FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE YEAR ENDED DECEMBER 31, 2001 OR

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

Commission file number 1-12317

NATIONAL-OILWELL, INC.
(Exact name of registrant as specified in its charter)

| DELAWARE | 76-0475815 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

10000 RICHMOND AVENUE
4TH FLOOR
HOUSTON, TEXAS
77042-4200
(Address of principal executive offices)

(713) 346-7500
(Registrant's telephone number, including area code)

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

| COMMON STOCK, PAR VALUE $.01 | NEW YORK STOCK EXCHANGE |
|---|---|
| (Title of Class) | (Exchange on which registered) |

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of March 22, 2002, 80,947,105 common shares were outstanding. Based upon the closing price of these shares on the New York Stock Exchange and, excluding solely for purposes of this calculation 5,798,591 shares beneficially owned by directors and executive officers, the aggregate market value of the common shares of National-Oilwell, Inc. held by non-affiliates was approximately $1.8 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement in connection with the 2002 Annual Meeting of Stockholders are incorporated in Part III of this report.

ITEM 1. BUSINESS

GENERAL

National Oilwell is a worldwide leader in the design, manufacture and sale of comprehensive systems and components used in oil and gas drilling and production, as well as in providing supply chain integration services to the upstream oil and gas industry.

National Oilwell manufactures and assembles drilling machinery, including drawworks, mud pumps and top drives, which are the major mechanical components of drilling rigs, as well as masts, derricks, cranes and substructures. Many of these components are designed specifically for more demanding applications, which include offshore, extended reach and deep land drilling. We also provide electrical power systems, computer control systems and automation systems for drilling rigs. Our systems are used in many of the industry's most technologically demanding applications. In addition, we provide engineering and fabrication services to integrate our drilling products and deliver complete land drilling and workover rigs as well as drilling modules for mobile offshore drilling rigs or offshore drilling platforms.

Our Products and Technology segment also designs and manufactures drilling motors and specialized downhole tools for rent and sale. Drilling motors are essential components of systems for horizontal, directional, extended reach and performance drilling. Downhole tools include fishing tools, drilling jars, shock tools and other specialized products.

Our Distribution Services segment offers comprehensive supply chain integration services to the drilling and production segments. Our network of service centers located in the United States and Canada and near other major drilling and production activity worldwide use state of the art information technology platforms to provide procurement, inventory management and logistics services. These service centers stock and sell a variety of expendable items for oilfield applications and spare parts for equipment manufactured by National Oilwell.

BUSINESS STRATEGY

National Oilwell's business strategy is to enhance its market positions and operating performance by:

Leveraging our Installed Base of Drilling Machinery and Equipment

We believe our market position and comprehensive product offering present substantial opportunities to capture a significant portion of expenditures for the construction of new drilling rigs and equipment as well as the upgrade and refurbishment of existing drilling rigs and equipment. Over the next few years, the advanced age of the existing fleet of drilling rigs, coupled with drilling activity involving greater depths and extended reach, is expected to generate demand for new equipment. National Oilwell's automation and control systems offer the potential to improve the performance of new and existing drilling rigs. The large installed base of our equipment also provides recurring demand for spare parts and expendable products necessary for proper and efficient operation.

Expanding our Downhole Products Business

We believe economic opportunities for directional, horizontal, extended reach and other value-added drilling applications will increase, providing an opportunity for growth in the rental and sale of high-performance drilling motors and downhole tools.

Furthering our Information Technology and Process Improvement Strategy

National Oilwell has developed an integrated information technology and process improvement strategy to enhance procurement, inventory management and logistics activities. As a result of the need to improve industry efficiency, oil and gas companies and drilling contractors are frequently seeking alliances with suppliers, manufacturers and

service providers to achieve cost and capital improvements. We believe we are well positioned to provide these services as a result of our:

- large and geographically diverse network of distribution service centers in major oil and gas producing areas;

- strong relationship with a large community of industry suppliers;

- knowledge of customers procurement processes, suppliers capabilities and products performance; and

- information systems that offer customers and suppliers enhanced e-commerce capabilities.

In addition, the integration of our distribution expertise, extensive network and growing base of customer alliances provides an increased opportunity for cost-effective marketing of our manufactured parts and equipment.

Continuing our Acquisitions Strategy

We believe the oilfield service and equipment industry will continue to experience consolidation as businesses seek to align themselves with other market participants in order to gain access to broader markets and integrated product offerings. From 1997 through January 2002, National Oilwell has made a total of twenty-seven acquisitions and plans to continue to participate in this trend.

OPERATIONS

Products and Technology

National Oilwell designs, manufactures and sells drilling systems and components for both land and offshore drilling rigs as well as complete land drilling and well servicing rigs. The major mechanical components include drawworks, mud pumps, top drives, SCR houses, solids control equipment, traveling equipment and rotary tables. These components are essential to the pumping of fluids and hoisting, supporting and rotating of the drill string. Many of these components are designed specifically for applications in offshore, extended reach and deep land drilling. This equipment is installed on new rigs and often replaced during the upgrade and refurbishment of existing rigs.

Masts, derricks and substructures are designed and manufactured for use on land rigs and on fixed and mobile offshore platforms, and are suitable for drilling applications to depths of up to 30,000 feet or more. Other products include pedestal cranes, reciprocating and centrifugal pumps and fluid end expendables for all major manufacturers' pumps. Our business includes the sale of replacement parts for our own manufactured machinery and equipment.

We also design and produce control and data acquisition systems for drilling related operations and automated and remotely controlled machinery for drilling rigs. Products include the Cyberbase(TM) operator system which incorporates computer software, keypads and joysticks rather than traditional gauges, lights and switches. The Cyberbase(TM) system forms the basis for the state-of-the-art driller's cabin. Another product is the automated pipe handling system that provides an efficient and cost effective method of joining lengths of drill pipe or casing.

While offering a complete line of conventional rigs, National Oilwell has extensive experience in providing rig designs to satisfy requirements for harsh or specialized environments. Such products include drilling and well servicing rigs designed for the Arctic, highly mobile drilling and well servicing rigs for jungle and desert use, modular well servicing rigs for offshore platforms and modular drilling facilities for North Sea platforms. We also design and produce fully integrated drilling solutions for the topside of offshore rigs.

National Oilwell designs and manufactures drilling motors, drilling jars and specialized drilling tools for rent and sale. We also design and manufacture a complete line of fishing tools used to remove objects stuck in the wellbore.

Distribution Services

National Oilwell provides distribution services through its network of approximately 150 distribution service centers. These distribution service centers stock and sell a variety of expendable items for oilfield applications and spare parts for our proprietary equipment. As oil and gas companies and drilling contractors have refocused on their core competencies and emphasized efficiency initiatives to reduce costs and capital requirements, our distribution services have expanded to offer outsourcing and alliance arrangements that include comprehensive procurement, inventory management and logistics support. In addition, we believe we have a competitive advantage in the distribution services business by distributing market-leading products manufactured by us.

The supplies and equipment stocked by our distribution service centers vary by location. Each distribution point generally offers a large 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 supplies and equipment pursuant to non-exclusive contracts, which normally specify a discount from list price for each product or product category. Strategic alliances are also significant to the Distribution Services business and differ from standard agreements for supplies and equipment in that we become the customer's primary supplier of those items. In certain cases, we assume responsibility for procurement, inventory management and product delivery for the customer, occasionally by working directly out of the customer's facilities.

We believe e-commerce brings a significant advantage to larger companies that are technologically proficient. During the last few years, we have invested over $20 million to improve our information technology systems. Our e-commerce system can interface directly with customers' systems to maximize efficiencies for us and for our customers. We believe we have an advantage in this effort due to our investment in technology, geographic size, knowledge of the industry and customers, existing relationships with vendors and existing means of product delivery.

Marketing

Substantially all of our capital equipment and spare parts sales, and a large portion of our smaller pumps and parts sales, are made through our direct sales force and distribution service centers. Sales to foreign state-owned oil companies are typically made in conjunction with agent or representative arrangements. Our downhole products are generally rented and sold worldwide through our own sales force and through commissioned representatives. Distribution sales are made through our network of distribution service centers. Customers for our products and services include drilling and other service contractors, exploration and production companies, supply companies and nationally owned or controlled drilling and production companies.

Competition

The oilfield services and equipment industry is highly competitive and our revenues and earnings can be affected by price changes, introduction of new technologies and products and improved availability and delivery. We compete with a large number of companies, none of which are dominant.

Manufacturing and Backlog

National Oilwell has manufacturing facilities located in the United States, Canada and Norway. The manufacture of parts or purchase of components is sometimes outsourced to qualified subcontractors. The manufacturing operations require a variety of components, parts and raw materials which we purchase from multiple commercial sources. We have not experienced and do not expect any significant delays in obtaining deliveries of materials.

Sales of products are made on the basis of written orders and oral commitments. Our backlog for equipment at recent year ends has been:

| | |
|---|---|
| December 31, 2001 | $385 million |
| December 31, 2000 | 282 million |
| December 31, 1999 | 114 million |
| December 31, 1998 | 83 million |

Distribution Suppliers

National Oilwell obtains products sold by its Distribution Services business from a number of suppliers, including our own Products and Technology segment. No single supplier of products is significant to our operations. We have not experienced and do not expect a shortage of products that we sell.

Engineering

National Oilwell maintains a staff of engineers and technicians to:

- design and test new products, components and systems for use in drilling and pumping applications;
- enhance the capabilities of existing products; and
- assist our sales organization and customers with special projects.

Our product engineering efforts focus on developing technology to improve the economics and safety of drilling and pumping processes, and to emphasize technology and complete drilling solutions.

Patents and Trademarks

National Oilwell 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, we do not consider any single patent to be of a critical or essential nature. In general, our business has historically relied upon technological capabilities, quality products and application of expertise rather than patented technology.

Employees

As of December 31, 2001, we had a total of 6,200 employees, 3,400 of whom were salaried and 2,800 of whom were paid on an hourly basis. Of this workforce, 1,365 employees are employed in Canada and 574 are employed in other locations outside the United States.

RISK FACTORS

Before purchasing any shares of National Oilwell common stock, you should consider carefully the following factors, in addition to the other information contained or incorporated by reference herein.

National Oilwell Depends on the Oil and Gas Industry

National Oilwell is dependent upon the oil and gas industry and its willingness to explore for and produce oil and gas. The industry's willingness to explore and produce depends upon the prevailing view of future product prices. Many factors affect the supply and demand for oil and gas and therefore influence product prices, including:

- level of production from known reserves;
- cost of producing oil and gas;
- level of drilling activity;
- worldwide economic activity;
- national government political requirements;
- development of alternate energy sources; and
- environmental regulation.

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

Oil and Gas Prices Are Volatile

Oil and gas prices have been volatile over the last ten years, ranging from $10 - - $40 per barrel. Oil prices were low in 1998, generally ranging from $11 to $16 per barrel. In 1999, oil prices recovered to more normal historical levels, and were generally in the $25-$30 per barrel range during 2000. Prices once again declined in the second half of 2001, generally ranging between $18 and $22. Spot gas prices have also been volatile over the last ten years, ranging from less than $1.00 per mmbtu to above $10.00. Gas prices were moderate in 1998 and 1999, generally ranging from $1.80 to $2.50 per mmbtu. Gas prices strengthened throughout 2000, generally ranging from $4-$8 per mmbtu. Since the second quarter of 2001, gas prices have been under pressure again, and have generally ranged from $2.20 to $3.00 per mmbtu.

These price changes have caused many shifts in the strategies and expenditure levels of oil and gas companies and drilling contractors, particularly with respect to decisions to purchase major capital equipment of the type we manufacture. In the second half of 1998, lower oil prices slowed production and new drilling, particularly in areas with high per barrel cost of production. This slowdown quickly affected our Distribution Services segment and subsequently negatively impacted our Products and Technology segment. While activity increased in 2000 and 2001, demand again declined in the fourth quarter of 2001. We cannot predict future oil and gas prices or the effect prices will have on exploration and production levels.

National Oilwell's Industry Is Highly Competitive

The oilfield products and services industry is highly competitive. The following competitive actions can each affect our revenues and earnings:

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

We compete with many companies and there are low barriers to entry in many of our businesses. Some of the companies with which we now or may in the future compete may possess greater financial resources or offer certain products that we do not have.

National Oilwell Faces Potential Product Liability and Warranty Claims

Customers use some of our products in potentially hazardous drilling, completion and production applications that can cause:

- injury or loss of life;
- damage to property, equipment or the environment; and
- suspension of operations.

We maintain amounts and types of insurance coverage that we believe are consistent with normal industry practice. We cannot guarantee that insurance will be adequate to cover all liabilities we may incur. We also may not be able to maintain insurance in the future at levels we believe are necessary and at rates we consider reasonable.

National Oilwell may be named as a defendant in product liability or other lawsuits asserting potentially large claims if an accident occurs at a location where our equipment and services have been used. We are currently party to various legal and administrative proceedings. We cannot predict the outcome of these proceedings, nor can we guarantee any negative outcomes will not be significant to us.

Instability of Foreign Markets Could Have a Negative Impact on the Revenues of National Oilwell

Some of our revenues depend upon customers in the Middle East, Africa, Southeast Asia, South America and other international markets. These revenues are subject to risks of instability of foreign economies and governments. Laws and regulations limiting exports to particular countries can affect our sales, and sometimes export laws and regulations of one jurisdiction contradict those of another.

National Oilwell is exposed to the risks of changes in exchange rates between the U.S. dollar and foreign currencies. We do not currently engage in or plan to engage in any significant hedging or currency trading transactions designed to compensate for adverse currency fluctuations.

National Oilwell May Not Be Able to Successfully Manage Its Growth

National Oilwell has acquired 26 companies during the past five years, including nine in 2001. We also made one acquisition in January 2002 and intend to acquire additional companies in the future. We cannot predict whether suitable acquisition candidates will be available on reasonable terms or if we will have access to adequate funds to complete any desired acquisition. Once acquired, we cannot guarantee that we will successfully integrate the operations of the acquired companies. Combining organizations could interrupt the activities of some or all of our businesses and have a negative impact on operations.

National Oilwell Has Debt

In 1998, National Oilwell issued $150 million of 6 7/8% unsecured senior notes due July 1, 2005. In 2001, we issued an additional $150 million of 6 3/4% unsecured senior notes due March 15, 2011. As a result of these issuances, we became more leveraged. It is also possible that we will incur additional debt in the future in connection with acquisitions, operations or other matters. As of December 31, 2001, we had a total of $310 million of debt and a total of $868 million of stockholders' equity. Our leverage requires us to use some of our cash flow from operations for payment of interest on our debt. Our leverage may also make it more difficult to obtain additional financing in the future. Further, our leverage could make us more vulnerable to economic downturns and competitive pressures.

ITEM 2. PROPERTIES

National Oilwell owned or leased approximately 240 facilities worldwide as of December 31, 2001, including the following principal manufacturing and administrative facilities:

| LOCATION | APPROXIMATE BUILDING SPACE (SQUARE FOOT) | DESCRIPTION | STATUS |
|---|---|---|---|
| Pampa, Texas | 548,000 | Manufactures drilling machinery and equipment | Owned |
| Houston, Texas | 540,000 | Manufactures downhole tools and mobile rigs | Owned |
| Houston, Texas | 260,000 | Manufactures and services drilling machinery and equipment | Leased |
| Sugarland, Texas | 190,000 | Manufactures braking systems and generators | Owned |
| Galena Park, Texas | 188,000 | Fabricates drilling components and rigs | Owned |
| Houston, Texas | 178,000 | Manufactures SCR systems | Owned |
| Edmonton, Alberta, Canada | 162,000 | Manufactures downhole tools | Owned |
| Tulsa, Oklahoma | 140,000 | Manufactures pumps and expendable parts | Owned |
| McAlester, Oklahoma | 117,000 | Manufactures pumps and expendable parts | Owned |
| Houston, Texas | 100,000 | Administrative offices | Leased |
| Stavanger, Norway | 87,000 | Engineering and manufacturing | |

| | | | |
|---|---|---|---|
| of drilling components Leased and systems Calgary, Alberta, Canada | 76,000 | Engineering, fabrication and assembly of coiled | Owned |
| tubing units and wireline trucks Victoria, Texas | 71,000 | Manufactures and services mobile rigs | Owned |
| Marble Falls, Texas | 65,000 | Manufactures drilling expendable parts | Owned |
| Nisku, Alberta, Canada | 59,000 | Manufactures drilling machinery and equipment | Owned |
| Stavanger, Norway | 62,000 | Engineering and manufacturing of drilling components | Owned and |
| systems Edmonton, Alberta, Canada | 57,000 | Manufactures drilling machinery and equipment | Owned |

We own or lease 61 satellite repair and manufacturing facilities that refurbish and manufacture new equipment and parts and approximately 150 distribution service centers worldwide. We believe the capacity of our facilities is adequate to meet demand currently anticipated for 2002.

ITEM 3. LEGAL PROCEEDINGS

National Oilwell has various claims, lawsuits and administrative proceedings that are pending or threatened, all arising in the ordinary course of business, with respect to commercial, product liability and employee matters. 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, we believe any ultimate liability resulting from the outcome of such proceedings will not have a material adverse effect on our consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

National Oilwell common stock is listed on the New York Stock Exchange (ticker symbol: NOI). The following table sets forth the stock price range during the past three years:

| Quarter | 2001 High | 2001 Low | 2000 High | 2000 Low | 1999 High | 1999 Low |
|---|---|---|---|---|---|---|
| First | $40.50 | $ 33.65 | $ 31.38 | $ 14.25 | $13.69 | $ 8.50 |
| Second | 39.55 | 26.80 | 32.89 | 22.94 | 14.13 | 10.00 |
| Third | 25.74 | 12.91 | 37.50 | 27.25 | 18.50 | 13.00 |
| Fourth | 20.86 | 13.85 | 39.19 | 28.25 | 16.50 | 12.00 |

As of March 22, 2002, there were 506 holders of record of National Oilwell common stock. Many stockholders choose to own shares through brokerage accounts and other intermediaries rather than as holders of record so the actual number is unknown but significantly higher. National Oilwell has never paid cash dividends, and none are anticipated during 2002.

