

## PROSPECTUS

4,000,000 SHARES

[NATIONAL-OILWELL, INC. LOGO]

NATIONAL-OILWELL, INC.  
COMMON STOCK

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All 4,000,000 shares of common stock, par value \$.01 per share (the "Common Stock"), offered hereby (the "Offering") are being sold by National-Oilwell, Inc. (the "Company").

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

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

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

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

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share.....	\$17.00	\$1.19	\$15.81
Total(3).....	\$68,000,000	\$4,760,000	\$63,240,000

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting expenses payable by the Company estimated at \$700,000.

(3) The Company has granted to the several Underwriters an option, exercisable within 30 days after the date of this Prospectus, to purchase up to an additional 600,000 shares of Common Stock at the Price to Public, less Underwriting Discount, solely to cover over-allotments, if any. If such option is exercised in full, the Price to Public, Underwriting Discount and Proceeds to Company will be \$78,200,000, \$5,474,000 and \$72,726,000, respectively. See "Underwriting."

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The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York, on or about November 1, 1996.

MERRILL LYNCH &amp; CO.

GOLDMAN, SACHS &amp; CO.

SIMMONS & COMPANY  
INTERNATIONAL

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The date of this Prospectus is October 28, 1996.

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

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

## PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Unless otherwise indicated, the information in this Prospectus assumes (i) exercise of the Warrant to purchase 282,392 shares of Common Stock, (ii) all outstanding shares of the Company's Class A Common Stock are converted into 1,902,543 shares of Common Stock on the effective date of the Registration Statement of which this Prospectus is a part and (iii) 340,926 shares of Common Stock to be issued in connection with the Company's Value Appreciation Plans are issued and outstanding. Prospective purchasers of the Common Stock should carefully read this entire Prospectus and should consider, among other things, the matters set forth under "Risk Factors." Unless otherwise indicated, all information relating to the Company contained in this Prospectus assumes the over-allotment option described under "Underwriting" is not exercised. Certain capitalized terms which are used but not defined in this summary are defined elsewhere in this Prospectus.

## THE COMPANY

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

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

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

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

## BUSINESS STRATEGY

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

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

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

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

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

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

## THE OFFERING

Common Stock Offered by the Company.....	4,000,000 shares
Common Stock to be Outstanding After the Offering.....	17,590,409 shares
Use of Proceeds.....	To repay certain outstanding indebtedness, essentially all of which was incurred to fund the acquisition of the Company, and for other general corporate purposes. See "Use of Proceeds."
New York Stock Exchange Symbol.....	"NOI"

## RISK FACTORS

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

## SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION AND OTHER DATA

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

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

	SUCCESSOR		PREDECESSOR				
	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1996	1995	PRO FORMA FOR OFFERING 1995	PRO FORMA FOR ACQUISITION 1995	1995	1994	1993
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)						
STATEMENT OF OPERATIONS DATA:							
Revenues.....	\$ 294,643	\$266,443	\$545,803	\$ 545,803	\$545,803	\$562,053	\$627,281
Cost of revenues.....	254,556	231,556	474,791	474,791	474,791	482,423	547,401
Gross profit.....	40,087	34,887	71,012	71,012	71,012	79,630	79,880
Selling, general and administrative.....	26,681	30,903	57,231	58,231	57,231	64,422	79,391
Special charges (credits)(1)...	--	(7,500)	(8,458)	(8,458)	(8,458)	(13,916)	8,565
Operating income (loss).....	13,406	11,484	22,239	21,239	22,239	29,124	(8,076)
Interest expense -- net.....	(6,418)	(1,063)	(5,631)	(12,817)	(1,261)	(4,731)	(7,276)
Other income (expense).....	(321)	161	(1,563)	(1,563)	(1,401)	528	(240)
Income (loss) before taxes...	6,667	10,582	15,045	6,859	19,577	24,921	(15,592)
Provision for income taxes(2).....	2,667	1,204	5,523	2,413	1,937	1,041	1,871
Net income (loss).....	\$ 4,000	\$ 9,378	\$ 9,522	\$ 4,446	\$ 17,640	\$ 23,880	\$(17,463)
Net income per share(3).....	\$ .30		\$ .54	\$ .34			
Common shares outstanding(3)(4).....	13,249		17,590	13,249			
OTHER DATA:							
EBITDA before special items(5).....	\$ 15,309	\$ 6,156	\$ 17,376	\$ 16,376	\$ 17,376	\$ 21,235	\$ 11,210
Summary cash flow information							
Net cash provided (used) by operating activities.....	(10,552)	(3,816)			41,670	37,551	(14,489)
Net cash provided (used) by investing activities.....	(107,175)	8,580			8,827	68,199	2,872
Net cash provided (used) by financing activities.....	122,239	(1,918)			7,210	(101,753)	12,338
Depreciation and amortization.....	1,903	2,172	3,595	3,595	3,595	6,027	10,721
Capital expenditures.....	849	2,031	4,764	4,764	4,764	3,604	1,967

