
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of
The Securities Exchange Act of 1934

February 23, 2006 (February 21, 2006)
Date of Report (Date of earliest event reported)

NATIONAL OILWELL VARCO, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-12317
(Commission
File Number)

76-0475815
(IRS Employer
Identification No.)

10000 Richmond Avenue
Houston, Texas
(Address of principal executive offices)

77042
(Zip Code)

Registrant's telephone number, including area code: **713-346-7500**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

TABLE OF CONTENTS

[Item 1.01. Entry into a Material Definitive Agreement](#)

[Item 9.01 Financial Statements and Exhibits](#)

[SIGNATURES](#)

[Exhibit Index](#)

[Form of Employee Nonqualified Stock Option Agreement](#)

[Form of Non-Employee Director Nonqualified Stock Option Agreement](#)

[Table of Contents](#)

Item 1.01. Entry into a Material Definitive Agreement.

Stock Option Grant. On February 21, 2006, the Compensation Committee (the “Compensation Committee”) of the Board of Directors of National Oilwell Varco, Inc. (the “Company”) approved the grant of stock options pursuant to the National Oilwell Varco, Inc. Long-Term Incentive Plan, including grants of stock options to its executive officers as follows:

<u>Name</u>	<u>Securities Underlying Options (#)</u>
Merrill A. Miller, Jr.	100,000
Clay C. Williams	50,000
Kevin A. Neveu	30,000
Mark A. Reese	30,000
Haynes B. Smith, III	30,000
Robert Blanchard	30,000
Dwight W. Rettig	30,000

The Compensation Committee also approved the grant of 8,000 stock options to each non-employee director under the National Oilwell Varco Long-Term Incentive Plan.

The exercise price of the stock options is \$66.58 per share, which was the fair market value of one share of National Oilwell Varco, Inc. common stock on the date of grant. The stock options have terms of ten years from the date of grant and vest in three equal annual installments beginning on the first anniversary of the date of the grant. Additional terms and provisions of each employee option grant are set forth in the form of Employee Nonqualified Stock Option Agreement, which is filed as Exhibit 10.1 to this Current Report on Form 8-K and incorporated by reference herein. Additional terms and provisions of each non-employee director option grant are set forth in the form of Non-Employee Director Nonqualified Stock Option Agreement, which is filed as Exhibit 10.2 to this Current Report on Form 8-K and incorporated by reference herein.

Incentive Plan. On February 21, 2006, the Compensation Committee also approved the performance terms of the 2006 National Oilwell Varco Incentive Plan (the “2006 Incentive Plan”). Under the 2006 Incentive Plan, certain exempt employees of the Company, including its executive officers, are entitled to earn cash bonus compensation based upon the Company’s achievement of certain specified operating profit targets based on the Company’s financial plan. The Company must achieve a specified minimum operating profit before any bonus awards are earned by any participant. Each participant is assigned to one of twelve target levels based on that participant’s level of responsibility at the Company. Each target level is assigned a target percentage of base salary that will be used to determine a participant’s bonus. The amount of a participant’s bonus is calculated by multiplying (A) the incremental increase in operating profit over a specified target by (B) the participant’s base salary by (C) the participant’s designated target percentage of base salary. Assuming the Company achieves its target operating profit, participants in the first two target levels, the chief executive officer and chief financial officer, are eligible to receive a bonus payment of 100% and 80% of their base salary, respectively. Participants in the third target level, which includes certain other senior executive officers, are eligible to receive a bonus payment equal to 75% of their base salary if the Company achieves target operating profit. In addition, certain key executives are subject to a bonus increase or decrease if a specified “capital employed” target is under- or over-achieved. “Capital employed” is defined as the sum of the Company’s (a) total assets, excluding cash, minus (b) total liabilities, excluding debt.

[Table of Contents](#)

Item 9.01 Financial Statements and Exhibits.

(c) *Exhibits*

The following exhibits are being filed herewith:

- | | |
|------|--|
| 10.1 | Form of Employee Nonqualified Stock Option Agreement. |
| 10.2 | Form of Non-Employee Director Nonqualified Stock Option Agreement. |
-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 23, 2006

NATIONAL OILWELL VARCO, INC.