ITEM 6. SELECTED FINANCIAL DATA

Data for all periods shown below is restated to combine IRI International, Dupre' and Dreco results pursuant to pooling-of-interests accounting.

| YEAR ENDED DECEMBER 31, ---- 2001 2000 1999 1998 1997(1) | (in thousands of U.S. dollars, except per share amounts) | | | | |
|---|---|---|---|---|---|
| OPERATING DATA: | | | | | |
| Revenues | $1,747,455 | $1,149,920 | $ 839,648 | $1,449,248 | $1,282,772 |
| Operating income(2) | 189,277 | 48,456 | 1,325 | 139,815 | 114,405 |
| Income (loss) before taxes and extraordinary loss(3) | 168,017 | 27,037 | (14,859) | 125,021 | 101,466 |
| Income (loss) before extraordinary loss(3) | 104,063 | 13,136 | (9,385) | 81,336 | 67,362 |
| Net income (loss) | 104,063 | 13,136 | (9,385) | 81,336 | 65,227 |
| Income (loss) per share before extraordinary loss(3) | | | | | |
| Basic | 1.29 | 0.17 | (0.13) | 1.19 | 1.01 |
| Diluted | 1.27 | 0.16 | (0.13) | 1.19 | 1.00 |
| Net income (loss) per share | | | | | |
| Basic | 1.29 | 0.17 | (0.13) | 1.19 | 0.98 |
| Diluted | 1.27 | 0.16 | | | |

| | | | | | |
|---|---|---|---|---|---|
| (0.13) | 1.19 | | | | |
| 0.97 | | | | | |
| OTHER DATA: | | | | | |
| Depreciation and amortization | | | | | |
| 38,873 | 35,034 | 25,541 | 20,518 | 21,194 | |
| Capital expenditures | | | | | |
| 27,358 | 24,561 | 17,547 | 39,246 | 40,538 | |
| BALANCE SHEET DATA: | | | | | |
| Working capital | | | | | |
| 631,257 | 480,321 | 452,015 | 529,937 | 417,731 | |
| Total assets | | | | | |
| 1,471,696 | 1,278,894 | 1,005,715 | 1,091,028 | 844,674 | |
| Long-term debt, less current maturities | | | | | |
| 300,000 | 222,477 | 196,053 | 222,209 | 61,813 | |
| Stockholders' equity | | | | | |
| 867,540 | 767,206 | 596,375 | 603,568 | 482,614 | |

(1) In order to conform Dreco's fiscal year end to match National Oilwell's year end, the results of operations for the month of June 1997 have been included directly in stockholders' equity. Dreco's revenues and net income were $13.4 million and $0.9 million for the month.

(2) In connection with the IRI International Corporation merger in 2000, we recorded charges of $14,500,000 related to direct merger costs, personnel reductions, and facility closures and inventory write-offs of $15,684,000 due to product line rationalization. A credit of $418,000 was also recorded in 2000 related to previous charges. In 1999, a $1,779,000 charge was recorded by IRI prior to the merger which related to personnel reductions resulting from consolidating our manufacturing operations. In 1998, a $17,023,000 charge was recorded related to personnel reductions and facility closures and a $5,600,000 charge related to the write-down of certain tubular inventories. In 1997, we recorded a $10,660,000 charge related to merger expenses incurred in connection with the combination with Dreco.

(3) National Oilwell recorded an extraordinary loss in 1997 of $2,135,000, net of income tax benefits, due to the write-off of deferred debt issuance costs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

National Oilwell is a worldwide leader in the design, manufacture and sale of drilling systems, drilling equipment and downhole products as well as the distribution to the oil and gas industry of maintenance, repair and operating products. Our 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. Oil and gas prices have been volatile over the last ten years, ranging from $10 - $40 per barrel. Oil prices were low in 1998, generally ranging from $11 to $16 per barrel. In 1999, oil prices recovered to more normal historical levels, and were generally in the $25-$30 per barrel range during 2000. Prices once again declined in the second half of 2001, generally ranging between $18 and $22. Spot gas prices have also been volatile over the last ten years, ranging from less than $1.00 per mmbtu to above $10.00. Gas prices were moderate in 1998 and 1999, generally ranging from $1.80 to $2.50 per mmbtu. Gas prices strengthened throughout 2000, generally ranging from $4-$8 per mmbtu. Since the second quarter of 2001, gas prices have been under pressure again, and have generally ranged from $2.20 to $3.00 per mmbtu. We expect our revenues to increase if our customers gain confidence in sustained commodity prices and as their cash flows from operations improve. See "Risk Factors".

We conduct our operations through the following segments:

Products and Technology

The Products and Technology segment designs and manufactures a large line of proprietary products, including drawworks, mud pumps, top drives, automated pipe handling, electrical control systems and downhole motors and tools, as well as complete land drilling and well servicing rigs, and structural components such as cranes, masts, derricks and substructures for offshore rigs. A substantial installed base of these products results in a recurring replacement parts and maintenance business. Sales of new capital equipment can result in large fluctuations in volume between periods depending on the size and timing of the shipment of orders. In addition, the segment provides drilling pump expendable products for maintenance of National Oilwell's and other manufacturers' equipment.

Distribution Services

Distribution Services revenues result primarily from the sale of maintenance, repair and operating supplies ("MRO") from our network of distribution service centers. These products are purchased from numerous manufacturers and vendors, including our Products and Technology segment.

RESULTS OF OPERATIONS

Operating results by segment, which have been restated to reflect a business combination accounted for under the pooling-of-interests method during 2000, are as follows (in millions):

| YEAR ENDED DECEMBER 31, | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues: | | | |
| Products and Technology | $ 1,120.9 | $ 683.5 | $ 460.0 |
| Distribution Services | 707.8 | 521.3 | 410.3 |
| Eliminations | (81.3) | (54.8) | (30.7) |
| Total | $ 1,747.4 | $ 1,150.0 | $ |

| | | | |
|---|---|---|---|
| | 839.6 | | |
| Operating Income: | | | |
| Products and Technology | $ 171.0 | $ 61.0 | $ 23.6 |
| Distribution Services | 28.5 | 12.9 | (6.0) |
| Corporate | (10.2) | (11.3) | (14.5) |
| | - | 189.3 | 62.6 |
| | 3.1 | | |
| Special Charge | -- | 14.1 | 1.8 |
| | -- | | |
| Total | $ 189.3 | $ 48.5 | $ 1.3 |

Products and Technology

Revenues for the Products and Technology segment in 2001 increased by $437.4 million (64%) from 2000 as virtually all products experienced significant revenue growth. Capital equipment revenues were up $285 million, drilling spares up $35 million, expendable pumps and parts were higher by $47 million and downhole tools increased $75 million. As a result of this robust revenue growth, operating income in 2001 increased by $110.0 million from the prior year. Revenues from acquisitions completed in 2001 under the purchase method of accounting accounted for $34 million in incremental revenues.

Revenues for the Products and Technology segment in 2000 increased by $223.5 million (49%) from 1999 primarily due to increased sales of major capital equipment and drilling spares of $110 million, expendable pumps and pump parts of $35 million and downhole tools of $52 million. Operating income in 2000 increased by $37.4 million from the prior year due primarily to this substantial revenue increase. Revenues from acquisitions completed in 2000 under the purchase method of accounting accounted for $56 million in incremental revenues.

Backlog of the Products and Technology capital products was $385 million at December 31, 2001, $282 million at December 31, 2000 and $114 million at December 31, 1999. Substantially all of the current backlog is expected to be shipped by the end of 2002.

Distribution Services

Distribution Services revenues in 2001 increased $186.5 million from the 2000 level with all areas and products participating in the upswing that lasted until the middle of the 4th quarter 2001. U.S. revenues of maintenance, repair and operating ("MRO") supplies were up 44% while Canadian revenues were 13% higher than the prior year. Operating income in 2001 increased by $15.6 million from the prior year due to the higher revenue volume and cost efficiencies linked to the new global operating system. Revenues from acquisitions completed in 2001 under the purchase method of accounting accounted for $24 million in incremental revenues.

Distribution Services revenues in 2000 increased $111.0 million from the 1999 level, reflecting the enhanced drilling activity driven primarily by higher, more stable oil and gas prices. Revenues of maintenance, repair and operating ("MRO") supplies in the United States were 26% greater while Canadian revenues were 30% higher than the prior year. Operating income of $12.9 million in 2000 reflects an $18.9 million improvement from 1999. The margin increase resulting from the higher revenues and the absence of startup costs associated with the installation of a new operating system were the primary contributors to this significant improvement.

Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. Year 2001 costs of $10.2 million represents a 10% reduction from the prior year as various e-strategy and e-commerce initiatives became operational. A reduction of $3.2 million in 2000 as compared to 1999 reflects the elimination of the IRI corporate operations as a result of the merger. Year 2002 corporate charges are expected to approximate the year 2001 level.

Special Charges

During 2000, the Company recorded a special charge, net of a $0.4 million credit from previous special charges, of $14.1 million ($11.0 million after tax, or $0.14 per share) related to the merger with IRI International. Components of the charge were (in millions):

| | |
|---|---|
| Direct transaction costs | $ 6.6 |
| Severance | 6.4 |
| Facility closures | 1.5 |
| | 14.5 |
| Prior year reversal | (0.4) |
| | $ 14.1 |

The cash and non-cash elements of the charge approximate $13 million and $1.1 million, respectively. Approximately $11 million of the direct cash outlays were spent by the end of 2000, and essentially all of the remainder had been spent at December 31, 2001. Facility closure costs consist of lease cancellation costs and impairment of a closed manufacturing facility that is classified with "Property held for sale" on our balance sheet. All of this charge is applicable to the Products and Technology business segment.

During 1999 and prior to the merger with National Oilwell, a $1.8 million charge was recorded by IRI related to additional severance costs resulting from consolidating our manufacturing operations.

Interest Expense

Despite continual borrowing rate declines during 2001, interest expense increased approximately $5.5 million over 2000 due to our higher debt level to support the working capital associated with the robust business climate. In March 2001, we sold $150 million of 6 1/2% unsecured senior notes which increased our total senior debt to $300 million. Year 2001 average monthly debt, including the senior notes, was $334 million or $118 million (54%) greater than the 2000 level.

Interest expense was greater in 2000 than the prior year due to an average borrowing rate increase of 0.25 basis points and a higher debt level throughout the year.

Income Taxes

National Oilwell is subject to U.S. federal, state and foreign taxes and recorded a combined tax rate of 38% in 2001, 51% in 2000 and 37% in 1999. The 2000 effective tax rate was impacted by certain transaction costs associated with the IRI merger and the inclusion of pre-merger IRI capital losses due to pooling-of-interests accounting that may not be deductible. Excluding the impact of merger-related costs and capital losses, our combined effective tax rate for 2000 was 36% compared to 43% in 1999.

We have net operating loss carryforwards in the United States, which expire at various dates through 2009, that could reduce future tax expense by up to $4.5 million. Additional loss carryforwards in Europe generally would reduce goodwill if realized in the future. Due to the uncertainty of future utilization, most of the potential benefits described above have been fully reserved. We realized a tax benefit of $0.9 million during 2001, 2000 and 1999 from our U.S. carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, National Oilwell had working capital of $631.3 million, an increase of $150.9 million from December 31, 2000. During 2001, accounts receivable and inventory increased by $87 million and $80 million, respectively. Current portion of long-term debt increased approximately $10 million due to the classification of our revolving credit agreement as a current liability due to its expiration in September 2002. We have entered negotiations to secure a revolving credit facility of a similar size prior to the expiration of the current facility.

Total capital expenditures were $27.4 million during 2001, $24.6 million in 2000 and $17.5 million in 1999. Additions and enhancements to the downhole rental tool fleet and information management and inventory control systems represent the majority of these capital expenditures. Capital expenditures are expected to approximate $30 million in 2002. We believe we have sufficient existing manufacturing capacity to meet currently anticipated demand through 2002 for our products and services.

In September 1997, we entered into a five-year unsecured $125 million revolving credit facility. The credit facility is available for acquisitions and general corporate purposes. The credit facility provides for interest at prime or LIBOR plus 0.5 %, subject to downward adjustment based on our Capitalization Ratio, as defined. It also contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage. We have not violated any financial covenants during the term of this credit facility.

We believe cash generated from operations and amounts available under the credit facility and from other sources of debt will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing

obligations. We also believe any significant increase in capital expenditures caused by any need to increase manufacturing capacity can be funded from operations or through debt financing.

We have not entered into any transactions, arrangements, or relationships with unconsolidated entities or other persons which would materially affect liquidity, or the availability of or requirements for capital resources. A summary of our outstanding contractual obligations and other commercial commitments at December 31, 2001 is as follows (in thousands):

| PAYMENTS DUE BY PERIOD | TOTAL | -- LESS THAN 1 YEAR | 1-3 YEARS | 4-5 YEARS | AFTER 5 YEARS |
|---|---|---|---|---|---|
| Long Term Debt | $ 310,213 | $ 10,213 | $ 150,000 | $ - | $ 150,000 |
| Operating Leases | 47,418 | 14,265 | 25,748 | 5,950 | 1,455 |
| Total contractual obligations | $ 357,631 | $ 24,478 | $ 175,748 | $ 5,950 | $ 151,455 |

| AMOUNT OF COMMITMENT EXPIRATION PER PERIOD | TOTAL | LESS THAN 1 YEAR | 1-3 YEARS | 4-5 YEARS | AFTER 5 |
|---|---|---|---|---|---|
| COMMERCIAL COMMITMENTS | | | | | |

| YEARS - --- | | | | |
|---|---|---|---|---|
| Line of Credit | $ 125,000 | $ 125,000 | -- | -- |
| Standby Letters of Credit | $ 23,152 | 20,663 | 2,489 | -- |
| Total commercial commitments | $ 148,152 | $ 145,663 | $ 2,489 | $ -- |

We intend to pursue additional acquisition candidates, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. We expect to fund future cash acquisitions primarily with cash flow from operations and borrowings, including the unborrowed portion of the credit facility or new debt issuances, but may also issue additional equity either directly or in connection with acquisitions. There can be no assurance that acquisition funds will be available at terms acceptable to us.

Inflation has not had a significant impact on National Oilwell's operating results or financial condition in recent years.

MARKET RISK DISCLOSURE

We are subject to market risk exposure related to changes in interest rates on our credit facility which is comprised of revolving credit notes in the United States and Canada. A portion of the borrowings are denominated in Canadian funds which could expose us to market risk with exchange rate movements, although such is mitigated by our substantial operations in Canada. These instruments carry interest at a pre-agreed upon percentage point spread from either the prime interest rate or LIBOR. Under our credit facility, we may, at our option, fix the interest rate for certain borrowings based on a spread over LIBOR for 30 days to 6 months. At December 31, 2001 and December 31, 2000, we had $10.2 million and $72.5 million outstanding under our credit facilities. Based on these balances, an immediate change of one percent in the interest rate would cause a change in annual interest expense of approximately $0.1 million in 2001 and $0.7 million in 2000. Our objective in maintaining a portion of our debt in variable rate borrowings is the flexibility obtained regarding early repayment without penalties and lower overall cost as compared with fixed-rate borrowings.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements requires us to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Our estimation process generally relates to potential bad debts, obsolete and slow moving inventory, value of intangible assets, and deferred income tax accounting. Note 3 to the consolidated financial statements contains the accounting policies governing each of these matters. Our estimates are based on historical experience and on our future expectations that we believe to be reasonable under the circumstances. The combination of these factors result in the amounts shown as carrying values of assets and liabilities in the financial statements and accompanying notes. Actual results could differ from our current estimates and those differences may be material.

We believe the following accounting policies are the most critical in the preparation of our consolidated financial statements:

We maintain an allowance for doubtful accounts for accounts receivables by providing for specifically identified accounts where collectibility is doubtful and a general allowance based on the aging of the receivables compared to past experience and current trends. A majority of our revenues come from drilling contractors, independent oil companies, international oil companies and government-owned or government-controlled oil companies, and we have receivables, some denominated in local currency, in many foreign countries. If, due to changes in worldwide oil and gas drilling activity or changes in economic conditions in certain foreign countries, our customers were unable to repay these receivables, additional allowances would be required.

Reserves for inventory obsolescence are determined based on our historical usage of inventory on-hand as well as our future expectations related to our substantial installed base and the development of new products. The amount reserved is the recorded cost of the inventory minus its estimated realizable value. Changes in worldwide oil and gas drilling activity and the development of new technologies associated with the drilling industry could require additional allowances to reduce the value of inventory to the lower of its cost or net realizable value.

Business acquisitions are accounted for using the purchase method of accounting. The cost of the acquired company is allocated to identifiable tangible and intangible assets based on estimated fair value, with the excess allocated to goodwill. The determination of impairment on long-lived assets, including goodwill, is conducted as indicators of impairment are present. If such indicators were present, the determination of the amount of impairment would be based on our judgments as to the future operating cash flows to be generated from these assets throughout their estimated useful lives. Our industry is highly cyclical and our estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows, can have a significant impact on the carrying value of these assets. In periods of prolonged down cycles, impairment charges may result.

Our net deferred tax assets and liabilities are recorded at the amount that is more likely than not to be realized or paid. Should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax assets would be charged to income in the period of such determination.

