate of tax imposed under section 4999 of the Code or the corresponding provision of any successor statute (the 'Parachute Tax Rate') and the maximum statutory rate, expressed as a decimal, of Federal income tax applicable to the Participant (after reflecting all deductions and adjustments) applicable to the Participant for the taxable year in which he receives the distributions pursuant to Paragraphs (a) and (b) above (the 'Regular Tax Rate'), (iii) multiplying the Parachute Amount by the Parachute Tax Rate, (iv) multiplying the amount determined in item (iii) by 2/3 and (v) multiplying the amount determined in item (iv) by a fraction, the numerator of which is one and the denominator of which is one minus the Regular Tax Rate.

(g) WITHHOLDING TAXES. The Company shall have the right to deduct from all payments under this Plan any federal, state or local taxes required by law to be withheld with respect to such payments, to deduct from other compensation payable to a Participant any federal, state or local taxes required by law to be withheld with respect to such payments or to accept from a Participant a payment of cash in an amount necessary to permit the Company to satisfy any federal, state or local tax withholding obligations with respect to such payments."

3. As amended hereby, the Plan is specifically ratified and reaffirmed.

IN WITNESS WHEREOF, this amendment is executed this ____ day of _____, 1996.

ATTEST: NATIONAL-OILWELL, INC.

By

Paul M. Nation, Vice President,
General Counsel and Secretary

Joel B. Staff, President and
Chief Executive Officer

FIRST AMENDMENT TO
NATIONAL-OILWELL, INC.
VALUE APPRECIATION AND INCENTIVE PLAN B

WHEREAS, NATIONAL-OILWELL, INC. (formerly Now Holdings, Inc.) (the "Company") has heretofore adopted the NOW HOLDINGS, INC. VALUE APPRECIATION AND INCENTIVE PLAN B (the "Plan"); and

WHEREAS, the Company desires to rename and amend the Plan;

NOW, THEREFORE, the Plan shall be renamed and amended as follows:

1. Effective as of August 28, 1996, the Plan shall be renamed "National-Oilwell, Inc. Value Appreciation and Incentive Plan B" and references in the Plan to "Now Holdings, Inc." shall be replaced with references to "National- Oilwell, Inc."

2. Effective as of October 1, 1996, Paragraphs (b), (c) and (d) of Article IV of the Plan shall be deleted and the following shall be substituted therefor:

"(b) FORM AND TIME OF DISTRIBUTIONS. Base Distribution Amount distributions under the Plan resulting from a Pool A Triggering Event other than a Qualified Public Offering Pool A Triggering Event shall be paid in single lump sum cash payments which are paid within the 30 day period immediately following the Pool A Triggering Event. If the Pool A Triggering Event results from a Qualified Public Offering, the distribution to a Participant of the Base Distribution Amount determined pursuant to Paragraph (a) above for such Participant shall be paid as follows:

| | |
|--|---|
| If the Pool A Triggering Event occurs on or before January 17, 1998: | One-third of the Base Distribution Amount determined pursuant to Paragraph (a) above will be paid in cash within 30 days of the date of the Pool A Triggering Event and the remainder of such Base Distribution Amount will be paid by distribution of a number of shares of Common Stock determined by dividing the dollar value of such remainder by the per share initial public offering price, with one-half of such shares of Common Stock being distributed on the first anniversary of the Pool A Triggering Event and with the remainder of such shares of Common Stock being distributed on January 17, 1999. |
|--|---|

If the Pool A Triggering Event occurs after January 17, 1998 but on or before January 17, 1999:

One-half of the Base Distribution Amount determined pursuant to Paragraph (a) above will be paid in cash within 30 days of the date of the Pool A Triggering Event and the remainder of such Base Distribution Amount will be paid by distribution of a number of shares of Common Stock determined by dividing the dollar value of such remainder by the per share initial public offering price, with such shares of Common Stock being distributed on January 17, 1999.

If the Pool A Triggering Event occurs after January 17, 1999:

All of the Base Distribution Amount determined pursuant to Paragraph (a) above will be paid in cash within 30 days after the Pool A Triggering Event.