/s/ Clay C. Williams

Clay C. Williams

Sr. Vice President and Chief Financial Officer

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
10.1	Form of Employee Nonqualified Stock Option Agreement
10.2	Form of Non-Employee Director Nonqualified Stock Option Agreement

EXHIBIT 10.1

**NATIONAL OILWELL VARCO, INC.
LONG-TERM INCENTIVE PLAN**

Nonqualified Stock Option Agreement

Grantee: _____

Date of Grant: _____

Exercise Price per Share: \$ _____

Number of Option Shares Granted: _____

1. Notice of Grant. National Oilwell Varco, Inc. (the "Company") is pleased to notify you that you have been granted an option ("Option") to purchase the number of shares of Common Stock of the Company set forth above pursuant to the National Oilwell Varco, Inc. Long-Term Incentive Plan (the "Plan"), subject to the terms and conditions of the Plan and this Agreement. This Option is not intended to be an incentive stock option within the meaning of Section 422 of the Code.

2. Vesting and Exercise of Option. Subject to the further provisions of this Agreement, the Option shall become vested and may be exercised in accordance with the following schedule, by written notice to the Company at its principal executive office addressed to the attention of its Secretary (or such other officer or employee of the Company as the Company may designate from time to time):

	NUMBER OF FULL YEARS	PERCENTAGE OF SHARES THAT MAY BE PURCHASED
Less than 1 year		0%
1 year	1 year	33 1/3%
2 years	2 years	66 2/3%
3 years or more		100%

Notwithstanding the above schedule, but subject to the further provisions hereof, upon the occurrence of the following events the Option shall vest and become exercisable as provided below:

(a) Disability. If your employment with the Company terminates by reason of a disability that entitles you to benefits under the Company's long-term disability plan, the Option may be exercised at any time during the one-year period following such termination by you or by your guardian or legal

representative (or, if you die during such one-year period, by your estate or the person who acquires the Option by will or the laws of descent and distribution), but only as to the vested number of Option shares, if any, that you were entitled to exercise hereunder as of the date your employment so terminates.

(b) Death. If you die while in the employ of the Company, your estate (or the person who acquires the Option by will or the laws of descent and distribution) may exercise the Option at any time during the one-year period following the date of your death), but only as to the vested number of Option shares, if any, that you were entitled to exercise hereunder as of the date of your death.

(c) Termination for Cause. If your employment is terminated by the Company for cause, the Option automatically shall be cancelled and may not be exercised following your termination. The term “cause” means (i) your gross negligence or willful misconduct in the performance of your duties with respect to the Company or (ii) your final conviction of a felony or a misdemeanor involving moral turpitude.

(d) Other Terminations. If your employment with the Company is terminated for any reason other than as provided above, including an Involuntary Termination (as defined below), the Option, to the extent vested on the date of your termination, may be exercised, at any time during the three-month period following such termination, by you or by your guardian or legal representative (or by your estate or the person who acquires the Option by will or the laws of descent and distribution or otherwise by reason of the death of you if you die during such three-month period), but in each case only as to the vested number of Option shares, if any, that you were entitled to purchase hereunder as of the date your employment so terminates.

(e) Change of Control. The Option shall become fully vested upon your Involuntary Termination. As used in this paragraph, “Involuntary Termination” means your termination from employment with the Company on or within twelve months following a Change of Control that is either (i) initiated by the Company for reasons other than cause, or (ii) initiated by you after (a) a reduction by the Company of your authority, duties or responsibilities immediately prior to the Change of Control (excluding for this purpose (A) an insubstantial reduction of such authorities, duties or responsibilities or an insubstantial reduction of your offices, titles and reporting requirements, or (B) an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you), (b) a reduction of your base salary or total compensation as in effect immediately prior to the Change of Control (total compensation means for this purpose: base salary, participation in an annual bonus plan, and participation in a long-term incentive plan), or (c) your transfer, without your express written consent, to a location which is outside the general metropolitan area in which your principal place of business immediately prior to the Change of Control may be located or the Company’s requiring you to travel on Company business to a substantially greater extent than required immediately prior to the Change of Control. The term “Change of Control” shall mean: (i) the Company completes the sale of assets having a gross sales price which exceeds 50% of the consolidated total capitalization of the Company (consolidated total stockholders’ equity plus consolidated total long-term debt as determined in accordance with generally accepted accounting principles) as at the end of the last full fiscal quarter prior to the date such determination is made; or (ii) any corporation, person or group within the meaning of Section 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 the Company representing more than 30% of the total votes eligible to be cast at any election of directors of the Company.

For purposes of this Agreement, “employment with the Company” shall include being an employee or a director of, or a consultant to, the Company or a Subsidiary.

The provisions of any written employment or severance agreement between you and the Company concerning the vesting, exercise and/or period for exercise of Company stock options are incorporated hereby and made a part of this Agreement.