SUBSEQUENT EVENT

On January 10, 2002, we completed the acquisition of the assets and business of HAL Oilfield Pump & Equipment Company for approximately $16 million. This business, which designs, manufactures and distributes centrifugal pumps, pump packages and expendable parts, is complementary to our Mission pump product line. The acquisition was accounted for as a purchase with goodwill approximating $10 million.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statement. Other intangible assets will continue to be amortized over their useful lives. In addition, accounting for acquisitions under the pooling-of-interests method is no longer permitted. We will adopt the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the statement for 2001 would have resulted in an increase in net income of $11 million ($0.13 per diluted share). Pursuant to SFAS 142, we will test goodwill for impairment upon adoption and, if impairment is indicated, record such impairment as a cumulative effect of an accounting change. We are currently evaluating the effect that the adoption may have on our consolidated results of operations and financial position.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of Accounting Principles Board Opinion ("APB") No. 30, Reporting the Results of Extraordinary, Unusual, and Infrequently Occurring Events and Transactions. This statement retains the fundamental provisions of SFAS No. 121 and the basic requirements of APB No. 30; however, it establishes a single accounting model to be used for long-lived assets to be disposed of by sale and it expands the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. We do not anticipate that the statement will have a material impact on our financial position or results of operations.

FORWARD-LOOKING STATEMENTS

Some of the information in this document contains, or has incorporated by reference, forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements typically are identified by use of terms such as "may," "will," "expect," "anticipate," "estimate," and similar words, although some forward-looking statements are expressed differently. You should be aware that our actual results could differ materially from results anticipated in the forward-looking statements due to a number of factors, including changes in oil and gas prices, customer demand for our products and worldwide economic activity. You should also consider carefully the statements under "Risk Factors" which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. We disclaim any obligation or intent to update any such factors or forward-looking statement to reflect future events or developments.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Incorporated by reference to Item 7 above, "Market Risk Disclosure."

ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA

Attached hereto and a part of this report are financial statements and supplementary data listed in Item 14.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the definitive Proxy Statement for the 2002 Annual Meeting of Stockholders.

### ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the definitive Proxy Statement for the 2002 Annual Meeting of Stockholders.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the definitive Proxy Statement for the 2002 Annual Meeting of Stockholders.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the definitive Proxy Statement for the 2002 Annual Meeting of Stockholders .

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 10-K

a) Financial Statements and Exhibits

1. Financial Statements

The following financial statements are presented in response to Part II, Item 8: Page(s) in This Report



2. Financial Statement Schedules

All schedules are omitted because they are not applicable, not required or the information is included in the financial statements or notes thereto.

3. Exhibits

3.1 Amended and Restated Certificate of Incorporation of National-Oilwell, Inc. (Exhibit 3.1) (5)

3.2 By-laws of National-Oilwell, Inc. (Exhibit 3.2) (1)

10.1 Employment Agreement dated as of January 1, 2002 between Merrill A. Miller, Jr. and National Oilwell, with a similar agreement with Steven W. Krablin

10.2 Employment Agreement dated as of January 1, 2002 between Dwight W. Rettig and National Oilwell, with similar agreements with Robert L. Bloom, Kevin Neveu, Mark A. Reese and Robert R. Workman

10.3 Employment Agreement dated as of June 28, 2000 between Gary W. Stratulate and IRI International, Inc., which has now merged into National Oilwell

10.4 Amended and Restated Stock Award and Long-Term Incentive Plan (Exhibit 10.6) (2)*

10.5 Loan Agreement dated September 25, 1997 (Exhibit 10.1) (4)

10.6 Amendment to Loan Agreement dated as of December 31, 1999 (Exhibit 10.9) (6)

10.7 Employment Agreement dated as of March 1, 2000 between Jon Gjedebo and a National Oilwell subsidiary (Exhibit 10.8) (3)

10.8 Non-competition Agreement dated as of June 28, 2000 between Hushang Ansary and National Oilwell (Exhibit 10.9) (3)

21.1 Subsidiaries of the Company

23.1 Consent of Ernst & Young LLP

23.2 Consent of KPMG LLP

24.1 Power of Attorney (included on signature page hereto)

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 2001.

- ----------

* Compensatory plan or arrangement for management or others

(1) Filed as an Exhibit to Registration Statement No. 333-11051 on Form S-1, as amended, initially filed on August 29, 1996.

(2) Filed with the Proxy Statement for the 1999 Annual Meeting of Stockholders, filed on May 12, 1999.

(3) Filed as an Exhibit to our Annual Report on Form 10-K filed on March 1, 2001.

(4) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on November 7, 1997.

(5) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on August 11, 2000.

(6) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on March 16, 2000.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

NATIONAL-OILWELL, INC.

DATE: MARCH 27, 2002

BY: /s/ STEVEN W. KRABLIN

STEVEN W. KRABLIN
VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT IN THE CAPACITIES AND ON THE DATES INDICATED.

EACH PERSON WHOSE SIGNATURE APPEARS BELOW IN SO SIGNING, CONSTITUTES AND APPOINTS STEVEN W. KRABLIN AND M. GAY MATHER, AND EACH OF THEM ACTING ALONE, 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 EXECUTE AND CAUSE TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ANY AND ALL AMENDMENTS TO THIS REPORT, AND IN EACH CASE TO FILE THE SAME, WITH ALL EXHIBITS THERETO AND OTHER DOCUMENTS IN CONNECTION THEREWITH, AND HEREBY RATIFIES AND CONFIRMS ALL THAT SAID ATTORNEY-IN-FACT OR HIS SUBSTITUTE OR SUBSTITUTES MAY DO OR CAUSE TO BE DONE BY VIRTUE HEREOF.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ MERRILL A. MILLER, JR. | PRESIDENT AND CHIEF EXECUTIVE OFFICER | MARCH 27, 2002 |
| MERRILL A. MILLER, JR. | (PRINCIPAL EXECUTIVE OFFICER) | |
| /s/ STEVEN W. KRABLIN | VICE PRESIDENT AND CHIEF FINANCIAL OFFICER -- (PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER) | MARCH 27, 2002 |
| STEVEN W. KRABLIN | | |
| /s/ JOEL V. STAFF - -- | CHAIRMAN OF THE BOARD | MARCH 27, 2002 |
| JOEL V. STAFF | | |
| /s/ | | |

HUSHANG ANSARY ---------- ---------- ---------- DIRECTOR MARCH 27, 2002 HUSHANG ANSARY /s/ W. MCCOMB DUNWOODY ---------- ---------- ---------- -- DIRECTOR MARCH 27, 2002 W. MCCOMB DUNWOODY /s/ JON GJEDEBO -- ---------- ---------- ---------- - DIRECTOR MARCH 27, 2002 JON GJEDEBO /s/ BEN A. GUILL ---- ---------- ---------- --------- DIRECTOR MARCH 27, 2002 BEN A. GUILL /s/ ROGER L. JARVIS ---------- ---------- ---------- --- DIRECTOR MARCH 27, 2002 ROGER L. JARVIS /s/ WILLIAM E. MACAULAY - ---------- ---------- ---------- -- DIRECTOR MARCH 27, 2002 WILLIAM E. MACAULAY /s/ FREDERICK W. PHEASEY ---------- ---------- ---------- --- DIRECTOR MARCH 27, 2002 FREDERICK W. PHEASEY

## REPORTS OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors
National-Oilwell, Inc.

We have audited the accompanying consolidated balance sheets of National-Oilwell, Inc., as of December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit, in 1999, the financial statements of IRI International Corporation, a wholly-owned subsidiary, which statements reflect revenues of $92,190,000 for the year ended December 31, 1999. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for IRI International Corporation, is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National-Oilwell, Inc., at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Houston, Texas
February 8, 2002

To the Shareholders and Board of Directors
of IRI International Corporation:

We have audited the consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows of IRI International Corporation and Subsidiaries for the year ended December 31,1999. (not presented separately herein) These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of IRI International Corporation and Subsidiaries for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Houston, Texas
March 8, 2000

NATIONAL-OILWELL, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

| | December 31, 2001 | December 31, 2000 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 43,220 | $ 42,459 |
| Receivables, less allowance of $9,094 and $5,885 | 382,153 | 295,163 |
| Inventories | 455,934 | 375,734 |
| Deferred income taxes | 16,825 | 17,105 |
| Prepaid and other current assets | 10,434 | 12,642 |
| Total current assets | 908,566 | 743,103 |
| Property, plant and equipment, net | 168,951 | 173,646 |
| Deferred income taxes | 16,663 | 19,919 |
| Goodwill, net | 352,094 | 329,340 |
| Property held for sale | 12,144 | 8,271 |
| Other assets | 13,278 | 4,615 |
| | $ 1,471,696 | $ 1,278,894 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | 10,213 | -- |
| Accounts payable | 161,277 | 165,801 |
| Customer prepayments | 9,843 | 19,371 |
| Accrued compensation | 23,661 | |

| | | |
|---|---|---|
| 10,996 Other accrued liabilities | 72,315 | 66,614 |
| Total current liabilities | 277,309 | 262,782 |
| Long-term debt | 300,000 | 222,477 |
| Deferred income taxes | 20,380 | 16,030 |
| Other liabilities | 6,467 | 10,399 |
| Total liabilities | 604,156 | 511,688 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock - par value $.01; 80,902,882 and 80,508,535 shares issued and outstanding at December 31, 2001 and December 31, 2000 | 809 | 805 |
| Additional paid-in capital | 592,507 | 583,225 |
| Accumulated other comprehensive loss | (34,873) | (21,858) |
| Retained earnings | 309,097 | 205,034 |
| | 867,540 | 767,206 |
| | $ 1,471,696 | $ 1,278,894 |

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| Year Ended December 31, | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues | $ 1,747,455 | $ 1,149,920 | $ 839,648 |
| Cost of revenues: Cost of products and services sold | 1,319,621 | 884,774 | 686,510 |
| Merger related inventory write-offs | -- | 15,684 | -- |
| Gross profit | 427,834 | 249,462 | 153,138 |
| Selling, general, and administrative | 238,557 | 186,924 | 150,034 |
| Special charge | -- | 14,082 | 1,779 |
| Operating income | 189,277 | 48,456 | 1,325 |
| Interest and financial costs | (24,929) | (19,069) | (15,872) |
| Interest income | 1,775 | 2,908 | 2,276 |
| Other income (expense), net | 1,894 | (5,258) | (2,588) |
| Income (loss) before income taxes | 168,017 | 27,037 | (14,859) |
| Provision/(benefit) for income taxes | 63,954 | 13,901 | (5,474) |
| Net income (loss) | $ 104,063 | $ 13,136 | $ (9,385) |
| Net income (loss) per share: Basic | $ 1.29 | $ 0.17 | $ (0.13) |
| Diluted | $ 1.27 | $ 0.16 | $ (0.13) |
| Weighted average shares outstanding: Basic | 80,813 | 79,325 | 71,672 |
| Diluted | 81,733 | 80,760 | 71,672 |

The accompanying notes are an integral part of these statements.

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

| Year Ended December 31, | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash flow from operating activities: Net income (loss) | $ 104,063 | $ 13,136 | $ (9,385) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: Depreciation and amortization | 38,873 | 35,034 | 25,541 |
| Provision for losses on receivables | 3,897 | 1,589 | 3,055 |
| Provision for deferred income taxes | 7,847 | (5,881) | 2,528 |
| Gain on sale of assets | (2,878) | (3,522) | (2,939) |
| Foreign currency transaction (gain) loss | 573 | (1,397) | 464 |
| Special charge | -- | 14,082 | 1,779 |
| Merger related inventory write-offs | -- | 15,684 | -- |
| Changes in assets and liabilities, net of acquisitions: Marketable securities | -- | 14,686 | (11,686) |
| Receivables | (74,700) | (65,619) | 131,962 |
| Inventories | (71,906) | (27,219) | 10,616 |
| Income taxes receivable | -- | 12,888 | (2,717) |
| Prepaid and other current assets | 2,411 | (4,802) | 3,309 |
| Accounts payable | (23,357) | 47,345 | (46,003) |
| Other assets/liabilities, net | (20,199) | (19,391) | (21,971) |
| Net cash provided (used) by operating activities | (35,376) | 26,613 | 84,553 |
| Cash flow from investing activities: Purchases of property, plant and equipment | (27,358) | (24,561) | (17,547) |
| Proceeds | | | |

| | | | |
|---|---|---|---|
| from sale of assets | 7,927 | 8,227 | 6,280 |
| Proceeds from product line dispositions | -- | -- | 26,599 |
| Businesses acquired and investments in joint ventures, net of cash | (38,517) | (48,208) | (67,029) |
| Net cash used by investing activities | (57,948) | (64,542) | (51,697) |
| Cash flow from financing activities: | | | |
| Borrowings (payments) on line of credit | (60,226) | 19,174 | (33,597) |
| Net proceeds from issuance of long-term debt | 146,631 | -- | -- |
| Proceeds from stock options exercised | 9,286 | 14,247 | 164 |
| Other | -- | (662) | (959) |
| Net cash provided (used) by financing activities | 95,691 | 32,759 | (34,392) |
| Effect of exchange rate losses on cash | (1,606) | (462) | 189 |
| Increase (decrease) in cash and equivalents | 761 | (5,632) | (1,347) |
| Cash and cash equivalents, beginning of year | 42,459 | 48,091 | 49,438 |
| Cash and cash equivalents, end of year | $ 43,220 | $ 42,459 | $ 48,091 |
| Supplemental disclosures of cash flow information: Cash payments during the period for: | | | |
| Interest | $ 20,772 | $ 16,807 | $ 16,899 |
| Income taxes | 26,775 | 7,333 | 11,558 |

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED OTHER COMPREHENSIVE LOSS | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|---|
| Balance at December 31, 1998 | $ 714 | $ 417,067 | $ (15,783) | $ 201,655 | $ 603,653 |
| Net income | | | | (9,385) | (9,385) |
| Currency translation adjustments | | | 1,332 | | 1,332 |
| Marketable securities valuation adjustment | | | 540 | | 540 |
| Change in minimum pension liability | | | 1,988 | | 1,988 |
| Comprehensive loss | | | | | (5,525) |
| Stock options exercised | 3 | 165 | | | 168 |
| Tax benefit of options exercised | | 217 | | | 217 |
| Reversal of 1997 option tax benefits | | (1,736) | | | (1,736) |
| Other | (12) | (390) | | | (402) |
| Balance at December 31, 1999 | $ 717 | $ 415,701 | $ (11,923) | $ 191,880 | $ 596,375 |
| Net income | | | | 13,136 | 13,136 |
| Currency translation adjustments | | | (10,684) | | (10,684) |
| Marketable | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| securities valuation adjustment | 749 | 749 | | | | |
| Comprehensive income | 3,201 | | | | | |
| Stock issued for acquisition | 79 | 153,948 | | | 154,027 | |
| Stock options exercised | 9 | 8,580 | | | 8,589 | |
| Tax benefit of options exercised | | 4,901 | | | 4,901 | |
| Other | 95 | 18 | | | 113 | |
| Balance at December 31, 2000 | $ 805 | $ 583,225 | $ (21,858) | $ 205,034 | 767,206 | |
| Net income | | | 104,063 | | 104,063 | |
| Currency translation adjustments | | | | (11,569) | (11,569) | |
| Marketable securities valuation adjustment | | | | (1,446) | (1,446) | |
| Comprehensive income | | | | | 91,048 | |
| Stock options exercised | 4 | 6,934 | | | 6,938 | |
| Tax benefit of options exercised | | 2,348 | | | 2,348 | |
| Balance at December 31, 2001 | $ 809 | $ 592,507 | $ (34,873) | $ 309,097 | $ 867,540 | |

The accompanying notes are an integral part of these statements.

## 1. ORGANIZATION AND BASIS OF PRESENTATION

Information concerning common stock and per share data assumes the exchange of all Exchangeable Shares issued in connection with the combination with Dreco Energy Services Ltd. effective September 25, 1997. Each Exchangeable Share is intended to have substantially identical economic and legal rights as, and are expected to be exchanged during 2002 on a one-for-one basis for, a share of National Oilwell common stock. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported and contingent amounts of assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. ACQUISITIONS

Year 2001

We made nine acquisitions in 2001, ranging in value from $600,000 to a high of $16.5 million, for a total cash outlay of $51.5 million. All of these acquisitions were accounted for under the purchase method of accounting and generated approximately $30 million in goodwill. Two of the larger acquisitions, Integrated Power Systems and Maritime Hydraulics (Canada) Ltd., were acquired in early January 2001 and their financial results were included in our consolidated financial results for substantially the entire year. Pro-forma information related to acquisitions has not been provided as such amounts are not material individually or in the aggregate.

Year 2000

In February 2000, the merger with Hitec ASA was completed for approximately $158 million as we issued 7.9 million shares of common stock. This transaction was accounted for as a purchase effective February 1, 2000 and generated goodwill of approximately $150 million.

In June 2000, IRI International Corporation was merged with the Company and accounted for as a pooling-of-interests. We issued 13.5 million shares of common stock valued at approximately $447 million. All prior periods have been restated.

Revenues, net income before special charges, and net income of the separate companies for the periods preceding the merger were as follows (in thousands):

| | Six Months Ended June 30, 2000 | Year Ended December 31, 1999 |
|---|---|---|
| Revenues: | | |
| National-Oilwell | $ 461,925 | $ 745,215 |
| IRI International | 72,271 | 94,433 |
| | $ 534,196 | $ 839,648 |
| Net income (loss) before special charges: | | |
| National-Oilwell | $ 8,048 | $ 1,520 |
| IRI International | (2,724) | (9,891) |
| | $ 5,324 | $ (8,371) |
| Net income (loss): | | |
| National-Oilwell | $ (2,256) | $ 1,520 |
| IRI International | (2,724) | (10,905) |
| | $ (4,980) | $ (9,385) |

There were no material transactions between the Company and IRI prior to the merger. The effects of conforming IRI's accounting policies to those of the Company were not material. Certain reclassifications were made to IRI's historical amounts to conform with the Company's presentation.

During 2000 we also acquired four other businesses for approximately $48 million in cash. The purchase method of accounting was used to account for these acquisitions and generated approximately $9 million in goodwill. Pro-forma information has not been provided as such amounts are not material.

Year 1999

During 1999 we made three acquisitions valued at approximately $92 million. The purchase method of accounting was used to record two acquisitions and the other acquisition was recorded under the pooling-of-interests accounting method. Pro-forma information related to acquisitions has not been provided as such amounts are not material individually or in the aggregate.