## AS OF JUNE 30, 1996

	HISTORICAL	AS ADJUSTED(6)
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## BALANCE SHEET DATA:

Working capital.....	\$125,580	\$130,376
Total assets.....	259,481	258,843
Long-term debt, less current maturities.....	118,688	62,243
Stockholders' equity.....	33,982	88,018

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

- (2) Prior to January 1, 1996, the Company was a general partnership and therefore not subject to U.S. federal and state income taxes. See Note 9 to the Consolidated Financial Statements included elsewhere in this Prospectus.
- (3) Historical net income (loss) per share and common shares outstanding are not presented for periods prior to January 1, 1996 because the Company was a general partnership during these periods.
- (4) Common shares outstanding assumes all outstanding shares of Class A Common Stock are converted into 1,902,543 shares of Common Stock in connection with the Offering. In addition, the 1995 Pro Forma for Offering shares outstanding includes an additional 340,926 shares issuable under the Value Appreciation Plans and 4,000,000 shares sold in connection with the Offering.
- (5) EBITDA before special items means operating income (loss) plus depreciation and amortization plus special charges (credits). The Company uses EBITDA along with a measurement of capital employed in the calculation of its annual bonus plan and in the evaluation of acquisition candidates. EBITDA is frequently used by security analysts in the evaluation of companies and is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. EBITDA before special items is not intended as an alternative to cash flow from operating activities as a measure of liquidity, an alternative to net income as an indicator of the Company's operating performance or any other measure of performance in accordance with generally accepted accounting principles.
- (6) Gives effect to the Offering and application of the assumed net proceeds described under "Use of Proceeds." Also reflects the Offering related adjustments described on the Unaudited Pro Forma Condensed Consolidated Balance Sheet.

## RISK FACTORS

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

## DEPENDENCE ON OIL AND GAS INDUSTRY

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

## VOLATILITY OF OIL AND GAS PRICES

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

## HIGHLY COMPETITIVE INDUSTRY

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

## POTENTIAL PRODUCT LIABILITY AND WARRANTY CLAIMS

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

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

#### IMPACT OF GOVERNMENTAL REGULATIONS

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

#### IMPACT OF ENVIRONMENTAL REGULATIONS

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

#### RISK OF CERTAIN FOREIGN MARKETS

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

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

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

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

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

#### POTENTIAL FUTURE SALE OF SHARES COULD AFFECT MARKET PRICE

Upon consummation of the Offering, the 4,000,000 shares of Common Stock offered hereby will be freely tradable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), except for shares sold by persons deemed to be "affiliates" of the Company or acting as "underwriters," as those terms are defined in the Securities Act. The 1,168,310 shares of Common Stock owned by two limited partnerships (the "Inverness Investors") for which Inverness/Phoenix LLC serves as managing general partner which were issued on July 15, 1995 are restricted from resale pursuant to Rule 144 under the Securities Act until after July 15, 1997. The remaining shares of Common Stock held by the Company's existing stockholders were issued in 1996 and are restricted from resale pursuant to Rule 144 until various dates in 1998. The parties to the Stockholders Agreement have waived their registration rights with respect to a Registration Statement filed by the Company with respect to the Offering. See "Certain Transactions -- Stockholders Agreement." The Company, its executive officers and directors and all existing stockholders of the Company have agreed not to offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, pledge, or otherwise dispose of or transfer any shares of Common Stock, with certain exceptions, for a period of 180 days commencing on the date of this Prospectus without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") as representative of the Underwriters. The holders of approximately 9,287,047 shares of Common Stock will have demand registration rights following the expiration of 180 days after the completion of the Offering. Future sales of shares of Common Stock by existing stockholders and future option holders could adversely affect the market price of the Common Stock. See "Shares Eligible for Future Sale" and "Underwriting."

#### CREDIT FACILITY RESTRICTIONS; ASSET ENCUMBRANCES

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

#### CONTROL BY CERTAIN STOCKHOLDERS

Following completion of the Offering, the Company's existing stockholders, including the Inverness Investors, the First Reserve Investors, GE Capital and members of the Company's management, will collectively own an aggregate of 13,380,922 shares of Common Stock, representing 76.1% of the then outstanding shares (73.6% if the Underwriters' over-allotment option is exercised in full). As a result of such ownership, such stockholders could individually or collectively have the power to control the outcome of certain matters submitted to a vote of the Company's stockholders, including the election of the Board of Directors, and their interests may not reflect the interests of other stockholders. See "Principal Stockholders."