There is no minimum or maximum number of Option shares that must be purchased upon exercise of the Option. Instead, the Option may be exercised, at any time and from time to time, to purchase any number of Option shares that are then vested according to the provisions of this Agreement.

Notwithstanding any of the foregoing, the Option shall not be exercisable in any event after the expiration of 10 years from the above Date of Grant.

All Option shares that are not vested on your termination of employment as provided above shall be automatically cancelled and forfeited without payment upon your termination.

3. Method of Payment. Payment of the aggregate Exercise Price for the Shares being purchased may be by any of the following, or a combination thereof: (a) cash; (b) check acceptable to the Company; (c) consideration received by the Company under a “cashless broker” exercise program approved by the Company; (d) the constructive surrender of Shares already owned by you; or (e) with the consent of the Company (or the Committee if you are subject to Section 16(b) of the Exchange Act), withholding Shares to be acquired upon exercise of the Option.

4. Nontransferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during your lifetime only by you. The terms of the Plan and this Agreement shall be binding upon your executors, administrators, heirs, successors and assigns.

5. Entire Agreement; Governing Law. This Option is granted under and governed by the terms and conditions of the Plan and this Agreement. In the event of any conflict between the Plan and this Agreement, the terms of the Plan shall control. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement. The Plan is incorporated herein by reference. The Plan and this Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and you with respect to the subject matter hereof, and may not be modified adversely to your interest except by means of a writing signed by the Company and you. This Agreement is governed by the internal substantive laws, but not the choice of law rules, of the state of Texas.

6. Withholding of Tax. To the extent that the exercise of the Option results in the receipt of compensation by you with respect to which the Company or a Subsidiary has a tax withholding obligation pursuant to applicable law, unless other arrangements have been made by you that are acceptable to the Company or such Subsidiary, which, with the consent of the Company (or the Committee if you are subject to Section 16(b) of the Exchange Act), may include withholding a number of Shares that would otherwise be delivered on exercise that have an aggregate Fair Market Value that does not exceed the amount of taxes to be withheld, you shall deliver to the Company or the Subsidiary such amount of money as the Company or the Subsidiary may require to meet its withholding obligations under such applicable law. No delivery of Shares shall be made pursuant to the exercise of the Option under this Agreement until you have paid or made arrangements approved by the Company or the Subsidiary to satisfy in full the applicable tax withholding requirements of the Company or Subsidiary.

EXHIBIT 10.2

NATIONAL OILWELL VARCO, INC.

Nonqualified Stock Option Agreement

AGREEMENT made as of _____ between NATIONAL OILWELL VARCO, INC., a Delaware corporation (the “Company”) and _____ (“Optionee”), a non-employee director of the Company.

To carry out the purposes of the National Oilwell Varco, Inc. Long-Term Incentive Plan, as amended and restated (the “Plan”), by affording Optionee the opportunity to purchase shares of the Common Stock of the Company (“Stock”), and in consideration of the mutual agreements and other matters set forth herein and in the Plan, the Company and Optionee hereby agree as follows:

1. **Grant of Option.** The Company hereby grants to Optionee the right and option (“Option”) to purchase all or any part of an aggregate of _____ shares of Stock, on the terms and conditions set forth herein and in the Plan, which Plan is incorporated herein by reference as a part of this Agreement. This Option shall not be treated as an incentive stock option within the meaning of section 422(b) of the Internal Revenue Code of 1986, as amended (the “Code”).

2. **Purchase Price.** The purchase price of Stock purchased pursuant to the exercise of this Option shall be \$ _____ per share, which has been determined to be not less than 100% of the fair market value of the Stock at the date of grant of this Option. For all purposes of this Agreement, fair market value of Stock shall be determined in accordance with the provisions of the Plan.

3. **Exercise of Option.** Subject to the earlier expiration of this Option as herein provided, this Option may be exercised, by written notice to the Company at its principal executive office addressed to the attention of its Secretary, at any time and from time to time after the date of grant hereof, but, except as otherwise provided below, this Option shall not be exercisable for more than a percentage of the aggregate number of shares offered by this Option determined by the number of full years from the date of grant hereof to the date of such exercise, in accordance with the following schedule:

NUMBER OF FULL YEARS	PERCENTAGE OF SHARES THAT MAY BE PURCHASED
Less than 1 year	0%
1 year	33 1/3%
2 years	66 2/3%
3 years or more	100%

The termination of Optionee's director relationship with the Company and a Change of Control (as such term is defined below) shall affect Optionee's rights under this Option as follows:

(a) This Option shall terminate and cease to be exercisable upon the termination of Optionee's director relationship with the Company for cause. For purposes of this Paragraph 2, the term "cause" shall mean (i) Optionee has engaged in gross negligence or willful misconduct in the performance of Optionee's duties with respect to the Company or (ii) Optionee's final conviction of a felony or of a misdemeanor involving moral turpitude.