Subsequent Event

On January 10, 2002, we completed the acquisition of the assets and business of HAL Oilfield Pump & Equipment Company for approximately $16 million. This business, which designs, manufactures and distributes centrifugal pumps, pump packages and expendable parts, is complementary to our Mission pump product line. The acquisition was accounted for as a purchase with goodwill approximating $10 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of National Oilwell and its subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

Fair Value of Financial Instruments

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

Inventories

Inventories consist of oilfield products, manufactured equipment, manufactured specialized drilling products and downhole motors and spare parts for manufactured equipment and drilling products. Inventories are stated at the lower of cost or market using the first-in, first-out or average cost methods.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for major improvements that 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 or declining balance method over the estimated useful lives of individual items.

Investments in Affiliates

During 2001 we formed a joint venture with Lanzhou Petroleum & Chemical Machinery Equipment & Engineering Group Corporation, a major manufacturer of drilling equipment located in the People's Republic of China. We made an initial capital contribution of $6.7 million to acquire a 60% ownership in the joint venture. Due to substantive participating rights retained by the minority partner and foreign exchange restriction concerns, we use the equity method to account for this investment. The investment totaled $7.3 million at December 31, 2001.

Intangible Assets

Deferred financing costs are amortized on a straight-line basis over the life of the related debt security and accumulated amortization was $1,366,000 and $873,000 at December 31, 2001 and 2000, respectively. Through December 31, 2001, goodwill was amortized on a straight-line basis over its estimated life of 10-40 years. Accumulated amortization at December 31, 2001 and 2000 was $31,612,000 and $19,559,000. On an annual basis, the Company estimates the future estimated discounted cash flows of the business to which goodwill relates in order to determine that the carrying value of the goodwill has not been impaired.

Foreign Currency

The functional currency for National Oilwell's Canadian, United Kingdom, Netherlands, German and Australian operations 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 accumulated other comprehensive income. The U.S. dollar is used as the functional currency for the Singapore and Venezuelan operations. Accordingly, certain assets are translated at historical exchange rates and all translation adjustments are included in income. 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 and rental of products and delivery of services is recognized upon passage of title, incurrence of rental charges or delivery of services to the customer. Revenue is recognized on certain significant contracts in the Products and Technology segment using the percentage of completion method based on the percentage of total costs incurred to total costs expected. Provision for estimated losses, if any, is made in the period such losses are estimable.

Income Taxes

The liability method is used to account for income taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized.

Concentration of Credit Risk

National Oilwell grants credit to its customers, which operate primarily in the oil and gas industry. National Oilwell performs periodic credit evaluations of its customers' financial condition and generally does not require collateral, but may require letters of credit for certain international sales. Reserves are maintained for potential credit losses and such credit losses have historically been within management's expectations.

Stock-Based Compensation

National Oilwell uses the intrinsic value method in accounting for its stock-based employee compensation plans.

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statement. Other intangible assets will continue to be amortized over their useful lives. In addition, accounting for acquisitions under the pooling-of-interests method is no longer permitted. We will adopt the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the statement for 2001 would have resulted in an increase in net income of $11 million ($0.13 per diluted share). Pursuant to SFAS 142, we will test goodwill for impairment upon adoption and, if impairment is indicated, record such impairment as a cumulative effect of an accounting change. We are currently evaluating the effect that the adoption may have on our consolidated results of operation and financial position.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of Accounting Principles Board Opinion ("APB") No. 30, Reporting the Results of Extraordinary, Unusual, and Infrequently Occurring Events and Transactions. This statement retains the fundamental provisions of SFAS No. 121 and the basic requirements of APB No. 30; however, it establishes a single accounting model to be used for long-lived assets to be disposed of by sale and it expands the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. We do not anticipate that the statement will have a material impact on our financial position or results of operations.

Net Income Per Share

The following table sets forth the computation of weighted average basic and diluted shares outstanding (in thousands):

| YEAR ENDED DECEMBER 31, | | |
|---|---|---|
| - 2001 | 2000 | 1999 |
| Denominator for basic earnings per share--weighted average shares | 80,813 | 79,325 | 71,672 |
| Effect of dilutive securities: | | |
| Employee stock options | 920 | 1,435 | |
| Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions | 81,733 | 80,760 | 71,672 |

4. INVENTORIES

Inventories consist of (in thousands):

| DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|---|---|
| Raw materials | |

and supplies $ 39,272 $ 32,306 Work in process 101,376 63,758 Finished goods and purchased products 315,286 279,670 --- --- Total $ 455,934 $ 375,734

5. PROPERTY, PLANT AND EQUIPMENT

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

| | ESTIMATED DECEMBER 31, USEFUL LIVES 2001 | DECEMBER 31, 2000 |
|---|---|---|
| Land and improvements | 2-20 Years | $ 9,557 | $ 11,109 |
| Buildings and improvements | 5-31 Years | 53,268 | 55,640 |
| Machinery and equipment | 5-12 Years | 89,268 | 87,794 |
| Computer and office equipment | 3-10 Years | 73,322 | 67,302 |
| Rental equipment | 1-7 Years | 63,971 | 63,315 |
| | | 289,386 | 285,160 |
| Less accumulated depreciation | | (120,435) | (111,514) |
| | | $ 168,951 | $ 173,646 |

6. LONG-TERM DEBT

Long-term debt consists of (in thousands):

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| Revolving credit facilities | $ 10,213 | $ 72,477 |
| 6 7/8% senior notes | 150,000 | 150,000 |
| 6 1/2% senior notes | 150,000 | -- |
| | 310,213 | 222,477 |
| Less current portion | 10,213 | -- |
| | $ 300,000 | $ 222,477 |

In March 2001, we sold $150 million of 6 1/2 % unsecured senior notes due March 15, 2011. Proceeds were used to repay indebtedness under our existing revolving credit facility and to fund working capital needs. Interest is payable on March 15 and September 15 of each year.

In June 1998, we sold $150 million of 6 7/8 % unsecured senior notes due July 1, 2005. Interest is payable on January 1 and July 1 of each year.

In 1997, National Oilwell entered into a five-year unsecured $125 million revolving credit facility. The credit facility is available for acquisitions and general corporate purposes and provides up to $50 million for letters of credit, of which $20.7 million were outstanding at December 31, 2001. The credit facility provides for interest at prime or LIBOR plus 0.5% (4.75% and 2.94% at December 31, 2001) subject to adjustment based on National Oilwell's Capitalization Ratio, as defined. Current portion of long-term debt increased $10.2 million due to the classification of our revolving credit facility as a current liability due to its expiration in September 2002. We have entered negotiations to secure a revolving credit facility of a similar size prior to the expiration of the current facility.

The senior notes contain reporting covenants and the credit facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest

coverage. At December 31, 2001, the Company was in compliance with all covenants governing these facilities.

National Oilwell also has additional credit facilities totaling $50.4 million used primarily for letters of credit, of which $2.5 million were outstanding at December 31, 2001.

7. PENSION PLANS

National Oilwell and its consolidated subsidiaries have 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, a percentage of current earnings and matching of employee contributions. For the years ended December 31, 2001, 2000 and 1999, pension expense for defined-contribution plans was $6.0 million, $4.2 million and $3.8 million, and all funding is current.

Certain retired or terminated employees of predecessor or acquired companies also participate in defined benefit plans in the United States which have been retained by National Oilwell subsidiaries but which no longer accrue benefits. Active employees are ineligible to participate in any of these defined benefit plans. In addition, approximately 168 U.S. retirees and spouses participate in defined benefit health care plans of predecessor or acquired companies that provide postretirement medical and life insurance benefits.

The change in benefit obligation, plan assets and the funded status of defined pension and postretirement plans in the United States follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | At year end | | | |
| | 2001 | 2000 | 2001 | 2000 |
| | (in thousands) | | | |
| Benefit obligation at beginning of year | $ 15,695 | $ 15,293 | $ 3,107 | $ 3,122 |
| Service cost | -- | 108 | 21 | 16 |
| Interest cost | 1,194 | 1,186 | 506 | 232 |
| Actuarial (gain) loss | 1,199 | 726 | 4,079 | 17 |
| Benefits paid | (1,020) | (1,618) | (503) | (321) |
| Retiree contributions | -- | -- | -- | 35 |
| Other | 279 | -- | 206 | 6 |
| BENEFIT OBLIGATION AT END OF YEAR | $ 17,347 | $ 15,695 | $ 7,416 | $ 3,107 |
| Fair value of plan assets at beginning of year | $ 14,494 | | | |

16,091 $ -- $ -- Actual return (2,454) (508) -- -- Benefits paid (1,020) (1,618) (503) (321) Contributions 351 529 503 321 Other 600 -- -- -- ---- -------- ---- -------- ---- -------- ---- -------- FAIR VALUE OF PLAN ASSETS AT END OF YEAR $ 11,971 $ 14,494 -- -- ------------ ------------ ------------ ------------ Funded status $ (5,376) $ (1,202) (7,416) (3,107) Unrecognized actuarial net loss/ (gain) 5,724 1,256 3,389 (551) Prior service costs not yet recognized -- 257 90 ------ ------ ------ ------ ------ ------ ------ ------ PREPAID (ACCRUED) BENEFIT COST $ 348 $ 54 (3,770) (3,568) ----- ------- ----- ------- ----- ------- ----- -------

Significant assumptions used for the plans follow:

| | Pension benefits | | | Postretirement benefits | | |
|---|---|---|---|---|---|---|
| | For the year | | | | | |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Weighted average assumptions: | | | | | | |
| Discount rate | 6.9% | 7.6% | 8.0% | 6.9% | 7.6% | 7.3% |
| Expected long-term rate of return | 8.0% | 8.0% | 8.0% | n/a | n/a | n/a |
| Rate of compensation increase | n/a | n/a | n/a | n/a | n/a | n/a |

A 17% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001, decreasing by approximately 3% points per year to 5.5% in 2006, with 5.5% increases per year thereafter.

Net periodic benefit cost (credit):

| | Pension benefits | | | Postretirement benefits | | |
|---|---|---|---|---|---|---|
| | For the year | | | | | |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| | (in thousands) | | | | | |
| Service cost - benefits earned during the period | $ -- | $ 108 | $ 134 | $ 21 | $ 16 | $ 22 |
| Interest cost on projected benefit obligation | 1,194 | 1,186 | 907 | 506 | 232 | 218 |
| Expected return on plan assets | (1,183) | (1,280) | (944) | -- | -- | -- |
| Net | | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| amortization and deferral | 46 | (8) | 64 | 178 | (13) |
| (4) | | | | | |
| NET PERIODIC BENEFIT COST (CREDIT) | $ 57 | $ 6 | $ 161 | $ 705 | $ 235 |
| $ 236 | | | | | |

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefits. A one percentage point change in assumed health care cost trend rates would have the following effects:

| | 1% Point Increase | 1% Point Decrease |
|---|---|---|
| | (in thousands) | |
| Effect on total of service and interest cost components in 2001 | $ 43 | $ (37) |
| Effect on postretirement benefit obligation at year-end 2001 | $ 678 | $ (577) |

Our subsidiaries in the United Kingdom have 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. At December 31, 2001, the plan assets at fair market value were $39.2 million and the projected benefit obligation was $32.3 million.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The components of other comprehensive loss are as follows (in thousands):

| | CUMULATIVE TRANSLATION ADJUSTMENT | CUMULATIVE CHANGE IN CURRENCY VALUATION | MARKETABLE SECURITIES ADJUSTMENT | MINIMUM PENSION LIABILITY | TOTAL |
|---|---|---|---|---|---|
| Balance at December 31, 1998 | $ (1,988) | $ (13,971) | $ 176 | $ (15,783) | |
| Currency translation adjustments | 1,332 | | | | 1,332 |
| Unrealized gain on marketable securities, net of deferred taxes of ($275) | | | 540 | | 540 |
| Change in pension liability | | | | 1,988 | 1,988 |
| Balance at December 31, 1999 | -- | (12,639) | 716 | (11,923) | |
| Currency translation adjustments | | (10,684) | | | (10,684) |
| Unrealized gain on marketable securities, net of deferred taxes of ($387) | | | 749 | | 749 |
| Balance at December 31, 2000 | -- | (23,323) | 1,465 | (21,858) | |
| Currency translation adjustments | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| (11,569) | | | | | |
| (11,569) | | | | | |
| Realized gain on marketable securities, net of deferred taxes of $745 | | | | | |
| (1,446) | | | | | |
| (1,446) | --- | --- | --- | --- | --- |
| --- | - | - | - | - | - |
| --- | --- | --- | --- | --- | --- |
| --- | --- | --- | --- | --- | --- |
| --- | --- | --- | --- | --- | --- |
| --- | --- | --- | --- | --- | --- |
| --- Balance at December 31, 2001 | $ | -- | $ | (34,892) | $ |
| 19 | $ | (34,873) | | | |
| ========== | | | | | |
| ========== | | | | | |
| ========== | | | | | |
| ========== | | | | | |

9. COMMITMENTS AND CONTINGENCIES

National Oilwell leases land, buildings and storage facilities, vehicles and data processing equipment and software under operating leases expiring in various years through 2009. Rent expense for the years ended December 31, 2001, 2000 and 1999 was $19.0 million, $12.6 million and $14.3 million. Our minimum rental commitments for operating leases at December 31, 2001, excluding future payments applicable to facilities closed as part of the 1998 and 2000 Special Charge, were as follows: 2002 - $14.3 million; 2003 - $12.0 million; 2004 - $8.2 million; 2005 - $5.5 million; 2006 - $4.5 million and subsequent to 2006 - $2.9 million.

National Oilwell 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, 2001 cannot be determined; however, in the opinion of management, any ultimate liability, to the extent not otherwise provided for, should not materially affect our financial position, liquidity or results of operations.

Our 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 our business. Although National Oilwell 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 National Oilwell.

10. COMMON STOCK

National Oilwell has authorized 150 million shares of $.01 par value common stock. We also have authorized 10 million shares of $.01 par value preferred stock, none of which is issued or outstanding.

Under the terms of National Oilwell's Stock Award and Long-Term Incentive Plan, as amended, 4.5 million shares of common stock are authorized for the grant of options to officers, key employees, non-employee directors and other persons. Options granted under our stock option plan generally vest over a three-year period starting one year from the date of grant and expire five or ten years from the date of grant. The purchase price of options granted may not be less than the market price of National Oilwell common stock on the date of grant. At December 31, 2001, approximately 1.2 million shares were available for future grants.

We also have inactive stock option plans that were acquired in connection with the acquisitions of Dreco Energy Services, Ltd. in 1997, and of Hitec ASA and IRI International Corporation in 2000. We converted the outstanding stock options under these plans to options to acquire our common stock and no further options are being issued under these plans. Stock option information summarized below includes amounts for the National Oilwell Stock Award and Long-Term Incentive Plan and stock plans of acquired companies.

Options outstanding at December 31, 2001 under the stock option plans have exercise prices between $5.62 and $40.50 per share, and expire at various dates from March 21, 2002 to February 14, 2011. The weighted average exercise price on the 3,094,160 outstanding options at December 31, 2001 is $22.95.

The following summarizes option activity:

| | WEIGHTED AVERAGE TOTAL SHARE PRICE OPTIONS |
|---|---|
| OPTIONS OUTSTANDING: | |
| Balance at December 31, 1998 | $ 21.74 904,511 |
| Granted | 10.43 1,357,255 |
| Cancelled | 20.73 (194,656) |
| Exercised | 6.85 (25,906) |
| Balance at December 31, 1999 | $ 14.59 2,041,204 |
| Granted | 23.56 758,961 |
| Options from Acquisitions | 10.52 1,006,342 |
| Cancelled | 14.10 (86,425) |
| Exercised | 11.80 (927,497) |
| Balance at December 31, 2000 | $ 16.50 2,792,585 |
| Granted | 40.50 911,626 |
| Cancelled | 25.47 (218,086) |
| Exercised | 16.39 (391,965) |
| Balance at December 31, 2001 | $ 22.95 3,094,160 |
| OPTIONS EXERCISABLE: | |
| Exercisable at December 31, 1998 | $ 13.97 114,206 |
| Vested | 15.39 329,234 |
| Cancelled | 21.61 (37,073) |
| Exercised | 6.85 (25,906) |
| Exercisable | |

| | | |
|---|---|---|
| at December 31, 1999 | $ 15.31 | 380,461 |
| Vested | 12.21 | 1,697,123 |
| Cancelled | 10.12 | (52,760) |
| Exercised | 11.80 | (927,497) |
| Exercisable at December 31, 2000 | $ 13.73 | 1,097,327 |
| Vested | 18.89 | 783,342 |
| Cancelled | 22.74 | (13,871) |
| Exercised | 16.39 | (391,965) |
| Exercisable at December 31, 2001 | $ 15.68 | 1,474,833 |

The weighted average fair value of options granted during 2001, 2000 and 1999 was approximately $22.04, $15.70, and $7.71 per share, respectively, as determined using the Black-Scholes option-pricing model. Assuming that National Oilwell had accounted for its stock-based compensation using the alternative fair value method of accounting under FAS No. 123 and amortized the fair value to expense over the option's vesting period, diluted earnings per share would have been affected by $0.12, $0.09, and $0.07 for 2001, 2000 and 1999, respectively, from the amounts reported. These pro forma results may not be indicative of future effects.

The Company evaluates annually the grant of options to eligible participants and in January 2002, 972,500 options to purchase shares of common stock were granted at an exercise price of $18.53, the fair value of the common stock at the date of grant.