#### NO ANTICIPATED DIVIDENDS

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

## BENEFITS OF THE OFFERING TO CURRENT STOCKHOLDERS

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

## DILUTION TO NEW STOCKHOLDERS

Investors in the Common Stock offered hereby will experience immediate and substantial dilution in net tangible book value per share of \$12.43. See "Dilution."

## CERTAIN ANTI-TAKEOVER PROVISIONS COULD DISCOURAGE UNSOLICITED ACQUISITION PROPOSALS

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

## THE COMPANY

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

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

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

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

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby will be approximately \$62.5 million (approximately \$72.0 million if the Underwriters' over-allotment option is exercised in full) after deducting the estimated underwriting discount and offering expenses. The Company will use the net proceeds of the Offering to repay borrowings incurred to provide funds for the acquisition of the Company in January 1996 under the credit agreement dated as of December 29, 1995 (the "Credit Facility") and under a \$5 million subordinated note (the "Subordinated Note"), both with GE Capital. The Company will use approximately \$25.2 million of the estimated net proceeds to repay the entire remaining principal balance on the term notes portion of the Credit Facility and approximately \$5.1 million to repay the Subordinated Note and its deferred interest, and the remaining net proceeds of approximately \$32.2 million will be used to repay a portion of the revolving credit portion of the Credit Facility.

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

## DIVIDEND POLICY

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

## DILUTION

After giving effect to the conversion of all of the outstanding shares of Class A Common Stock into shares of Common Stock, exercise of the Warrant, the expense related to and the issuance of Common Stock in connection with the Company's Value Appreciation Plans, the write-off of deferred financing costs and the cost of termination of the Management Services Agreement, the pro forma net tangible book value (total assets less goodwill and other intangibles less liabilities) of the Company at June 30, 1996 was \$1.31 per share of Common Stock. See "Description of Capital Stock" and "Management -- Employee Benefit Plans and Arrangements." After giving effect to the receipt of an assumed \$62.5 million of net proceeds from the Offering, pro forma net tangible book value per share would have been \$4.57 per share of Common Stock outstanding after the Offering, representing an immediate increase in net tangible book value of \$3.26 per share of Common Stock to the existing stockholders and an immediate dilution of \$12.43 per share to the new investors purchasing Common Stock in the Offering. The following table illustrates the per share dilution:

Initial public offering price per share.....		\$17.00
Net tangible book value per share before adjustments.....	\$1.56	
Decrease in net tangible book value per share due to:		
-- write-off of deferred financing costs and the cost of termination of the Management Services Agreement.....	(.08)	
-- effect of Value Appreciation Plans.....	(.17)	
	-----	
Net tangible book value per share before the Offering.....	1.31	
Increase in net tangible book value per share attributable to sale of Common Stock by the Company in the Offering.....	3.26	
	-----	
Pro forma net tangible book value per share after the Offering.....		4.57
		-----
Dilution in pro forma net tangible book value per share to new investors...		\$12.43
		=====

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

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	13,249,483	75.3%	\$ 30,178,860	29.0%	\$ 2.28
Value Appreciation Plans recipients.....	340,926	2.0	5,795,456	5.6	17.00
	-----		-----		
	13,590,409	77.3	35,974,316	34.6	2.65
Public investors.....	4,000,000	22.7	68,000,000	65.4	17.00
	-----		-----		
Total.....	17,590,409	100.0%	\$103,974,316	100.0%	
	=====	=====	=====	=====	

## CAPITALIZATION

The following table sets forth the unaudited consolidated short-term debt and capitalization of the Company as of June 30, 1996, and as adjusted to give effect to the conversion of the Class A Common Stock into 1,902,543 shares of Common Stock, the exercise of the Warrant, the expense related to and the issuance of Common Stock in connection with the Company's Value Appreciation Plans, the write-off of deferred financing costs and the cost of termination of the Management Services Agreement and the Offering and the application of the net proceeds to the Company therefrom (approximately \$62.5 million) as described under "Use of Proceeds." The actual number of shares of Common Stock to be outstanding after the Offering is dependent upon the per share initial public offering price due to the terms of conversion of the Class A Common Stock and the issuance of Common Stock pursuant to the Value Appreciation Plans. See "Description of Capital Stock" and "Management -- Employee Benefit Plans and Arrangements." This table should be read in conjunction with the Consolidated Financial Statements of the Company and related Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Unaudited Pro Forma Condensed Consolidated Financial Statements and related Notes thereto included elsewhere in this Prospectus.