(b) If Optionee's director relationship with the Company terminates for any reason other than for cause, this Option may be exercised by Optionee (or Optionee's estate or the person who acquires this Option by will or the laws of descent and distribution or otherwise by reason of the death of Optionee) at any time prior to the expiration of ten years from the date of grant hereof, but, except as provided in (c) below, only as to the number of shares Optionee was entitled to purchase hereunder as of the date Optionee's director relationship with the Company so terminates.

(c) Notwithstanding the exercise schedule set forth above, if (i) a Change of Control shall occur prior to the date upon which this Option is exercisable in full as provided in such schedule, (ii) Optionee's director relationship with the Company is terminated at any time on or after such Change of Control for any reason other than for cause, and (iii) Optionee has served as a director of the Company continuously from the date of grant of this Option to the date Optionee's director relationship with the Company so terminates, then this Option may be exercised in full by Optionee (or Optionee's estate or the person who acquires this Option by will or the laws of descent and distribution or otherwise by reason of the death of Optionee) at any time prior to the expiration of ten years from the date of grant hereof. For purposes of this Paragraph 2, the term "Change of Control" shall mean: (y) the Company completes the sale of assets having a gross sales price which exceeds 50% of the consolidated total capitalization of the Company (consolidated total stockholders' equity plus consolidated total long-term debt as determined in accordance with generally accepted accounting principles) as at the end of the last full fiscal quarter prior to the date such determination is made; or (z) any corporation, person or group within the meaning of Section 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 the Company representing more than 30% of the total votes eligible to be cast at any election of directors of the Company.

This Option shall not be exercisable in any event after the expiration of ten years from the date of grant hereof. The purchase price of shares as to which this Option is exercised shall be paid in full at the time of exercise (a) in cash (including check, bank draft or money order payable to the order of the Company), (b) by delivering to the Company shares of Stock having a fair market value equal to the purchase price (provided such shares have been owned by Optionee for more than six months, unless this requirement is waived by the Committee), (c) through a "cashless-broker" exercise (through procedures approved by the Committee), (d) by authorizing the Company to withhold shares of Stock issuable upon exercise of this Option having a fair market value equal to the purchase price (through procedures approved by the Committee) or (e) any combination of the foregoing. No fraction of a share of Stock shall be issued by the Company upon exercise of an Option or accepted by the Company in payment of the purchase price thereof; rather, Optionee shall provide a cash payment for such amount as is necessary to effect the issuance and acceptance of only whole shares of Stock. Unless and until a certificate or certificates representing such shares shall have been issued by the Company to Optionee, Optionee (or the person permitted to exercise this Option in the event of Optionee's death) shall not be or have any of the

rights or privileges of a shareholder of the Company with respect to shares acquirable upon an exercise of this Option.

4. **Withholding of Tax.** If necessary, as a condition of delivery of shares of stock to be delivered upon exercise of this Option, the Company shall be entitled to require that Optionee remits or, in appropriate cases agrees to remit when due, the amount necessary to satisfy all federal, state and local withholding tax requirements relating thereto.

5. **Status of Stock.** Optionee agrees that the shares of Stock which Optionee may acquire by exercising this Option will not be sold or otherwise disposed of in any manner which would constitute a violation of any applicable securities laws, whether federal or state. Optionee also agrees (i) that the certificates representing the shares of Stock purchased under this Option may bear such legend or legends as the Committee deems appropriate in order to assure compliance with applicable securities laws, (ii) that the Company may refuse to register the transfer of the shares of Stock purchased under this Option on the stock transfer records of the Company, if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (iii) that the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the shares of Stock purchased under this Option.

6. **Director Relationship.** Any question as to whether and when there has been a termination of Optionee's director relationship with the Company, and the cause of such termination, shall be determined by the Committee and its determination shall be final.

7. **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Optionee.

8. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to the Option granted hereby. Without limiting the scope of the preceding sentence, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect. Any modification of this Agreement shall be effective only if it is in writing and signed by both Optionee and an authorized officer of the Company.

9. **Definitions.** Defined terms not specifically defined herein shall have the definitions given them in the Plan.

10. **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas and applicable federal law.