11. INCOME TAXES

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

| DECEMBER 31, 2001 | DECEMBER 31, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| Domestic | $ 101,700 | $ (10,555) | $ (28,549) |
| Foreign | 66,317 | 37,592 | 13,690 |
| | $ 168,017 | $ 27,037 | $ (14,859) |

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

| DECEMBER 31, 2001 | DECEMBER 31, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| Current: | | |
| Federal | $ 32,222 | $ 5,401 | $ (11,777) |
| State | 581 | 123 | (745) |
| Foreign | 23,304 | 14,258 | 4,520 |
| | 56,107 | 19,782 | (8,002) |
| Deferred: | | |
| Federal | 4,925 | (6,757) | 1,028 |
| State | 391 | (507) | 572 |
| Foreign | 2,531 | 1,383 | 928 |
| | 7,847 | (5,881) | 2,528 |
| | $ 63,954 | $ 13,901 | $ (5,474) |

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):

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 | DECEMBER 31, 1999 |
|---|---|---|---|
| Federal income tax at statutory rate | $ 58,806 | $ 9,462 | $ (5,200) |
| Foreign income tax rate differential | 1,405 | 781 | (68) |
| State income tax, net of federal benefit | 299 | 336 | (181) |
| S Corporation earnings | -- | -- | 824 |
| Tax benefit of foreign sales corporation | (1,575) | (1,492) | -- |
| Nondeductible expenses | 2,423 | 4,626 | 2,243 |
| Amortization of negative goodwill | -- | -- | (1,409) |
| Foreign dividends net of FTCs | (1,967) | (1,046) | -- |
| Net operating loss carryforwards | 2,948 | 1,744 | 990 |
| Change in deferred tax valuation allowance | 1,223 | (606) | (2,787) |
| Other | 392 | 96 | 114 |
| | $ 63,954 | $ 13,901 | $ (5,474) |

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

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| Deferred tax assets: | | |
| Accrued liabilities | $ 9,408 | $ 9,122 |
| Net operating loss carryforwards | 16,107 | 21,265 |
| Foreign tax credit carryforwards | 13,580 | 10,942 |
| Capital loss carryforward | 3,527 | 3,594 |
| Other | 20,378 | 20,390 |
| Total deferred tax assets | 63,000 | 65,313 |
| Valuation allowance for deferred tax assets | (29,512) | (28,289) |
| | 33,488 | 37,024 |
| Deferred tax liabilities: | | |
| Tax over book depreciation | 10,366 | 8,594 |
| Other | 10,014 | 7,436 |
| Total deferred tax liabilities | 20,380 | 16,030 |
| Net deferred tax assets | $ 13,108 | $ 20,994 |

In the United States, the Company has $13.0 million of net operating loss carryforwards as of December 31, 2001, which expire at various dates through 2009. These operating losses were acquired in the combination with Dreco Energy Services, Ltd. in 1997 and are associated with Dreco's US subsidiary. As a result of share exchanges occurring since the date of the combination resulting in a more than 50% aggregate change in the beneficial ownership of Dreco, the availability of these loss carryforwards to reduce future United States federal taxable income may have become subject to various limitations under Section 382 of the Internal Revenue Code of 1986, as amended. In addition, these net operating losses can only be used to offset separate company taxable income of Dreco's US subsidiary. Since the ultimate realization of these net operating losses is uncertain, the related potential benefit of $4.5 million has been

recorded with a $3.7 million valuation allowance. Future income tax expense will be reduced if the Company ultimately realizes the benefit of these net operating losses.

Also in the United States, the Company has $9.1 million of capital loss carryforwards as of December 31, 2001, which expire at various dates through 2005. These capital loss carryforwards can only be used to offset future capital gains generated by the Company. Since the ultimate realization of these capital loss carryforwards is uncertain, the related potential benefit of $3.5 million has been recorded with a valuation allowance of $2.5 million. Future income tax expense will be reduced if the Company ultimately realizes the benefit of these capital loss carryforwards. In addition, the Company has $13.6 million of foreign tax credit carryforwards as of December 31, 2001, which expire at various dates through 2005. Since the ultimate realization of these credits is uncertain, the related potential benefit has been recorded with a valuation allowance of $12.6 million. Future income tax expense will be reduced if the Company ultimately realizes the benefit of these foreign tax credits.

Outside the United States, the company has $39.1 million of net operating loss carryforwards as of December 31, 2001. Of this amount, $33.5 million will expire at various dates through 2010 and $5.6 million is available indefinitely. The related potential benefit available of $11.6 million has been recorded with a valuation allowance of $9.8 million. If the Company ultimately realizes the benefit of these net operating losses, $9.2 million would reduce goodwill and other intangible assets and $0.6 million would reduce income tax expense.

The deferred tax valuation allowance increased $1.2 million for the period ending December 31, 2001 resulting primarily from the addition of excess foreign tax credits that may not be realized in the future. National Oilwell's deferred tax assets are expected to be realized principally through future earnings.

Undistributed earnings of our foreign subsidiaries amounted to $149.2 million and $113.0 million at December 31, 2001 and December 31, 2000, respectively. Those earnings are considered to be permanently reinvested and 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 practical; however, unrecognized foreign tax credit carryforwards would be available to reduce some portion of the U.S. liability. Withholding taxes of approximately $10.4 million would be payable upon remittance of all previously unremitted earnings at December 31, 2001.

12. SPECIAL CHARGES

During 2000, we recorded a special charge, net of a $0.4 million credit from previous special charges, of $14.1 million ($11.0 million after tax, or $0.14 per share) related to the merger with IRI International. Components of the charge were (in millions):

| | |
|---|---|
| Direct transaction costs | $ 6.6 |
| Severance | 6.4 |
| Facility closures | 1.5 |
| | 14.5 |
| Prior year reversal | (0.4) |
| | $ 14.1 |

The cash and non-cash elements of the charge approximate $13 million and $1.1 million, respectively. Approximately $11 million of the direct cash outlays were spent by the end of 2000, and essentially all of the remainder had been spent at December 31, 2001. Facility closure costs consist of lease cancellation costs and impairment of a closed manufacturing facility that is classified with "Property held for sale" on our balance sheet. All of this charge is applicable to the Products and Technology business segment.

During 1999 and prior to the merger with National Oilwell, a $1.8 million charge was recorded by IRI related to additional severance costs resulting from consolidating our manufacturing operations.

13. BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

National Oilwell's operations consist of two segments: Products and Technology and Distribution Services. The Products and Technology 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 and equipment. Intersegment sales and transfers are accounted for at commercial prices and are eliminated in consolidation. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies of the Company. The Company evaluates performance of each reportable segment based upon its operating income, excluding non-recurring items.

No single customer accounted for 10% or more of consolidated revenues during the three years ended December 31, 2001.

Summarized financial information is as follows (in thousands):

Business Segments

| | PRODUCTS AND DISTRIBUTION | CORPORATE/ TECHNOLOGY SERVICES | ELIMINATIONS(1) | TOTAL |
|---|---|---|---|---|
| DECEMBER 31, 2001 | | | | |
| Revenues from: | | | | |
| Unaffiliated customers | $ 1,041,614 | $ 705,817 | $ 24 | $ 1,747,455 |
| Intersegment sales | 79,305 | 2,001 | (81,306) | |
| Total revenues | 1,120,919 | 707,818 | (81,282) | 1,747,455 |
| Operating income (loss) | 171,013 | 28,473 | (10,209) | 189,277 |
| Capital expenditures | 22,170 | 4,066 | 1,122 | 27,358 |
| Depreciation and amortization | 31,882 | 6,428 | 563 | 38,873 |
| Identifiable assets | 1,178,118 | 260,212 | 33,366 | 1,471,696 |
| DECEMBER 31, 2000 | | | | |
| Revenues from: | | | | |
| Unaffiliated customers | $ 629,967 | $ 519,911 | $ 42 | $ 1,149,920 |
| Intersegment sales | 53,500 | 1,362 | (54,862) | |
| Total revenues | 683,467 | 521,273 | (54,820) | 1,149,920 |
| Operating income (loss) | 60,992(2) | 12,884 | (25,420) | 48,456(2) |
| Capital expenditures | 14,960 | 7,387 | 2,214 | 24,561 |
| Depreciation and amortization | 28,712 | 5,985 | 337 | 35,034 |
| Identifiable assets | | | | |

1,001,391
223,973 53,530
1,278,894
DECEMBER 31,
1999 Revenues
from:
Unaffiliated
customers $
429,968 $
409,680 $ -- $
839,648
Intersegment
sales 30,053
674 (30,727) --
---
---
Total
revenues
460,021 410,354
(30,727)
839,648
Operating
income (loss)
23,552 (5,959)
(16,268) 1,325
Capital
expenditures
7,472 9,968 107
17,547
Depreciation
and
amortization
24,964 4,269
334 29,567
Identifiable
assets 772,305
197,918 35,492
1,005,715

(1) Operating loss of Corporate includes a special charge of $14,082 for 2000 related to the merger with IRI and $1,779 for 1999.

(2) Includes $15,684 of inventory write-offs related to the merger with IRI.

Geographic Areas:

| | UNITED STATES | UNITED KINGDOM | CANADA | NORWAY | OTHER | ELIMINATIONS | TOTAL |
|---|---|---|---|---|---|---|---|
| DECEMBER 31,2001 | | | | | | | |
| Revenues from: | | | | | | | |
| Unaffiliated customers | $1,280,598 | $ 337,447 | $ 38,171 | $ 42,978 | $ 48,261 | $ -- | $1,747,455 |
| Interarea sales | 129,525 | 45,890 | 11,591 | 7,421 | 445 | (194,872) | - |
| - Total revenues | 1,410,123 | 383,337 | 49,762 | 50,399 | 48,706 | (194,872) | 1,747,455 |
| Long-lived assets | 768,160 | 379,976 | 223,747 | 49,750 | 50,063 | -- | 1,471,696 |
| DECEMBER 31,2000 | | | | | | | |
| Revenues from: | | | | | | | |
| Unaffiliated customers | $ 799,415 | $ 239,940 | $ 31,961 | $ 48,050 | $ 30,554 | $ -- | $1,149,920 |
| Interarea sales | 43,521 | 28,302 | 3,786 | 4,796 | 737 | (81,142) | -- |
| Total | | | | | | | |

revenues
842,936
268,242
35,747
52,846
31,291
(81,142)
1,149,920
Long-lived assets
646,210
338,319
216,866
44,633
32,866 --
1,278,894
DECEMBER 31,1999
Revenues from:
Unaffiliated customers $ 613,724 $ 163,597 $ -- $ 35,723 $ 26,604 $ -- $ 839,648
Interarea sales
31,249
22,577 --
2,441 619
(56,886) --
Total revenues
644,973
186,174 --
38,164
27,223
(56,886)
839,648
Long-lived assets
618,291
317,558 --
37,637
32,229 --
1,005,715

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly results, as restated in the first and second quarters of 2000 to reflect the merger with IRI International, were as follows (in thousands, except per share data):

| | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER | TOTAL |
|---|---|---|---|---|---|
| YEAR ENDED DECEMBER 31, 2001 | | | | | |
| Revenues | $ 360,272 | $ 434,628 | $ 486,812 | $ 465,743 | $1,747,455 |
| Gross Profit | | | | | |

91,173
103,494
119,905
113,262
427,834
Income before taxes
34,640
40,805
47,369
45,203
168,017
Net income
21,478
25,299
28,938
28,348
104,063
Net income per diluted share 0.26
0.31 0.36
0.35 1.27
YEAR ENDED DECEMBER 31, 2000
Revenues $
263,891 $
270,305 $
286,325 $
329,399
$1,149,920
Gross Profit(1)
57,714
58,184
64,285
69,279
249,462
Special charge --
13,000 --
1,082
14,082
Income (loss) before taxes
7,229
(11,645)
19,207
12,246
27,037 Net income
(loss)
4,484
(9,464)
11,908
6,208
13,136 Net income (loss) per diluted share 0.06
(0.12)
0.15 0.08
0.16

(1) The 4th quarter includes $15,684 of inventory write-offs related to the merger with IRI.

INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
| --- | --- |
| 3.1 | Amended and Restated Certificate of Incorporation of National-Oilwell, Inc. (Exhibit 3.1) |
| (5) 3.2 | By-laws of National-Oilwell, Inc. (Exhibit 3.2) |
| (1) 10.1 | Employment Agreement dated as of January 1, 2002 between Merrill A. Miller, Jr. and National Oilwell, with a similar agreement with Steven W. Krablin |
| 10.2 | Employment Agreement dated as of January 1, 2002 between Dwight W. Rettig and National Oilwell, with similar agreements with Robert L. Bloom, Kevin Neveu, Mark A. Reese and Robert R. Workman |
| 10.3 | Employment Agreement dated as of June 28, 2000 between Gary W. Stratulate and IRI International, Inc., which has now merged into National Oilwell |
| 10.4 | Amended and Restated Stock Award and Long-Term Incentive Plan (Exhibit 10.6) (2)* |
| 10.5 | Loan Agreement dated September 25, 1997 (Exhibit 10.1) (4) |
| 10.6 | Amendment to Loan Agreement dated as of December 31, 1999 (Exhibit 10.9) (6) |
| 10.7 | Employment |

Agreement dated as of March 1, 2000 between Jon Gjedebo and a National Oilwell subsidiary (Exhibit 10.8) (3)
10.8 Non-competition Agreement dated as of June 28, 2000 between Hushang Ansary and National Oilwell (Exhibit 10.9) (3)
21.1 Subsidiaries of the Company 23.1 Consent of Ernst & Young LLP 23.2 Consent of KPMG LLP 24.1 Power of Attorney (included on signature page hereto)

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 2001.

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* Compensatory plan or arrangement for management or others

(1) Filed as an Exhibit to Registration Statement No. 333-11051 on Form S-1, as amended, initially filed on August 29, 1996.

(2) Filed with the Proxy Statement for the 1999 Annual Meeting of Stockholders, filed on May 12, 1999.

(3) Filed as an Exhibit to our Annual Report on Form 10-K filed on March 1, 2001.

(4) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on November 7, 1997.

(5) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on August 11, 2000.

(6) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on March 16, 2000.

# EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement"), dated effective as of January 1, 2002, by and among National-Oilwell L.P., a Delaware limited partnership (the "Company"), National-Oilwell, Inc., a Delaware corporation ("NOI"), and Merrill A. Miller, Jr. (the "Executive").

W I T N E S S E T H:

WHEREAS, the Board of Directors of NOI (the "Board") has previously determined that it is in the best interests of NOI and its stockholders to retain the Executive and to induce the employment of the Executive for the long term benefit of NOI, its shareholders and its affiliated companies, including the Company;

WHEREAS, the Board does not contemplate the termination of the Executive during the term hereof and the Board and the Executive expect that the Executive will be retained for at least the three year period contemplated herein; and

WHEREAS, to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. EMPLOYMENT.

(a) The Company hereby agrees that the Company or an affiliated company will continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company or an affiliated company subject to the terms and conditions of this Agreement, during the Employment Period (as defined below). As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(b) The "Employment Period" shall mean the period commencing on the date hereof and ending on the third anniversary of the date hereof; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Employment Period shall be automatically extended so as to terminate three year(s) after such Renewal Date, unless at least sixty (60) days prior to the Renewal Date the Company shall give notice to the Executive that the Contract Period shall not be so extended.

2. TERMS OF EMPLOYMENT.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements, authority, duties and responsibilities) shall be President and Chief Executive Officer and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the date hereof or any office or location less than fifty (50) miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote the Executive's full time, skill and attention to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the date hereof, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the date hereof shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary equal to the current base salary being received by the Executive ("Annual Base Salary"), which shall be paid in accordance with the Company's standard payroll practice. During the Employment Period, the Annual Base Salary shall be reviewed no more than twelve (12) months after the last salary increase awarded to the Executive prior to the date hereof and thereafter at least annually; provided, however, that a salary increase shall not necessarily be awarded as a result of such review. Any increase in Annual Base Salary may not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any increase without the express written consent of the Executive. The term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

(ii) Annual Bonus. The Executive shall be eligible for an annual bonus (the "Annual Bonus") for each fiscal year ending during the Employment Period on the same basis as other executive officers under the then current National Oilwell Incentive Plan (or such other name as may be adopted for the plan or its successor). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus pursuant to a Company sponsored deferred compensation plan in effect.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, stock option, savings and retirement plans, practices, policies and programs applicable generally to the Executive's peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect on the date hereof.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible to participate in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to the Executive's peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than such plans, practices, policies and programs in effect for the Executive on the date hereof.

(v) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive on the date hereof.

(vi) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Company in effect on the date hereof.

(vii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies in effect for the Executive on the date hereof.

3. TERMINATION OF EMPLOYMENT.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that a Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 11(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective thirty (30) days after receipt of such notice by the Executive (the "Disability Effective Date"), provided that within the thirty (30) day period after such receipt, the Executive shall not

have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for one hundred eighty (180) calendar days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company. For purposes of this provision, no act, or failure to act, on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or of a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in reasonable detail.

(c) Good Reason. The Executive may terminate the Executive's employment during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial

and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 2(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than as provided in Section 2(a)(i)(B) hereof or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately prior to the date hereof;

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 9(c) of this Agreement.

(vi) notice by the Company to the Executive that the Company is not extending or renewing this Agreement.

For purposes of this Section 3(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive.

(d) Notice of Termination. Any termination during the Employment Period by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 11(b) of the Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "Date of Termination" shall mean:

(i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be;

(ii) if the Executive's employment is terminated by the Company other than for Cause, death or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination; and

(iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

4. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

(a) Good Reason; Other than For Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause, death or Disability, or the Executive shall terminate employment for Good Reason:

(i) The Company shall pay to the Executive in a lump sum in cash within thirty (30) days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the higher of (I) the highest Annual Bonus received by the Executive over the preceding three year period and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than 12 full months or during which the Executive was employed for less than 12 full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365, and (3) any compensation previously deferred by the Executive under a plan sponsored by the Company (together with any accrued interest or earnings thereon), and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2) and (3) shall be hereinafter referred to as the "Accrued Obligations"), and

(B) an amount equal to three times the sum of (i) the then current Annual Base Salary of the Executive and (ii) the Highest Annual Bonus, and

(C) an amount equal to the total of the employer matching contributions credited to the Executive under the Company's 401(k) Savings Plan (the "401(k) Plan"), any other excess or supplemental retirement plan in which the Executive participates or any other deferred compensation plan during the twelve (12) month period immediately preceding the month of the Executive's Date of Termination multiplied by three, such amount to be grossed up so that the amount the Executive actually receives after payment of any federal or state taxes payable thereon equals the amount first described above.