	AS OF JUNE 30, 1996	
	HISTORICAL	AS ADJUSTED
	-----	
	(DOLLARS IN THOUSANDS)	
Short-term debt:		
Current maturities of long-term debt.....	\$ 2,500	\$ --
	=====	=====
Long-term debt (less current maturities):		
Revolving Credit Facility.....	\$ 70,865	\$ 42,243
Term Notes.....	22,705	--
Subordinated debt.....	5,118	--
Seller Notes.....	20,000	20,000
	-----	-----
Total long-term debt.....	118,688	62,243
Stockholders' equity:		
Class A Common Stock -- par value \$.01; 13,288 shares outstanding (historical), no shares outstanding (as adjusted).....	--	--
Common Stock -- par value \$.01; 11,064,548 shares outstanding (historical), 17,590,409 shares outstanding (as adjusted).....	111	176
Additional paid-in capital.....	30,068	98,341
Notes receivable from officers.....	(500)	--
Cumulative translation adjustment.....	303	303
Retained earnings.....	4,000	(10,802)
	-----	-----
Total stockholders' equity.....	33,982	88,018
	-----	-----
Total capitalization.....	\$ 152,670	\$ 150,261
	=====	=====

## SELECTED HISTORICAL FINANCIAL DATA

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

	SUCCESSOR		PREDECESSOR				
	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1996	1995	1995	1994	1993	1992	1991
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNT)						
<b>STATEMENT OF OPERATIONS DATA:</b>							
Revenues.....	\$ 294,643	\$266,443	\$545,803	\$ 562,053	\$627,281	\$569,911	\$802,862
Cost of revenues.....	254,556	231,556	474,791	482,423	547,401	508,006	697,144
Gross profit.....	40,087	34,887	71,012	79,630	79,880	61,905	105,718
Selling, general and administrative.....	26,681	30,903	57,231	64,422	79,391	86,943	102,581
Special charges (credits)(1).....	--	(7,500)	(8,458)	(13,916)	8,565	6,500	24,500
Operating income (loss).....	13,406	11,484	22,239	29,124	(8,076)	(31,538)	(21,363)
Interest expense -- net.....	(6,418)	(1,063)	(1,261)	(4,731)	(7,276)	(4,790)	(8,153)
Other income (expense).....	(321)	161	(1,401)	528	(240)	941	(277)
Income (loss) before taxes.....	6,667	10,582	19,577	24,921	(15,592)	(35,387)	(29,793)
Provision for income taxes(2).....	2,667	1,204	1,937	1,041	1,871	876	677
	4,000	9,378	17,640	23,880	(17,463)	(36,263)	(30,470)
Cumulative benefit of net changes in accounting principles(3).....	--	--	--	--	--	1,136	--
Net income (loss).....	\$ 4,000	\$ 9,378	\$ 17,640	\$ 23,880	\$(17,463)	\$(35,127)	\$(30,470)
Common shares outstanding.....	13,249						
Net income per share.....	\$ .30						
<b>OTHER DATA:</b>							
EBITDA before special items(4).....	\$ 15,309	\$ 6,156	\$ 17,376	\$ 21,235	\$ 11,210	\$(12,805)	\$ 16,157
<b>Summary cash flow information</b>							
Net cash provided (used) by operating activities.....	(10,552)	(3,816)	41,670	37,551	(14,489)	32,635	82,366
Net cash provided (used) by investing activities.....	(107,175)	8,580	8,827	68,199	2,872	(4,924)	(18,391)
Net cash provided (used) by financing activities.....	122,239	(1,918)	7,210	(101,753)	12,338	(38,683)	(51,489)
Depreciation and amortization.....	1,903	2,172	3,595	6,027	10,721	12,233	13,020
Capital expenditures.....	849	2,031	4,764	3,604	1,967	4,941	19,153

	JUNE 30, 1996	JANUARY 1, 1996	JUNE 30, 1995	DECEMBER 31,				
				1995	1994	1993	1992	1991
<b>BALANCE SHEET DATA:</b>								
Working capital.....	\$125,580	\$121,272	\$143,026	\$177,365	\$ 151,810	\$171,632	\$179,407	\$239,369
Total assets.....	259,481	259,639	262,216	288,578	268,304	343,479	371,883	453,610
Long-term debt, less current maturities.....	118,688	121,128	--	9,128	--	69,816	56,467	94,850
Owners' equity.....	33,982	29,369	171,242	178,012	161,888	170,676	192,546	235,754

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

(2) Prior to January 1, 1996, the Company was a general partnership and therefore not subject to U.S. federal and state income taxes. See Note 9 to

the Consolidated Financial Statements included elsewhere in this Prospectus.

- (3) The Company changed its methods of accounting for income taxes and post-retirement benefits other than pensions effective January 1, 1992.
- (4) EBITDA before special items means operating income (loss) plus depreciation and amortization plus special charges (credits). The Company uses EBITDA along with a measurement of capital employed in the calculation of its annual bonus plan and in the evaluation of acquisition candidates. EBITDA is frequently used by security analysts in the evaluation of companies and is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. EBITDA before special items is not intended as an alternative to cash flow from operating activities as a measure of liquidity, an alternative to net income as an indicator of the Company's operating performance or any other measure of performance in accordance with generally accepted accounting principles.