Notwithstanding the foregoing, no shares of Common Stock shall be transferred to a Participant except upon payment by such Participant to the Company of \$0.01 per share cash.

(c) FORFEITURES. If a Participant who was employed by the Company as of a Pool A Triggering Event is later involuntarily terminated by the Company without cause, or if employment is terminated due to the death of the employee, any Base Distribution Amounts then remaining payable to him or her pursuant to Paragraph (b) above shall be paid to him or her within 30 days after the date of such employment termination. If the employment of a Participant who was employed by the Company as of a Pool A Triggering Event is later terminated by the Company for cause, all Base Distribution Amounts then remaining payable to him or her pursuant to Paragraph (b) above shall be forfeited. If a Participant who was employed by the Company as of a Pool A Triggering Event terminates employment for any reason other than a reason described in the preceding sentences, all Base Distribution Amounts payable to him or her pursuant to Paragraph (b) above shall be paid in accordance with Paragraph (b) above.

(d) COMMON STOCK ISSUANCE. The aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 100,000 shares. Any of such shares which remain unissued at the termination of the Plan shall cease to be subject to the Plan, but, until termination of the Plan, the Company shall at all times reserve a sufficient number of shares to meet the requirements of the Plan. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered. Shares to be distributed pursuant to the Plan may be authorized but unissued Common Stock or Common Stock previously issued and outstanding and reacquired by the Company. Stock required to be distributed pursuant to the Plan:

- (1) shall be subject to adjustment by the Committee at its discretion as to the number and price of shares of Common Stock in the event of changes in the outstanding Common Stock by reason of dividends payable in stock of the Company, stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant thereof;
- (2) shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities having any priority or preference with respect to or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding;
- (3) shall be appropriately adjusted if the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock payable in stock of the Company; and
- (4) shall, if the Company recapitalizes or otherwise changes its capital structure, be appropriately adjusted to reflect such recapitalization.

The Company intends to register for issuance and, to the extent required to achieve liquidity for Participants, for resale under the Securities Act of 1933, as amended (the 'Act') the shares of Common Stock acquired by a Participant pursuant to Plan distributions and to keep such registration effective. In the absence of such effective registration or an available exemption from registration under the Act, issuance of shares of Common Stock acquired under the Plan will be delayed until registration of such shares is effective or an exemption from registration under the Act is available. The Company intends to use its best efforts to ensure that no such delay will occur. In the event exemption from registration under the Act is available with respect to shares of Common Stock acquired by a Participant pursuant to Plan distributions, the Participant (or the person acquiring such Common Stock in the event of Participant's death or incapacity), if requested by the Company to do so, will execute and deliver to the Company in writing an agreement containing such provisions as the Company may require to assure compliance with applicable securities laws."

3. Effective as of October 1, 1996, Paragraphs (c) and (d) of Article V of the Plan shall be deleted and the following shall be substituted therefor:

"(c) FORM OF POOL B DISTRIBUTIONS. Pool B distributions to a Participant under the Plan shall be paid in cash.

(d) FORFEITURES. If the employment of a Participant who was employed by the Company or an Affiliate as of a Pool B Triggering Event is later terminated for any reason other than by the Company or an Affiliate for cause, any Pool B distribution amounts then remaining payable to him or her pursuant to Paragraph (b) above shall be paid to him or her as if such Participant continued to be employed by the Company or an Affiliate. If the employment of a Participant who was employed by the Company or an Affiliate as of a Pool B Triggering Event is terminated by the Company or an Affiliate for cause, all Pool B distribution amounts then remaining payable to him or her pursuant to paragraph (b) above shall be forfeited and the amount of such remaining Pool B distributions which are so forfeited shall be used to increase the amounts of Pool B distributions then remaining payable to other Participants as follows:

- (1) The forfeited Pool B distribution amount which would have otherwise been payable as of a given date to the forfeiting Participant (the 'Distribution Date Forfeiture Amount') shall be applied to increase the Pool B distribution amounts payable as of such date to the Participants entitled to Pool B distributions as of such date.
- (2) The increase in the Pool B distributions for a Participant entitled to an increase pursuant to item (1) above shall be determined by multiplying the Distribution Date Forfeiture Amount by a fraction, the numerator of which is the Pool B distribution amount payable as of such date to such Participant and the denominator of which is the total Pool B distribution amount payable to all Participants as of such date and then by increasing such Participant's Pool B distribution amount for such date by the amount so determined."