Provided that, notwithstanding anything contained herein to the contrary, for that portion of the Accrued Obligations consisting of compensation previously deferred by the Executive under a plan sponsored by the Company (together with any accrued interest or earnings thereon), the Executive shall have the option, at Executive's sole discretion, to receive any payments due from such plan in accordance with the terms of the plan or in cash within thirty (30) days after the Date of Termination as provided in this Section 4(a)(i), so long as the election to receive cash under this Section is permitted under all applicable regulations governing payouts from the plan and does not have an adverse effect on the plan or the remaining participants in the plan.

(ii) For a period of three years from the Executive's Date of Termination (the "Remaining Contract Term") or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 2(b)(iv) of this Agreement if the Executive's employment had not been terminated; provided, however, that with respect to any of such plans, programs, practices or policies requiring an employee contribution, the Executive shall continue to pay the monthly employee contribution for same, and provided further, that if the Executive becomes reemployed by another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (for purpose of determining eligibility of the Executive for retiree benefits pursuant to such plans, programs, and arrangements, the Executive shall be considered to have remained employed until three years after the Date of Termination and to have retired on the last day of such period);

(iii) The Company shall, at its sole expense as incurred, provide the Executive with outplacement services, the scope and provider of which shall be selected by the Executive in his sole discretion;

(iv) With respect to all options to purchase Common Stock held by the Executive pursuant to a Company stock option plan on or prior to the Date of Termination, irrespective of whether such options are then exercisable, the Executive shall have the right, during the sixty (60) day period after the Date of Termination, to elect to surrender all or part of such options in exchange for a cash payment by the Company to the Executive in an amount equal to the number of shares of Common Stock subject to the Executive's option multiplied by the difference between (x) and (y) where (x) equals the purchase price per share covered by the option and (y) equals the highest reported sale price of a share of Common Stock in any transaction reported on the New York Stock Exchange during the sixty (60) day period prior to and including the Executive's Date of Termination. Such cash payments shall be made within thirty (30) days after the date of the Executive's election; provided, however, that if the Executive's Date of Termination is within six months after the date of grant of a particular option held by the Executive and the Executive is subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, any cash payments related thereto shall be made on the date which is six

months and one day after the date of grant of such option to the extent necessary to prevent the imposition of the disgorgement provisions under Section 16(b).

Any options outstanding as of the Date of Termination and not then exercisable shall become fully exercisable as of the Executive's Date of Termination, and to the extent the Executive does not elect to surrender same for a cash payment as provided above, such options shall remain exercisable for one year after the Executive's Date of Termination or until the stated expiration of the stated term thereof, whichever is shorter; any restrictions imposed by NOI or the Company that are applicable to any shares of Common Stock granted to the Executive by the Company shall lapse, as of the date of the Executive's Date of Termination;

(v) All country club memberships, luncheon clubs and other memberships which the Company was providing for the Executive's use at the time Notice of Termination is given shall, to the extent possible, be transferred and assigned to the Executive at no cost to the Executive (other than income taxes owed), the cost of transfer, if any, to be borne by the Company;

(vi) The Company shall either transfer to the Executive ownership and title to the Executive's company car at no cost to the Executive (other than income taxes owed) or, if the Executive receives a monthly car allowance in lieu of a Company car, pay the Executive a lump sum in cash within 30 days after the Executive's Date of Termination equal to the Executive's annual car allowance multiplied by three;

(vii) All benefits under the Company's 401(k) Savings Plan and any other similar plans, including any restricted stock held by the Executive, not already vested shall be 100% vested, to the extent such vesting is permitted under the Code (as defined below);

(viii) To the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); and

(ix) The foregoing payments are intended to compensate the Executive for a breach of the Company's obligations and place Executive in substantially the same position had the employment of the Executive not been so terminated as a result of a breach by the Company.

(b) Death. If Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiaries, as applicable, in a lump sum in cash within thirty (30) days after the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 4(b) shall include, without limitation, and the

Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of the Executive's peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, in effect on the date hereof or, if more favorable, those in effect on the date of the Executive's death.

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within thirty (30) days after the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 4(c) shall include, without limitation, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable benefits generally provided by the Company and its affiliated companies to the Executive's disabled peer executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, in effect generally on the date hereof or, if more favorable, those in effect at the time of the Disability.

(d) Cause; Other Than for Good Reason. If the Executive's employment is terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than the obligation to pay to the Executive (x) his or her Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within thirty (30) days after the Date of Termination subject to such other options or restrictions as provided by law.

5. OTHER RIGHTS.

Except as provided herein, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Except as provided herein, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement. It is expressly agreed by the Executive that he or she shall have no right

to receive, and hereby waives any entitlement to, any severance pay or similar benefit under any other plan, policy, practice or program of the Company. In addition, if the Executive has an employment or similar agreement with the Company at the Date of Termination, he or she agrees that he or she shall have the right to receive all of the benefits provided under this Agreement or such other agreement, whichever one, in its entirety, the Executive chooses, but not both agreements, and when the Executive has made such election, the other agreement shall be superseded in its entirety and shall be of no further force and effect. The Executive also agrees that to the extent he or she may be eligible for any severance pay or similar benefit under any laws providing for severance or termination benefits, such other severance pay or similar benefit shall be coordinated with the benefits owed hereunder, such that the Executive shall not receive duplicate benefits.

6. FULL SETTLEMENT.

(a) No Rights of Offset. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others.

(b) No Mitigation Required. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment.

(c) Legal Fees. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expense which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company or the Executive of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereto (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code").

7. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

(a) Although this Agreement is not being entered into in connection with or contingent upon a change of control of the Company, anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 7(a), if it shall be

determined that the Executive is entitled to a Gross-Up Payment, but that the Executive, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least $50,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to the Executive resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to the Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(b) Subject to the provisions of Section 7(c), all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination shall be made by Ernst & Young, L.L.P., 1221 McKinney, Suite 2400, Houston, Texas 77010 or, as provided below, such other certified public accounting firm as may be designated by the Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days after the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group affecting a change of control of the Company, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to the Executive within five days after the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 7(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment (or an additional Gross-Up Payment) in the event the IRS seeks higher payment. Such notification shall be given as soon as practicable, but no later than ten business days after the Executive is informed in writing of such claim, and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claims; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such costs and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issues raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 7(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8. CONFIDENTIAL INFORMATION.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies, provided that it shall not apply to information which is or shall become part of the public domain (other than by acts by the Executive or representatives of the Executive in violation of this Agreement), information that is developed by the Executive independently of such information, or knowledge or data or information that is disclosed to the Executive by a third party under no obligation of confidentiality to the Company. After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

9. SUCCESSORS.

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

10. POST EMPLOYMENT NON-COMPETITION OBLIGATIONS.

(a) As part of the consideration for the compensation and benefits to be paid to Executive hereunder, and as an additional incentive for the Company and NOI to enter into this Agreement, the Company, NOI and Executive agree to the non-competition provisions of this Section 10. Executive agrees that during the period of Executive's non-competition obligations hereunder, Executive will not, directly or indirectly for Executive or for others, in any geographic area or market where the Company, NOI or any of their subsidiaries or affiliated companies are conducting any business as of the date of termination of the employment relationship or have during the previous twelve months conducted any business:

(i) engage in any business competitive with any line of business conducted by the Company, NOI, or any of their subsidiaries or affiliates;

(ii) render advice or services to, or otherwise assist, any other person, association, or entity who is engaged, directly or indirectly, in any business competitive with any line of business conducted by the Company, NOI, or any of their subsidiaries or affiliates;

(iii) induce any officer or manager of the Company or NOI, or any of their subsidiaries or affiliates to terminate his or her employment with the Company, NOI, or any of their subsidiaries or affiliates, or hire or assist in the hiring of any such officer or manager by person, association, or entity not affiliated with the Company, NOI or any of their subsidiaries or affiliates.

These non-competition obligations shall apply during Executive's employment and for a period ending on the third (3rd) anniversary date of the Date of Termination. After termination of Executive's employment these non-competition obligations shall apply only to businesses having annual revenues in excess of $20 million competitive with any line of business conducted by the Company, NOI, or any of their subsidiaries having annual revenues in excess of $20 million for the last fiscal year prior to the time of termination. If the Company, NOI, or any of their subsidiaries or affiliates abandons a particular aspect of its business, that is, ceases such aspect of its business with the intention to permanently refrain from such aspect of its business, then this post-employment non-competition covenant shall not apply to such former aspect of that business.

(b) Executive understands that the foregoing restrictions may limit his ability to engage in certain businesses anywhere in the world during the period provided for above, but acknowledges that Executive will receive sufficiently high remuneration and other benefits under this Agreement to justify such restriction. Executive acknowledges that money damages would not be sufficient remedy for any breach of this Section 10 by Executive, and the Company, NOI, or any of their subsidiaries or affiliates shall be entitled to specific performance and injunctive relief as remedies for such breach or any threatened breach after notification by the Company of any breach and Executive's failure to cure same. Such remedies shall not be deemed the exclusive remedies for a breach of this Section 10, but shall be in addition to all remedies available at law or in equity to the Company, NOI, or any of their subsidiaries or affiliates, including, without limitation, the recovery of damages from Executive and his agents involved in such breach.

(c) The Executive, the Company and NOI each expressly acknowledge and agree that the restrictions contained in this Agreement, including this Section 10, are deemed by each to reasonable and necessary to protect the business interests of NOI and the Company and their subsidiaries and affiliates. However, in the event that any of the restrictions contained in this Agreement, and specifically this Section 10, are found by a court of competent jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, it is the parties express intention for the restrictions herein set forth to be modified by such court so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

11. MISCELLANEOUS.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORD-ANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

| If to Executive: | If to Company: |
|---|---|
| Merrill A. Miller, Jr.<br>3702 Arnold<br>Houston, Texas 77005 | National-Oilwell, L.P.<br>P.O. Box 4888<br>Houston, Texas 77210-4888<br>Attn: Chief Financial Officer |
| | With copy to: |
| | National-Oilwell, Inc.<br>10000 Richmond Ave., Suite 400<br>Houston, Texas 77042<br>Attn: General Counsel |

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 3(c)(i)-(vi) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Company and the Executive are parties to an employment agreement dated as of February 5, 1996 (the "Prior Employment Agreement"). Upon full execution and delivery of this Agreement, the parties agree that the Prior Employment Agreement shall be cancelled and of no further force or effect.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

Executive

_____
Merrill A. Miller, Jr.

National-Oilwell, L.P.
by its general partner
NOW Oilfield Services, Inc.

By: _____

Name:_____

Title:_____

National-Oilwell, Inc.

By: _____

Name:_____

Title:_____

# EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement"), dated effective as of January 1, 2002, by and among National-Oilwell L.P., a Delaware limited partnership (the "Company"), National-Oilwell, Inc., a Delaware corporation ("NOI"), and Dwight W. Rettig (the "Executive").

WITNESSETH:

WHEREAS, the Board of Directors of NOI (the "Board") has previously determined that it is in the best interests of NOI and its stockholders to retain the Executive and to induce the employment of the Executive for the long term benefit of NOI, its shareholders and its affiliated companies, including the Company;

WHEREAS, the Board does not contemplate the termination of the Executive during the term hereof and the Board and the Executive expect that the Executive will be retained for at least the one year period contemplated herein; and

WHEREAS, to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. EMPLOYMENT.

(a) The Company hereby agrees that the Company or an affiliated company will continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company or an affiliated company subject to the terms and conditions of this Agreement, during the Employment Period (as defined below). As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(b) The "Employment Period" shall mean the period commencing on the date hereof and ending on the first (1st) anniversary of the date hereof; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Employment Period shall be automatically extended so as to terminate one year after such Renewal Date, unless at least sixty (60) days prior to the Renewal Date the Company shall give notice to the Executive that the Contract Period shall not be so extended.

2. TERMS OF EMPLOYMENT.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements, authority, duties and responsibilities) shall be substantially similar to that in effect as of the date hereof and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the date hereof or any office or location less than fifty (50) miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote the Executive's full time, skill and attention to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the date hereof, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the date hereof shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary equal to the current base salary being received by the Executive ("Annual Base Salary"), which shall be paid in accordance with the Company's standard payroll practice. During the Employment Period, the Annual Base Salary shall be reviewed no more than twelve (12) months after the last salary increase awarded to the Executive prior to the date hereof and thereafter at least annually; provided, however, that a salary increase shall not necessarily be awarded as a result of such review. Any increase in Annual Base Salary may not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any increase without the express written consent of the Executive. The term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

(ii) Annual Bonus. The Executive shall be eligible for an annual bonus (the "Annual Bonus") for each fiscal year ending during the Employment Period on the same basis as other executive officers under the then current National Oilwell Incentive Plan (or such other name as may be adopted for the plan or its successor). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to

defer the receipt of such Annual Bonus pursuant to a Company sponsored deferred compensation plan in effect.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, stock option, savings and retirement plans, practices, policies and programs applicable generally to the Executive's peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect on the date hereof.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible to participate in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to the Executive's peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than such plans, practices, policies and programs in effect for the Executive on the date hereof.

(v) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive on the date hereof.

(vi) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits (including, without limitation, financial planning services, payment of club dues, a car allowance or use of an automobile and payment of related expenses, as appropriate) in accordance with the most favorable plans, practices, programs and policies of the Company in effect on the date hereof.

(vii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies in effect for the Executive on the date hereof.

3. TERMINATION OF EMPLOYMENT.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that a Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in

accordance with Section 11(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective thirty (30) days after receipt of such notice by the Executive (the "Disability Effective Date"), provided that within the thirty (30) day period after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for one hundred eighty (180) calendar days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company. For purposes of this provision, no act, or failure to act, on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or of a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company.

(c) Good Reason. The Executive may terminate the Executive's employment during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 2(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than as provided in Section 2(a)(i)(B) hereof or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately prior to the date hereof;

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 9(c) of this Agreement, or

(vi) notice by the Company to the Executive that the Company is not extending or renewing this Agreement.

(d) Notice of Termination. Any termination during the Employment Period by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 11(b) of the Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "Date of Termination" shall mean:

(i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be;

(ii) if the Executive's employment is terminated by the Company other than for Cause, death or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination; and

(iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

4. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

(a) Good Reason; Other than For Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause, death or Disability, or the Executive shall terminate employment for Good Reason:

(i) The Company shall pay to the Executive in a lump sum in cash within thirty (30) days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the higher of (I) the highest Annual Bonus received by the Executive over the preceding three year period and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than 12 full months or during which the Executive was employed for less than 12 full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365, and (3) any compensation previously deferred by the Executive under a plan sponsored by the Company (together with any accrued interest or earnings thereon), and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2) and (3) shall be hereinafter referred to as the "Accrued Obligations"), and

(B) an amount equal to the sum of (i) the then current Annual Base Salary of the Executive and (ii) the Highest Annual Bonus, and

(C) an amount equal to the total of the employer matching contributions credited to the Executive under the Company's 401(k) Savings Plan (the "401(k) Plan"), any other excess or supplemental retirement plan in which the Executive participates or any other deferred compensation plan during the twelve (12) month period immediately preceding the month of the Executive's Date of Termination, such amount to be grossed up so that the amount the Executive actually receives after payment of any federal or state taxes payable thereon equals the amount first described above.

Provided that, notwithstanding anything contained herein to the contrary, for that portion of the Accrued Obligations consisting of compensation previously deferred by the Executive under a plan sponsored by the Company (together with any accrued interest or earnings thereon), the Executive shall have the option, at Executive's sole discretion, to receive any payments due from such plan in accordance with the terms of the plan or in cash within thirty (30) days after

the Date of Termination as provided in this Section 4(a)(i), so long as the election to receive cash under this Section is permitted under all applicable regulations governing payouts from the plan and does not have an adverse effect on the plan or the remaining participants in the plan.

(ii) For a period of one year from the Executive's Date of Termination (the "Remaining Contract Term") or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 2(b)(iv) of this Agreement if the Executive's employment had not been terminated; provided, however, that with respect to any of such plans, programs, practices or policies requiring an employee contribution, the Executive shall continue to pay the monthly employee contribution for same, and provided further, that if the Executive becomes reemployed by another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (for purpose of determining eligibility of the Executive for retiree benefits pursuant to such plans, programs, and arrangements, the Executive shall be considered to have remained employed until one year after the Date of Termination and to have retired on the last day of such period);

(iii) The Company shall, at its sole expense as incurred, provide the Executive with outplacement services, the scope and provider of which shall be selected by the Executive in his sole discretion;

(iv) All options to purchase Common Stock held by the Executive pursuant to a stock option plan on or prior to the Date of Termination shall be governed by the terms of the option agreement or plan between the Executive, NOI, and/or the Company;

(v) All benefits under the Company's 401(k) Savings Plan and any other similar plans, including any restricted stock held by the Executive, not already vested shall be 100% vested, to the extent such vesting is permitted under the Code (as defined below);

(vi) To the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); and

(vii) The foregoing payments are intended to compensate the Executive for a breach of the Company's obligations and place Executive in substantially the same position had the employment of the Executive not been so terminated as a result of a breach by the Company.

(b) Death. If Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the

Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiaries, as applicable, in a lump sum in cash within thirty (30) days after the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 4(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of the Executive's peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, in effect on the date hereof or, if more favorable, those in effect on the date of the Executive's death.

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within thirty (30) days after the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 4(c) shall include, without limitation, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable benefits generally provided by the Company and its affiliated companies to the Executive's disabled peer executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, in effect generally on the date hereof or, if more favorable, those in effect at the time of the Disability.