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

## ASSETS

	HISTORICAL	OFFERING	ADJUSTED PRO FORMA
	-----	-----	-----
Current assets:			
Cash.....	\$ 4,512	\$	\$ 4,512
Receivables.....	86,282		86,282
Inventories.....	121,907		121,907
Other.....	7,073		7,073
	-----	-----	-----
Total current assets.....	219,774		219,774
Property, plant and equipment, net.....	17,916		17,916
Goodwill.....	6,408		6,408
Deferred financing costs.....	6,916	(6,916) (C)	1,200
		1,200 (C)	
Other assets.....	8,467	1,815 (B)	13,545
		3,263 (D)	
	-----	-----	-----
Total assets.....	\$ 259,481	\$ (638)	\$258,843
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt.....	\$ 2,500	\$ (2,500) (A)	\$ --
Accounts payable.....	67,576		67,576
Other accrued liabilities.....	24,118	1,000 (B)	21,822
		(2,628) (C)	
		(668) (D)	
	-----	-----	-----
Total current liabilities.....	94,194	(4,796)	89,398
Long-term debt.....	118,688	(60,040) (A)	62,243
		1,200 (C)	
		2,898 (D)	
		(500) (E)	
		(3) (F)	
Other liabilities.....	12,617	3,775 (B)	19,184
		2,792 (D)	
	-----	-----	-----
Total liabilities.....	225,499	(54,674)	170,825
Stockholders' equity:			
Common stock.....	111	40 (A)	176
		4 (D)	
		21 (F)	
Additional paid-in capital.....	30,068	62,500 (A)	98,341
		5,791 (D)	
		(18) (F)	
Notes receivable from officers.....	(500)	500 (E)	--
Cumulative translation adjustment.....	303		303
Retained earnings.....	4,000	(2,960) (B)	(10,802)
		(4,288) (C)	
		(7,554) (D)	
	-----	-----	-----
Total stockholders' equity.....	33,982	54,036	88,018
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 259,481	\$ (638)	\$258,843
	=====	=====	=====

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

- A -- To record the issuance of shares of Common Stock pursuant to the Offering and the application of the assumed net proceeds of \$62,540 (4,000,000 shares at \$17.00 per share less underwriting discount and expenses estimated at \$5,460) to repay debt as described under "Use of Proceeds."
- B -- To record the expense of \$4,775 (after tax cost of \$2,960) due to the termination of the Management Services Agreement as described under "Certain Transactions" which will be paid in quarterly payments of \$250 through March 31, 2001, subject to certain accelerating events.
- C -- To record the write-off of \$6,916 in deferred financing costs (after tax cost of \$4,288) associated with the Credit Facility that will be replaced at the time of the Offering and the incurrence of an estimated \$1,200 of deferred financing costs that will result from the New Credit Facility.
- D -- To record the effect of the Company's Value Appreciation Plans, of an expense of \$12,183 (after tax cost of \$7,554), payable by a cash payment of \$2,898, liability for future cash payments of \$3,490 and the issuance of 340,926 shares of Common Stock valued at \$5,795 as follows:

Retained earnings.....	\$7,554	
Deferred tax asset.....	3,263	
Taxes payable.....	1,366	
Long-term debt.....		\$2,898
Current liability.....		698
Long-term liability.....		2,792
Common stock.....		4
Paid-in capital.....		5,791

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

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

	HISTORICAL -----	ACQUISITION -----	PRO FORMA FOR ACQUISITION -----	OFFERING -----	ADJUSTED PRO FORMA -----
Revenues.....	\$294,643	\$	\$ 294,643	\$	\$294,643
Cost of revenues.....	254,556	-----	254,556	-----	254,556
Gross profit.....	40,087	-----	40,087	-----	40,087
Selling, general and administrative.....	26,681	-----	26,681	(500) (B)	26,181
Special charges (credits).....	--	-----	-----	-----	-----
Operating income (loss).....	13,406	-----	13,406	500	13,906
Interest and financial costs, net...	(6,418)	(650) (A)	(7,068)	3,407 (C)	(3,661)
Other income (expense).....	(321)	-----	(321)	-----	(321)
Income (loss) before income taxes...	6,667	(650)	6,017	3,907	9,924
Provision for income taxes.....	2,667	(247) (D)	2,420	1,485 (D)	3,905
Net income (loss).....	\$ 4,000	\$(403)	\$ 3,597	\$2,422	\$ 6,019
Average shares outstanding.....	13,249(E)	=====	13,249(E)	=====	17,590 (F)
Net income per share.....	\$ .30	=====	\$ .27	=====	\$ .34