4. Effective as of October 1, 1996, Paragraph (f) of Article X of the Plan shall be deleted and the following shall be substituted therefor:

"(f) WITHHOLDING TAXES. The Company shall have the right to deduct from all payments under this Plan any federal, state or local taxes required by law to be withheld with respect to such payments, to deduct from other compensation payable to a Participant any federal, state or local taxes required by law to be withheld with respect to such payments or to accept from a Participant a payment of cash in an amount necessary to permit the Company to satisfy any federal, state or local tax withholding obligations with respect to such payments."

5. As amended hereby, the Plan is specifically ratified and reaffirmed.

IN WITNESS WHEREOF, this amendment is executed this ____ day of _____,
1996.

ATTEST: NATIONAL-OILWELL, INC.

By

Paul M. Nation, Vice President,
General Counsel and Secretary

Joel B. Staff, President and
Chief Executive Officer

SECOND AMENDMENT
TO
STOCKHOLDERS AGREEMENT

OCTOBER 18, 1996

The undersigned parties to that certain Stockholders Agreement dated as of January 16, 1996 by and among NOW Holdings, Inc. (now, National-Oilwell, Inc.) and its stockholders (the "Stockholders Agreement"), pursuant to Section 8.2 of the Stockholders Agreement, hereby consent to the following amendment to the Stockholders Agreement:

Section 6.1(h) of the Stockholders Agreement is hereby amended and restated in its entirety to read as follows:

"(h) If a registration pursuant to this Section 6.1 involves an Underwritten Offering and the managing underwriter shall advise the Company that, in its judgment, the number of shares proposed to be included in such Offering should be limited due to market conditions, then the Company will promptly so advise each holder of Registerable Securities that has requested registration, and the Company Securities, if any, shall first be excluded from such Offering to the extent necessary to meet such limitation; and if further exclusions are necessary to meet such limitation, the shares shall be excluded on a pro rata basis among all Registerable Securities requested to be registered pursuant to Section 6.1(a)(i) and 6.1(a)(ii)."

IN WITNESS WHEREOF, each of the parties hereto has caused this Consent and Amendment to be executed as of October 18, 1996 by their respective officers thereunto duly authorized.

NATIONAL-OILWELL, INC.

By: _____
Joel V. Staff
President

DPI OIL SERVICE PARTNERS
LIMITED PARTNERSHIP

By: Inverness/Phoenix LLC
Managing General Partner

By: _____
W. McComb Dunwoody
President

DPI PARTNERS II

By: _____
W. McComb Dunwoody
Managing Partner

GENERAL ELECTRIC
CAPITAL CORPORATION

By: _____
Name:
Title: Authorized Signature

FIRST RESERVE FUND V,
LIMITED PARTNERSHIP

By: First Reserve Corporation,
as Managing General Partner

By: _____
Bruce Rothstein
Vice President

FIRST RESERVE FUND V-2,
LIMITED PARTNERSHIP

By: First Reserve Corporation,
as Managing General Partner

By: _____
Bruce Rothstein
Vice President

FIRST RESERVE FUND VI,
LIMITED PARTNERSHIP

By: First Reserve Corporation,
as Managing General Partner

By: _____
Bruce Rothstein
Vice President

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated August 29, 1996 related to the consolidated balance sheet of National-Oilwell, Inc. and subsidiaries, and to the use of our report dated January 31, 1996 related to the consolidated financial statements of National-Oilwell, a general partnership, and subsidiaries in the Registration Statement (Form S-1 No. 333-11051) and related Prospectus for the registration of 4,000,000 shares of common stock.

ERNST & YOUNG LLP

Houston, Texas
October 24, 1996