(d) Cause; Other Than for Good Reason. If the Executive's employment is terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than the obligation to pay to the Executive (x) his or her Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within thirty (30) days after the Date of Termination subject to such other options or restrictions as provided by law.

5. OTHER RIGHTS.

Except as provided herein, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Except as provided herein, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in

accordance with such plan, policy, practice or program or contract or agreement. It is expressly agreed by the Executive that he or she shall have no right to receive, and hereby waives any entitlement to, any severance pay or similar benefit under any other plan, policy, practice or program of the Company. In addition, if the Executive has an employment or similar agreement with the Company at the Date of Termination, he or she agrees that he or she shall have the right to receive all of the benefits provided under this Agreement or such other agreement, whichever one, in its entirety, the Executive chooses, but not both agreements, and when the Executive has made such election, the other agreement shall be superseded in its entirety and shall be of no further force and effect. The Executive also agrees that to the extent he or she may be eligible for any severance pay or similar benefit under any laws providing for severance or termination benefits, such other severance pay or similar benefit shall be coordinated with the benefits owed hereunder, such that the Executive shall not receive duplicate benefits.

6. FULL SETTLEMENT.

(a) No Rights of Offset. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others.

(b) No Mitigation Required. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment.

(c) Legal Fees. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expense which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company or the Executive of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereto (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code").

7. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

(a) Although this Agreement is not being entered into in connection with or contingent upon a change of control of the Company, anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after

payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 7(a), if it shall be determined that the Executive is entitled to a Gross-Up Payment, but that the Executive, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least $50,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to the Executive resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to the Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(b) Subject to the provisions of Section 7(c), all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination shall be made by Ernst & Young, L.L.P., 1221 McKinney, Suite 2400, Houston, Texas 77010 or, as provided below, such other certified public accounting firm as may be designated by the Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days after the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group affecting a change of control of the Company, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to the Executive within five days after the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 7(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment (or an additional Gross-Up Payment) in the event the IRS seeks higher payment. Such notification shall be given as soon as practicable, but no later than ten business days after the Executive is informed in writing of such claim, and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which he

gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claims; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such costs and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issues raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 7(c)) promptly pay to the Company the amount of such refund (together with any interest paid or

credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8. CONFIDENTIAL INFORMATION.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies, provided that it shall not apply to information which is or shall become part of the public domain (other than by acts by the Executive or representatives of the Executive in violation of this Agreement), information that is developed by the Executive independently of such information, or knowledge or data or information that is disclosed to the Executive by a third party under no obligation of confidentiality to the Company. After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

9. SUCCESSORS.

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

10. POST EMPLOYMENT NON-COMPETITION OBLIGATIONS.

(a) As part of the consideration for the compensation and benefits to be paid to Executive hereunder, and as an additional incentive for the Company and NOI to enter into this Agreement,

the Company, NOI and Executive agree to the non-competition provisions of this Section 10. Executive agrees that during the period of Executive's non-competition obligations hereunder, Executive will not, directly or indirectly for Executive or for others, in any geographic area or market where the Company, NOI or any of their subsidiaries or affiliated companies are conducting any business as of the date of termination of the employment relationship or have during the previous twelve months conducted any business:

(i) engage in any business competitive with any line of business conducted by the Company, NOI, or any of their subsidiaries or affiliates;

(ii) render advice or services to, or otherwise assist, any other person, association, or entity who is engaged, directly or indirectly, in any business competitive with any line of business conducted by the Company, NOI, or any of their subsidiaries or affiliates;

(iii) induce any officer or manager of the Company or NOI, or any of their subsidiaries or affiliates to terminate his or her employment with the Company, NOI, or any of their subsidiaries or affiliates, or hire or assist in the hiring of any such officer or manager by person, association, or entity not affiliated with the Company, NOI or any of their subsidiaries or affiliates.

These non-competition obligations shall apply during Executive's employment and for a period ending on the first (1st ) anniversary date of the Date of Termination. After termination of Executive's employment these non-competition obligations shall apply only to businesses having annual revenues in excess of $10 million competitive with any line of business conducted by the Company, NOI, or any of their subsidiaries having annual revenues in excess of $10 million for the last fiscal year prior to the time of termination. If the Company, NOI, or any of their subsidiaries or affiliates abandons a particular aspect of its business, that is, ceases such aspect of its business with the intention to permanently refrain from such aspect of its business, then this post-employment non-competition covenant shall not apply to such former aspect of that business.

(b) Executive understands that the foregoing restrictions may limit his ability to engage in certain businesses anywhere in the world during the period provided for above, but acknowledges that Executive will receive sufficiently high remuneration and other benefits under this Agreement to justify such restriction. Executive acknowledges that money damages would not be sufficient remedy for any breach of this Section 10 by Executive, and the Company, NOI, or any of their subsidiaries or affiliates shall be entitled to specific performance and injunctive relief as remedies for such breach or any threatened breach after notification by the Company of any breach and Executive's failure to cure same. Such remedies shall not be deemed the exclusive remedies for a breach of this Section 10, but shall be in addition to all remedies available at law or in equity to the Company, NOI, or any of their subsidiaries or affiliates, including, without limitation, the recovery of damages from Executive and his agents involved in such breach.

(c) The Executive, the Company and NOI each expressly acknowledge and agree that the restrictions contained in this Agreement, including this Section 10, are deemed by each to reasonable and necessary to protect the business interests of NOI and the Company and their subsidiaries and affiliates. However, in the event that any of the restrictions contained in this Agreement, and specifically this Section 10, are found by a court of competent jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, it is the parties express intention for the restrictions herein set forth to be modified by such court so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

11. MISCELLANEOUS.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORD-ANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive:

Dwight W. Rettig
1100 Bering Drive, Apt. 513
Houston, Texas 77057

If to Company:

National-Oilwell, L.P.
P.O. Box 4888
Houston, Texas 77210-4888
Attn: President

With copy to:

National-Oilwell, Inc.
10000 Richmond Ave., Suite 400
Houston, Texas 77042
Attn: Chief Financial Officer

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 3(c)(i)-(vi) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

Executive

- ----------

Dwight W. Rettig

National-Oilwell, L.P.
by its general partner
NOW Oilfield Services, Inc.

By: ----------

Name: ----------

Title: ----------

National-Oilwell, Inc.

By: ----------

Name: ----------

Title: ----------

EXHIBIT 10.3

# EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into between IRI International Corporation, a Delaware corporation having offices at 1000 Louisiana, Suite 5900, Houston, Texas 77002 ("Employer"), and Gary W. Stratulate, ("Employee"), to be effective as of the Closing Date (as defined in that certain Agreement of Merger of even date herewith among Employer, Arrow Acquisition Corp. and National-Oilwell, Inc.

Employer is desirous of continuing to employ Employee pursuant to the terms and conditions and for the consideration set forth in this Agreement and of terminating any prior employment agreement or arrangement, and Employee is desirous of continuing in the employ of Employer pursuant to such terms and conditions and for such consideration set forth in this Agreement and of terminating any prior existing employment agreement or arrangement.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants, and obligations contained herein, Employer and Employee agree as follows:

1. EMPLOYMENT AND DUTIES:

1.1. Employer agrees to continue to employ Employee, and Employee agrees to be employed by Employer throughout the Term (as defined below) of this Agreement, subject to the terms and conditions of this Agreement.

1.2 Employee shall serve as President & Chief Operating Officer of the Employer and shall report to Chief Executive Officer of Employer. Employee agrees to serve in the assigned position and to perform diligently and to the best of Employee's abilities the duties and services appertaining to such position as determined by Employer, as well as such additional or different duties and services appropriate to such position which Employee from time to time may be reasonably directed to perform by Employer; provided, that the Employee shall not be forced to relocate anywhere other than the metropolitan areas of Houston, Texas or any other city where Employee is located as of the date of this Agreement. Employer will provide Employee with those resources reasonably required for the performance of his duties hereunder. Employee shall at all times comply with and be subject to such generally applicable policies and procedures as Employer may establish from time to time.

1.3. Employee shall, during the period of Employee's employment by Employer, devote Employee's full business time, energy, and best efforts to the business and affairs of Employer. Employee may not engage, directly or indirectly, in any other business, investment, or activity that interferes with Employee's performance of Employee's duties hereunder, is contrary to the interests of Employer or any of its subsidiaries or affiliates or requires any significant portion of Employee's business time; provided, however, that Employee may have other

business, personal, and civic interests which, from time to time, require portions of his time but which (i) do not and will not interfere with the performance of his duties hereunder and (ii) are not and will not be competitive with the Relevant Business (as defined herein). Such other interests may include service on boards and governing bodies of charitable, cultural, educational, and other non-profit organizations, and on the boards of other enterprises that do not engage in any business in competition with the Relevant Business.

1.4. Employee acknowledges and agrees that Employee owes a fiduciary duty of loyalty, fidelity and allegiance to act at all times in the best interests of Employer any of its subsidiaries or affiliates and to do no act which would injure the business, interests, or reputation of Employer or any of its subsidiaries or affiliates. In keeping with these duties, Employee shall make full disclosure to Employer of all business opportunities pertaining to Employer's business and shall not appropriate for Employee's own benefit business opportunities concerning the subject matter of the fiduciary relationship.

2. COMPENSATION AND BENEFITS:

2.1. Employee's initial base salary under this Agreement shall be ($255,895.00) per annum, and shall be paid in installments in accordance with Employer's standard payroll practice. Employee's base salary may be increased from time to time by Employer and, after any such change, Employee's new level of base salary shall be Employee's base salary for purposes of this Agreement until the effective date of any subsequent change.

2.2. Employer and Employee may enter into separate written stock option agreements pursuant to which Employee may be granted options to purchase shares of common stock of Employer subject to the terms and conditions of any such agreement. The number of shares and terms of the restrictions placed upon exercising the options shall be as specified in any such agreement. Employee acknowledges that his participation in any Employer stock option plans shall be subject to the Board of Directors approval of his participation

2.3. Employer's current management incentive program (or such other name as it is adopted) and the Board of Directors approval of his participation shall govern employee's participation, if any, in any bonus plans.

2.4. While employed by Employer, Employee shall be allowed to participate, on the same basis generally as other employees of Employer, in all general employee benefit plans and programs, including improvements or modifications of the same, which on the effective date or thereafter are made available by Employer to all or substantially all of Employer's employees. Such benefits, plans, and programs may include, without limitation, medical, health, and dental care, life insurance, disability protection, and pension plans. Nothing in this Agreement is to be construed or interpreted to provide greater rights, participation, coverage, or benefits under such benefit plans or programs than provided to similarly situated employees pursuant to the terms and conditions of such benefit plans and programs.

2.5. Employer shall not by reason of this Article 2 be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such incentive compensation or employee benefit program or plan, so long as such actions are similarly applicable to covered employees generally. Moreover, unless specifically provided for in a written plan document adopted by the Board of Directors of Employer, none of the benefits or arrangements described in this Article 2 shall be secured or funded in any way, and each shall instead constitute an unfunded and unsecured promise to pay money in the future exclusively from the general assets of Employer and its subsidiaries and affiliates.

2.6 Employer may withhold from any compensation, benefits, or amounts payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

3. TERM OF THIS AGREEMENT, EFFECT OF EXPIRATION OF TERM, AND TERMINATION PRIOR TO EXPIRATION OF TERM AND EFFECTS OF SUCH TERMINATION:

3.1. The term of this Agreement shall be for one (1) year from the date hereof, and shall be automatically extended for successive terms of one year commencing on the first anniversary of the effective date of this Agreement, and on each anniversary date thereafter, unless Employer or Employee gives written notice to the other, not less than ninety (90) days prior to the next succeeding anniversary date, that employment will not be renewed or continued hereunder following such anniversary date.

3.2. Notwithstanding any other provisions of this Agreement, Employer shall have the right to terminate Employee's employment under this Agreement at any time for any of the following reasons:

(i) For "cause" upon the determination by the Employer's Board of Directors that "cause" exists for the termination of the employment relationship. As used in this Section 3.2(i), the term "cause" shall mean (a) Employee has engaged in gross negligence, incompetence or willful misconduct in the performance of, or Employee's refusal to perform, the duties and services required of Employee pursuant to this Agreement; (b) Employee has committed any fraudulent or dishonest acts involving Employer or has been convicted of a crime involving moral turpitude; or (c) Employee's breach of any material provision of this Agreement or corporate code or policy. A decision as to whether "cause" exists for termination of the employment relationship with Employee shall be made by Employer's Board of Directors. Employee, if he so requests, after reasonable notice that cause exists, shall be entitled to be heard before the Employer's Board of Directors. If Employee disagrees with the decision reached by the Employer's Board

of Directors, any dispute will be limited to whether the Employer's Board of Directors reached its decision in good faith;

(ii) for any other reason whatsoever, including termination without cause, in the sole discretion of Employer's Chief Executive Officer or Employer's Board of Directors;

(iii) upon Employee's death; or

(iv) upon Employee becoming incapacitated by accident, sickness, or other circumstance which in the reasonable opinion of a qualified doctor approved by the Executive Committee or Employer's Board of Directors renders him mentally or physically incapable of performing the duties and services required of Employee, and which will continue in the reasonable opinion of such doctor for a period of not less than 180 days.

The termination of Employee's employment shall constitute a "Termination for Cause" if made pursuant to Section 3.2(i); the effect of such termination is specified in Section 3.4. The termination of Employee's employment shall constitute an "Involuntary Termination" if made pursuant to Section 3.2(ii); the effect of such termination is specified in Section 3.5. The effect of the employment relationship being terminated pursuant to Section 3.2(iii) as a result of Employee's death is specified in Section 3.7. The effect of the employment relationship being terminated pursuant to Section 3.2(iv) as a result of the Employee becoming incapacitated is specified in Section 3.8.

3.3. Notwithstanding any other provisions of this Agreement, Employee shall have the right to terminate the employment relationship under this Agreement at any time for any of the following reasons:

(i) a material breach by Employer of any material provision of this Agreement, including, without limitation, a material reduction in Employee's title, position, duties, responsibilities, and authority to such an extent that Employee is relegated to a position substantially inferior to that which he shall hold with Employer at the commencement of this Agreement, or elimination of Employee's job and him not being offered employment by Employer or a successor to all or a portion of Employer's business or assets, with (a) comparable responsibilities, (b) the same or greater base salary, (c) comparable value for his participation in any stock option plans and (d) comparable severance benefits, and then only if any such breach remains uncorrected for 30 days following written notice of such breach by Employee to Employer's Board of Directors

(ii) (x) Employer completes a merger or consolidation, a sale of all or substantially all of its assets of Employer, or the sale of all of its outstanding common stock, in

each case in which all of the stockholders of Employer receive in such transaction cash and/or securities that are publicly traded, and (y) Employee's employment is terminated after such transaction by virtue of an Involuntary Termination within ninety (90) days after the completion of such transaction;

(iii) any corporation, person or group within the meaning of Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Act"), becomes the beneficial owner (within the meaning of Rule 13d-3 under the Act) of voting securities of Employer representing more than fifty percent of the total votes eligible to be cast at any election of directors of Employer and Employee's employment is terminated after such event by virtue of Involuntary Termination within ninety (90) days after the occurrence of such event;

(iv) the dissolution of Employer; or

(v) for any other reason whatsoever, in the sole discretion of Employee.

The termination of Employee's employment by Employee shall constitute an "Involuntary Termination" if made pursuant to Section 3.3(i), 3.3(ii), 3.3(iii) or 3.3(iv); the effect of such termination is specified in Section 3.5. The termination of Employee's employment by Employee shall constitute a "Voluntary Termination" if made pursuant to Sections 3.3(v); the effect of such termination is specified in Section 3.4.

3.4. Upon a "Voluntary Termination" of the employment relationship by Employee or a termination of the employment relationship for "Cause" by Employer, all future compensation to which Employee is entitled and future benefits for which Employee is eligible shall cease and terminate as of the date of termination. Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any bonuses not yet paid at the date of such termination.

3.5. Upon an Involuntary Termination of the employment relationship by either Employer or Employee pursuant to Sections 3.2(ii), 3.3(i), 3.3(iii) or 3.3(iii), Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive a lump sum payment equal to 150% of Employee's base salary for the year in which termination occurs. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer or its subsidiaries or affiliates, and Employer's and its subsidiaries' and affiliates' sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship, provided however, Employee's rights and obligations with respect to Employee stock options, if any, are governed the controlling option agreement.

3.6. Employee covenants not to sue or lodge any claim, demand or cause of action

against Employer based on Involuntary Termination for any monies other than those specified in Section 3.5. If Employee breaches this covenant, Employer and its subsidiaries' and affiliates' shall be entitled to recover from Employee all sums expended by Employer and its subsidiaries and affiliates (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action. Employer and its subsidiaries and affiliates shall not be entitled to offset any of the amounts specified in the immediately preceding sentence against amounts otherwise owing by Employer and its subsidiaries and affiliates to Employee prior to a final determination under the terms of the arbitration provisions of this Agreement that Employee has breached the covenant contained in this Section 3.6.

3.7. Upon termination of the employment relationship as a result of Employee's death, Employee's heirs, administrators, or legatees shall be entitled to Employee's pro rata salary through the date of such termination, but Employee's heirs, administrators, or legatees shall not be entitled to any individual bonuses not yet paid to Employee at the date of such termination.

3.8. Upon termination of the employment relationship as a result of Employee's incapacity, Employee shall be entitled to his pro rata salary for a period of six months following the date of such termination, but Employee shall not be entitled to any individual bonuses not yet paid to Employee at the date of such termination.

3.9. In all cases, the compensation and benefits payable to Employee under this Agreement upon termination of the employment relationship shall be reduced and offset by any amounts to which Employee may otherwise be entitled under any and all severance plans or policies of Employer or its subsidiaries or affiliates or any successor to all or a portion of the business or assets of Employer; provided, however, that no sums received by Employee pursuant to Employer's pension and retirement and thrift plan shall be considered a payment requiring offset under this Section.