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- A -- To record the estimated increase in interest expense that would have been incurred related to the Acquisition had the funding of the loans occurred on January 1, 1996.
- B -- To record elimination of management fees as a result of the termination of the Management Services Agreement in connection with the Offering.
- C -- To eliminate interest expense and adjust amortization of deferred financing costs related to debt that will be repaid with proceeds from the Offering.
- D -- To reflect the income tax expense associated with the above adjustments.
- E -- Reflects 11,346,940 shares of Common Stock after exercise of the Warrant and 1,902,543 shares of Common Stock issuable upon the conversion of the Class A Common Stock.
- F -- Reflects an additional 340,926 shares of Common Stock issuable under the Value Appreciation Plans plus the issuance of 4,000,000 shares pursuant to the Offering.

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

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

	HISTORICAL -----	ACQUISITION -----	PRO FORMA FOR ACQUISITION -----	OFFERING -----	ADJUSTED PRO FORMA -----
Revenues.....	\$545,803	\$	\$ 545,803	\$	\$545,803
Cost of revenues.....	474,791		474,791		474,791
Gross profit.....	71,012		71,012		71,012
Selling, general and administrative...	57,231	1,000 (A)	58,231	(1,000) (D)	57,231
Special charges (credits).....	(8,458)		(8,458)		(8,458)
Operating income (loss).....	22,239	(1,000)	21,239	1,000	22,239
Interest and financial costs, net.....	(1,261)	(11,556) (B)	(12,817)	7,18 (E)	(5,631)
Other income (expense).....	(1,401)	(162) (C)	(1,563)		(1,563)
Income (loss) before income taxes.....	19,577	(12,718)	6,859	8,186	15,045
Provision for income taxes.....	1,937	476 (F)	2,413	3,110 (F)	5,523
Net income (loss).....	\$ 17,640	\$ (13,194)	\$ 4,446	\$ 5,076	\$ 9,522
	=====	=====	=====	=====	=====
Average shares outstanding.....	13,249 (G)		13,249 (G)		17,590 (H)
	=====		=====		=====
Net income per share.....	\$ 1.33		\$ .34		\$ .54
	=====		=====		=====

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- A -- To record management fees incurred as a result of the Acquisition.
- B -- To record the estimated increase in interest expense and amortization of deferred financing costs related to the long-term debt that would have been incurred because of the Acquisition.
- C -- To record amortization of goodwill.
- D -- To record elimination of management fees as a result of the termination of the Management Services Agreement in connection with the Offering.
- E -- To eliminate interest expense and adjust amortization of deferred financing costs related to debt that will be repaid with proceeds from the Offering.
- F -- To reflect the income tax expense associated with the above adjustments and to record the increase in tax expense that would have resulted had the Company been subject to U.S. federal and state income tax during 1995.
- G -- Reflects 11,346,940 shares of Common Stock after exercise of Warrant and 1,902,543 shares of Common Stock issuable upon the conversion of the Class A Common Stock.
- H -- Reflects an additional 340,926 shares of Common Stock issuable under the Value Appreciation Plans plus the issuance of 4,000,000 shares pursuant to the Offering.

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

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

## GENERAL

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

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

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

## RESULTS OF OPERATIONS

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

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

## Oilfield Equipment

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

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

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

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

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

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

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

#### Distribution Services

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

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

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

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

#### Corporate

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

#### Special Charges (Credits)

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

#### Interest Expense

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

#### Income Taxes

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

#### LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

The Company plans to use the net proceeds from the Offering to repay the \$25.2 million in term loans under the Credit Facility and the \$5.1 million subordinated note. The remaining net proceeds of \$32.2 million will be used to reduce the revolving credit facility. The Company does not currently plan to repay the \$20 million in seller notes from the net proceeds of the Offering. The seller notes bear interest at 9%, and at the Company's option, interest payments through January 16, 2003 may be deferred. One-half of the sum of the principal and any deferred interest is payable on January 16, 2004, and the balance is payable on January 16, 2005. The notes are subject to prepayment in certain events, including the sale of significant assets by the Company or the sale by the stockholders at the time of the Acquisition of more than 50% of their aggregate shares. Partial prepayments are also required in connection with certain sales of the Company's stock owned by the Inverness Investors or the First Reserve Investors.