3.10. Termination of the employment relationship shall not terminate those obligations imposed by this Agreement which are continuing in nature, including, without limitation, Employee's obligations of confidentiality, non-competition and Employee's continuing obligations with respect to business opportunities that had been entrusted to Employee by Employer during the employment relationship.

3.11. This Agreement governs the rights and obligations of Employer and Employee with respect to Employee's salary and other perquisites of employment. Except as otherwise provided in this Agreement, Employee's rights and obligations with respect to any Employee stock options and other incentive awards shall be governed by the applicable plans, awards, or other governing documents.

4. UNITED STATES FOREIGN CORRUPT PRACTICES ACT AND OTHER LAWS:

4.1. Employee shall at all times comply with United States laws applicable to

Employee's actions on behalf of Employer and its subsidiaries and affiliates, including specifically, without limitation, the United States Foreign Corrupt Practices Act, generally codified in 15 USC 78 (FCPA), as the FCPA may hereafter be amended, and/or its successor statutes. If Employee pleads guilty to or nolo contendre or admits civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee has personal civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee committed an action resulting in Employer or any of its subsidiaries or affiliates having civil or criminal liability or responsibility under the FCPA or other applicable United States law, such action or finding shall constitute "cause" for termination under this Agreement unless Employer's Board of Directors determines that the actions found to be in violation of the FCPA or other applicable United States law were taken in good faith and in compliance with all applicable policies of Employer. Moreover, to the extent that Employer or its subsidiaries or affiliates is found or held responsible for any civil or criminal fines or sanctions of any type under the FCPA or other applicable United States law or suffers other damages as a result of Employee's actions, Employee shall be responsible for, and shall reimburse and pay to that entity an amount of money equal to, such civil or criminal fines, sanctions or damages. The rights afforded Employer or its subsidiaries and affiliates under this provision are in addition to any and all rights and remedies otherwise afforded by the law.

5. OWNERSHIP AND PROTECTION OF INFORMATION; COPYRIGHTS:

5.1. All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee, individually or in conjunction with others, during Employee's employment by Employer (whether during business hours or otherwise and whether on Employer's premises or otherwise) which relate to Employer's or any of its subsidiaries' or affiliates' businesses, products or services (including, without limitation, all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names, and marks) shall be disclosed to Employer and are and shall be the sole and exclusive property of Employer. Upon termination of Employee's employment, for any reason, Employee promptly shall deliver the same, and all copies thereof, to Employer.

5.2. Employee will not, at any time during or after his employment by Employer, make any unauthorized disclosure of any confidential business information or trade secrets of Employer or its subsidiaries or affiliates, or make any use thereof, except in the carrying out of his employment responsibilities hereunder. Employer's subsidiaries and affiliates shall be third party beneficiaries of Employee's obligations under this Section. As a result of Employee's employment by Employer, Employee may also from time to time have access to, or knowledge of, confidential business information or trade secrets of third parties, such as customers, suppliers, partners, joint ventures, and the like, of Employer and its subsidiaries and affiliates.

Employee also agrees to preserve and protect the confidentiality of such third party confidential information and trade secrets to the same extent, and on the same basis, as Employer's or any of their subsidiaries' or affiliates' confidential business information and trade secrets.

5.3. If, during Employee's employment by Employer, Employee creates any original work of authorship fixed in any tangible medium of expression which is the subject matter of copyright (such as videotapes, written presentations on acquisitions, computer programs, E-mail, voice mail, electronic databases, drawings, maps, architectural renditions, models, manuals, brochures, or the like) relating to Employer's or any of its subsidiaries' or affiliates' businesses, products, or services, whether such work is created solely by Employee or jointly with others (whether during business hours or otherwise and whether on Employer's or any of its subsidiaries' or affiliates' premises or otherwise), Employer shall be deemed the author of such work if the work is prepared by Employee in the scope of his employment; or, if the work is not prepared by Employee within the scope of his employment but is specially ordered by Employer or any of its subsidiaries or affiliates as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, or as an instructional text, then the work shall be considered to be work made for hire and Employer or any of its subsidiaries or affiliates shall be the author of the work. If such work is neither prepared by Employee within the scope of his employment nor a work specially ordered that is deemed to be a work made for hire, then Employee hereby agrees to assign, and by these presents does assign, to Employer all of Employee's worldwide right, title, and interest in and to such work and all rights of copyright therein.

5.4. Both during the period of Employee's employment by Employer and thereafter, Employee shall assist Employer or any of its subsidiaries or affiliates and their nominees, at any time, in the protection of Employer's or any of its subsidiaries' or affiliates' worldwide right, title, and interest in and to information, ideas, concepts, improvements, discoveries, and inventions, and its copyrighted works, including without limitation, the execution of all formal assignment documents requested by Employer or any of its subsidiaries or affiliates or their nominees and the execution of all lawful oaths and applications for applications for patents and registration of copyright in the United States and foreign countries.

6. POST-EMPLOYMENT NON-COMPETITION OBLIGATIONS:

6.1. As part of the consideration for the compensation and benefits to be paid to Employee hereunder, and as an additional incentive for Employer to enter into this Agreement, Employer and Employee agree to the non-competition provisions of this Article 6. Employee agrees that during the period of Employee's non-competition obligations hereunder, Employee will not, directly or indirectly for Employee or for others, in any county within the State of Texas, and to the extent allowed by law, in any geographic area or market where Employer or any of its subsidiaries or affiliated companies are engaged in the Relevant Business as of the date of termination of the employment relationship or have during the previous twelve months engaged in the Relevant Business:

(i) engage in the business of the design, manufacture, sale, repair and distribution of products used in oil and gas drilling and production and any other business engaged in by the Employer immediately prior to the date of this Agreement (the "Relevant Business");

(ii) render advice or services to, or otherwise assist, any other person, association, or entity who is engaged, directly or indirectly, in the Relevant Business; and

(iii) induce any employee of Employer or any of its subsidiaries or affiliates to terminate his or her employment with Employer or any of its subsidiaries or affiliates, or hire or assist in the hiring of any such employee by any person, association, or entity not affiliated with Employer or any of its subsidiaries or affiliates; provided, however, that this clause (iii) shall not apply to responses to general advertising not directed toward employees of Employer or any of its subsidiaries or affiliates.

These non-competition obligations shall apply during Employee's employment and for a period of one (1) year after termination of employment. After termination of employment these non-competition obligations shall apply only to businesses having annual revenues in excess of $20 million dollars competitive with any line of business conducted by Employer or any of its subsidiaries having annual revenues in excess of $20 million dollars for the last fiscal year prior to the time of termination. If Employer or any of its subsidiaries or affiliates abandons a particular aspect of its business, that is, ceases such aspect of its business with the intention to permanently refrain from such aspect of its business, then this post-employment non-competition covenant shall not apply to such former aspect of that business.

6.2. Employee understands that the foregoing restrictions may limit his ability to engage in certain businesses during the period provided for above, but acknowledges that Employee will receive sufficiently high remuneration and other benefits (e.g., the right to receive compensation under Section 3.6 for the remainder of the Term upon Involuntary Termination) under this Agreement to justify such restriction. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 6 by Employee, and Employer or any of its subsidiaries or affiliates shall be entitled to enforce the provisions of this Article 6 by terminating any payments then owing to Employee under this Agreement and/or to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article 6, but shall be in addition to all remedies available at law or in equity to Employer or any of its subsidiaries or affiliates, including, without limitation, the recovery of damages from Employee and his agents involved in such breach.

6.3. It is expressly understood and agreed that Employer and Employee consider the restrictions contained in this Article 6 to be reasonable and necessary to protect the proprietary

information of Employer and its subsidiaries and affiliates. Nevertheless, if any of the aforesaid restrictions are found by a court having jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, the parties intend for the restrictions therein set forth to be modified by such courts so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

7. EMPLOYEE CONFIDENTIALITY COMMITMENT:

7.1 In the course of employment, Employer will provide Employee with a great deal of proprietary, confidential, and restricted information, including Trade Secrets (as herein defined), not known to those outside of Employer (collectively, "Confidential Information"). "Trade Secrets" are any information, including a formula, pattern, compilation, program, device, method, technique, or process, that derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use is the subject of efforts that are reasonable under circumstances to maintain its secrecy.

7.2 Employee shall not disclose or make use of Employer's Confidential Information to anyone not employed by either Employer without written authorization. Employee shall be bound by Employer's rules governing company trade secret usage and will not use Employer's Trade Secrets outside the scope of Employee's employment. Employee further shall not disclose or use Employer's Confidential Information for any purpose for a period of one (1) year after employment with Employer is terminated.

7.3 Employee will not disclose any Confidential Information to persons (including other employees of Employer unless such persons have executed a declaration similar to this one); provided, however, that Employee may make such disclosure if required by law. Employee will hold Confidential Information in trust, and consistently exercise all reasonable precautions to ensure that it is not disclosed to any unauthorized persons, or used in any unauthorized manner, published, or otherwise disseminated, either during or subsequent to, employment with Employer, and will immediately report to Employer any breach or violation of the commitments made in this declaration, whether the breach or violation is intentional or inadvertent.

7.4 Employee acknowledges that the Confidential Information, particularly regarding Trade Secrets, is material to the successful and profitable operation of Employer, and if such Confidential Information is improperly divulged, it will constitute an irreparable injury to Employer. Therefore, Employee consents to the imposition of whatever injunctive or other relief Employer deems necessary or appropriate in order to protect the Confidential Information.

7.5 In the event Employee has any question as to whether information is to be covered by the terms of this Section, Employee shall treat such information as Confidential Information, and as such, falling under the terms and obligations of this Section.

8. MISCELLANEOUS:

8.1. For purposes of this Agreement the terms "affiliates" or "affiliated" means an entity who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with Employer.

8.2. Employer and Employee shall refrain, both during the employment relationship and after the employment relationship terminates, from publishing any oral or written statements about each other or any of Employer's subsidiaries' or affiliates' directors, officers, employees, agents or representatives that are slanderous, libelous, or defamatory; or that disclose private or confidential information about Employee's or Employer's or any of its subsidiaries' or affiliates' business affairs, officers, employees, agents, or representatives; or that constitute an intrusion into the seclusion or private lives of Employee or Employer's or any of its subsidiaries' or affiliates' directors, officers, employees, agents, or representatives; or that give rise to unreasonable publicity about the private lives of Employee or Employer's or any of its subsidiaries' or affiliates' officers, employees, agents, or representatives; or that place Employee or Employer or any of its subsidiaries or affiliates or their respective officers, employees, agents, or representatives in a false light before the public; or that constitute a misappropriation of the name or likeness of Employee or Employer or any of its subsidiaries or affiliates or their respective officers, employees, agents, or representatives. A violation or threatened violation of this prohibition may be enjoined.

8.3. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employer to:

IRI International Corporation
1000 Louisiana, Suite 5900
Houston, Texas 77002

Attn: Hushang Ansary, Chairman and Chief Executive Officer
Fax: (713) 659-3137

with a copy to:

Jones, Day, Reavis & Pogue
599 Lexington Avenue
New York, NY 10022

Attn: Mr. William F. Henze II
Fax: (212) 755-7306

If to Employee, to the address reflected in Employer's records as his residence.

Either Employer or Employee may furnish a change of address to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

8.4. This Agreement shall be governed in all respects by the laws of the State of Texas, excluding any conflict-of-law rule or principle that might refer the construction of the Agreement to the laws of another State or country.

8.5. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

8.6. It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant, or remedy of this Agreement or the application thereof to any person, association, or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant, or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person, association, or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

8.7. Any and all claims, demands, cause of action, disputes, controversies and other matters in question arising out of or relating to this Agreement, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of this Agreement, involving Employer, its subsidiaries and affiliates and Employee (all of which are referred to herein as "Claims"), even though some or all of such Claims allegedly are extra-contractual in nature, whether such Claims sound in contract, tort or otherwise, at law or in equity, under state or federal law, whether provided by statute or the common law, for damages or any other relief, including equitable relief and specific performance, shall be resolved and decided by binding arbitration pursuant to the Federal Arbitration Act in accordance with the Commercial Arbitration Rules then in effect with the American Arbitration Association. In the arbitration proceeding the Employee shall select one arbitrator, the Employer shall select one arbitrator and the two arbitrators so selected shall select a third arbitrator. Should one party fail to select an arbitrator within five days after notice of the appointment of an arbitrator by the other party or should the two arbitrators selected by the Employee and the Employer fail to select an arbitrator within ten days after the date of the appointment of the last of such two arbitrators, any person sitting as a Judge of the United States District Court of any District in Texas, upon application of

the Employee or the Employer, shall appoint an arbitrator to fill such space with the same force and effect as though such arbitrator had been appointed in accordance with the immediately preceding sentence of this Section 8.7. The decision of a majority of the arbitrators shall be binding on the Employee, the Employer and its subsidiaries and affiliates. The arbitration proceeding shall be conducted in Houston, Texas. Judgment upon any award rendered in any such arbitration proceeding may be entered by any federal or state court having jurisdiction. This agreement to arbitrate shall be enforceable in either federal or state court. The enforcement of this agreement to arbitrate and all procedural aspects of this Agreement to arbitrate, including but not limited to, the construction and interpretation of this agreement to arbitrate, the scope of the arbitrable issues, allegations of waiver, delay or defenses to arbitrability, and the rules governing the conduct of the arbitration, shall be governed by and construed pursuant to the Federal Arbitration Act.

In deciding the substance of any such Claim, the Arbitrators shall apply the substantive laws of the State of Texas; provided, however, that the Arbitrators shall have no authority to award treble, exemplary or punitive type damages under any circumstances regardless of whether such damages may be available under Texas law, the parties hereby waiving their right, if any, to recover treble, exemplary or punitive type damages in connection with any such Claims.

8.8. This Agreement shall be binding upon and inure to the benefit of Employer, its subsidiaries and affiliates, and any other person, association, or entity which may hereafter acquire or succeed to all or a portion of the business or assets of Employer by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Employee's rights and obligations under this Agreement are personal and such rights, benefits, and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated, or transferred, whether by operation of law or otherwise, by Employee without the prior written consent of Employer.

8.9. Except as provided in (1) written company policies promulgated by Employer dealing with issues such as securities trading, business ethics, governmental affairs and political contributions, consulting fees, commissions and other payments, compliance with law, investments and outside business interests as officers and employees, reporting responsibilities, administrative compliance, and the like, (2) the written benefits, plans, and programs referenced in Sections 2.2, 2.3 and 2.4, or (3) any signed written agreements contemporaneously or hereafter executed by Employer and Employee, this Agreement constitutes the entire agreement of the parties with regard to such subject matters, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect to such subject matters and replaces and merges previous agreements and discussions pertaining to the employment relationship between Employer and Employee. Specifically, but not by way of limitation, any other employment agreement or arrangement in existence as of the date hereof between Employer and Employee is hereby canceled and Employee hereby irrevocably waives and renounces all of Employee's rights and claims under any such agreement or arrangement.

IN WITNESS WHEREOF, Employer and Employee have duly executed this Agreement in multiple originals to be effective on the date first stated above.

EMPLOYEE

By: _____

IRI International Corporation

By: _____

Title: _____

EXHIBIT 21.1

SUBSIDIARIES OF THE COMPANY

| | |
|---|---|
| National-Oilwell, L.P. | Delaware |
| NOW International, Inc. | Delaware |
| National-Oilwell Canada Ltd. | Canada |
| Technical Sales & Maintenance Ltd. | Canada |
| National Oilwell (U.K.) Limited | UK |
| Hitec Drilling & Marine Systems, Ltd. | UK |
| National Oilwell de Venezuela C.A. | Venezuela |
| National-Oilwell Pte. Ltd. | Singapore |
| National-Oilwell Pty. Ltd. | Australia |
| Russell Sub-Surface Systems, Ltd. | UK |
| National Oilwell - Netherlands B.V. | Holland |
| NOW International Denmark ApS | Denmark |
| P.T. National Oilwell Indonesia | Indonesia |
| Dreco Energy Services, Ltd. | Canada |
| Dreco DHT, Inc. | Delaware |
| Vector Oil Tool Ltd. | Canada |
| Hitec Systems and Controls, Inc. | Canada |
| National Oilwell DHT, L.P. | Delaware |
| Bowen Downhole, Inc. | Delaware |
| National Oilwell Holdings Norway AS | Norway |
| National Oilwell Norway AS | Norway |
| Hitec AS | Norway |
| Maritime Industry Services AS | Norway |
| Bowen Tools, Ltd. | Canada |

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements of National-Oilwell, Inc. and in the related Prospectuses of our report dated February 8, 2002, with respect to the consolidated financial statements of National-Oilwell, Inc. included in this Annual Report on Form 10-K for the year ended December 31, 2001.

Form Description
- ---- -----
------ S-8 Stock Award and Long Term Incentive Plan, Value Appreciation and Incentive Plan A and Value Appreciation and Incentive Plan B (No. 333-15859)
S-8 National-Oilwell Retirement and Thrift Plan (No. 333-36359)
S-8 Post Effective Amendment No. 3 to the Registration Statement on Form S-4 filed on Form S-8 pertaining to the Dreco Energy Services Ltd. Amended and Restated 1989 Employee Incentive Stock Option Plan, as amended, and Employment and Compensation Arrangements Pursuant to Private Stock Option Agreements (No. 333-21191) S-8 Post Effective Amendment No. 1 on Form S-8 to Registration Statement on Form S-4 pertaining to the IRI International Corporation Equity Incentive Plan (No. 333-36644)

/s/ ERNST & YOUNG LLP

Houston, Texas
March 27, 2002

EXHIBIT 23.2

INDEPENDENT AUDITORS CONSENT

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-15859, 333-36359, 333-21191, 333-36644) of National Oilwell, Inc. of our report dated March 8, 2000, with respect to the consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows of IRI International Corporation and Subsidiaries for the year ended December 31, 1999, which report is filed with this Annual Report of National-Oilwell, Inc. on Form 10-K for the year ended December 31, 2001.

/s/ KPMG LLP

Houston, Texas
March 27, 2002