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

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

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

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

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

#### OFFERING RELATED EXPENSES

The Company will incur certain one-time expenses in connection with the Offering, as follows: (i) the Management Services Agreement will be terminated at a cost of \$4.8 million (\$3.0 million after tax) and will be paid in quarterly installments of \$250,000 through March 31, 2001, subject to certain accelerating events; (ii) the Credit Facility will be replaced by the New Credit Facility, resulting in the write-off of \$6.9 million in deferred financing costs related to the existing agreement (after tax cost of \$4.3 million) and the incurrence of approximately \$1.2 million in deferred financing costs related to the New Credit Facility; and (iii) expenses and payout under the Company's Value Appreciation Plans. The Value Appreciation Plans will result in the Company recording an expense of \$12.2 million (\$7.6 million after tax) and making a cash payment of \$2.9 million at the time of closing and making future annual cash payments of \$.7 million for five years beginning January 17, 1997 and future issuances of 340,926 shares of Common Stock valued at \$5.8 million.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

#### FORWARD-LOOKING STATEMENTS

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

## BUSINESS

## GENERAL

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

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

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

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

## BUSINESS STRATEGY

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

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

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

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

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

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

#### OILFIELD EQUIPMENT

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

##### Products

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

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

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

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

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

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

#### Marketing of Company Products

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

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

#### Competition

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

#### Manufacturing and Backlog

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

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

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

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

#### Engineering

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

#### Patents and Trademarks

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

#### DISTRIBUTION SERVICES

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

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

## Products

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

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

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

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

## Competition

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

## Suppliers

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

## FACILITIES

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

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

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

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

## EMPLOYEES

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

## OPERATING RISKS AND INSURANCE

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

## GOVERNMENTAL REGULATION AND ENVIRONMENTAL MATTERS

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

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

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

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

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

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

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

#### AGREEMENT WITH PREVIOUS OWNERS

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

#### LEGAL PROCEEDINGS

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

## MANAGEMENT

## EXECUTIVE OFFICERS AND DIRECTORS

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

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

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(1) Member of Executive Committee.

(2) Member of Audit Committee.

(3) Member of Compensation Committee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### APPOINTMENT OF DIRECTORS

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

#### COMMITTEES

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

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

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

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

#### DIRECTOR COMPENSATION

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

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

#### EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

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

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

#### EMPLOYMENT AND COMPENSATION ARRANGEMENTS

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

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

#### LONG-TERM STOCK INCENTIVE PLAN

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

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

#### EMPLOYEE BENEFIT PLANS AND ARRANGEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

#### CERTAIN TRANSACTIONS

##### STOCKHOLDERS AGREEMENT

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

## FEE AGREEMENTS

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

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

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

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

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

## MANAGEMENT NOTES

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

## RECENT SALES OF COMMON STOCK

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

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

#### PRINCIPAL STOCKHOLDERS

The following table sets forth the beneficial ownership of Common Stock by (i) each beneficial owner of more than five percent of the Company's Common Stock, (ii) each director of the Company, (iii) each of the executive officers of the Company named in the Summary Compensation Table and (iv) all executive officers and directors of the Company as a group. At June 30, 1996, there were 13,249,483 shares of Common Stock outstanding, after giving effect to the issuance of 282,392 shares upon the exercise of the Warrant.

NAME OF BENEFICIAL OWNER	BENEFICIAL OWNERSHIP BEFORE OFFERING		BENEFICIAL OWNERSHIP AFTER OFFERING(1)	
	SHARES	PERCENTAGE	SHARES	PERCENTAGE
The Inverness Investors(2)..... 666 Steamboat Road Greenwich, Connecticut 06830	5,101,800	38.5%	5,101,800	29.6%
The First Reserve Investors(3)..... 475 Steamboat Road Greenwich, Connecticut 06830	4,185,247	31.6	4,185,247	24.3
GE Capital..... 105 W. Madison Street, Suite 1600 Chicago, Illinois 60602	1,593,902	12.0	1,593,902	9.2
Joel V. Staff.....	363,705	2.7	363,705	2.1
Staff Trust(4).....	528,814	4.0	528,814	3.1
C. R. Bearden.....	419,697	3.2	419,697	2.4
Steven W. Krablin.....	171,275	1.3	171,275	1.0
Lynn L. Leigh.....	154,295	1.2	154,295	*
Merrill A. Miller, Jr.....	94,127	*	94,127	*
W. McComb Dunwoody.....	5,101,800(5)	38.5	5,101,800(5)	29.6
William E. Macaulay.....	4,185,247(6)	31.6	4,185,247(6)	24.3
Howard I. Bull.....	--	--	--	--
James T. Dresher.....	--	--	--	--
James C. Comis III.....	5,101,800(7)	38.5	5,101,800	29.6
Bruce M. Rothstein.....	--	--	--	--
All directors and executive officers as a group (14 persons)(5)(6)(7)...	11,126,767	84.0	11,126,767	64.5

\* Less than 1%.

(1) Excludes 340,926 shares of Common Stock issuable pursuant to the Company's Value Appreciation Plans.

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

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

#### DESCRIPTION OF CAPITAL STOCK

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

#### COMMON STOCK

As of June 30, 1996, the Company's outstanding Common Stock consisted of 11,064,548 shares of Common Stock and 13,288 shares of the Company's Class A Common Stock. All outstanding shares of Class A Common Stock will have been automatically converted into shares of Common Stock on the effective date of the Registration Statement of which this Prospectus is a part. Upon completion of the Offering, 17,590,409 shares of Common Stock will be outstanding after giving effect to (i) the mandatory conversion of all outstanding shares of Class A Common Stock into 1,902,543 shares of Common Stock, (ii) the exercise of the Warrant to purchase 282,392 shares of Common Stock and (iii) the issuance of 340,926 shares of Common Stock under the Company's Value Appreciation Plans.

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

Upon the effectiveness of the Registration Statement of which this Prospectus is a part, each share of Class A Common Stock will be automatically converted into shares of Common Stock pursuant to the Company's Charter. Each holder of Class A Common Stock will be entitled to receive the number of shares of Common Stock equal to the Original Cost divided by the net public offering price per share of the Common Stock being sold in the Offering (143.18 shares for each share of Class A Common Stock). Pursuant to the Charter, the number of shares of Common Stock issuable upon conversion of the Class A Common Stock is determined by dividing \$30,079,200 by the initial public offering price per share, less underwriting discount. At the conclusion of the Offering no shares of Class A Common Stock will remain outstanding.

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

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

#### PREFERRED STOCK

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

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

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

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

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

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

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

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

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

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

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

#### LIABILITY OF OFFICERS AND DIRECTORS -- INDEMNIFICATION

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

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

#### SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the Offering, 17,590,409 shares of Common Stock will be outstanding. The shares of Common Stock sold in the Offering will be freely tradeable without restriction or further registration under the Securities Act, except for any shares purchased by an "affiliate" of the Company (as that term is defined under the Securities Act), which will be subject to the resale limitations of Rule 144 under the Securities Act. The remaining shares of Common Stock, which are held by the Company's current stockholders, will be "restricted securities" (within the meaning of Rule 144) and, therefore, will not be eligible for sale to the public unless they are sold in transactions registered under the Securities Act or pursuant to an exemption from registration, including pursuant to Rule 144 or an offshore transaction pursuant to Regulation S under the Securities Act. The 1,168,310 shares of Common Stock beneficially owned by the Inverness Investors that were issued on July 15, 1995 are restricted from resale pursuant to Rule 144 under the Securities Act until July 15, 1997. The remaining shares of Common Stock, held by the Company's existing stockholders, were issued in 1996 and are restricted from resale under Rule 144 until various dates in 1998. The Stockholders Agreement provides the Inverness Investors and the First Reserve Investors four demand registrations after the Offering and provides the parties to the Stockholders Agreement with piggyback registration rights. Such stockholders have waived their registration rights with respect to a Registration Statement filed by the Company with respect to the Offering. See "Certain Transactions -- Stockholders Agreement."

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

In general, under Rule 144 as currently in effect, if a minimum of two years has elapsed since the later of the date of acquisition of the restricted securities from the issuer or from an affiliate of the issuer, a person (or persons whose shares of Common Stock are aggregated), including persons who may be deemed "affiliates" of the Company, would be entitled to sell within any three-month period a number of shares of Common Stock that does not exceed the greater of (i) 1% of the then outstanding shares of Common Stock (i.e., 175,900 shares immediately after consummation of the Offering) and (ii) the average weekly trading volume during the four calendar weeks preceding the date on which notice of the sale is filed with the Commission. Sales under Rule 144 are also subject to certain provisions as to the manner of sale, notice requirements, and the availability of current public information about the Company. In addition, under Rule 144(k), if a period of at least three years has elapsed since the later of the date restricted securities were acquired from the Company or the date they were acquired from an affiliate of the Company, a stockholder who is not an affiliate of the Company at the time of sale and has not been an affiliate for at least three months prior to the sale would be entitled to sell shares of Common Stock in the public market immediately without compliance with the foregoing requirements under Rule 144. Rule 144 does not require the same person to have held the securities for the applicable periods. The foregoing summary of Rule 144 is not intended to be a complete description thereof. The Commission has proposed an amendment to Rule 144 that would shorten the three- and two-year holding periods described above to two years and one year, respectively.

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

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

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

#### UNDERWRITING

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

UNDERWRITERS	NUMBER OF SHARES
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	734,000
Goldman, Sachs & Co. ....	733,000
Simmons & Company International.....	733,000
CS First Boston Corporation.....	150,000
Donaldson, Lufkin & Jenrette Securities Corporation.....	150,000
Howard, Weil, Labouisse, Friedrichs Incorporated.....	150,000
Morgan Stanley & Co. Incorporated.....	150,000
Oppenheimer & Co., Inc. ....	150,000
PaineWebber Incorporated.....	150,000
Raymond James & Associates, Inc. ....	150,000
The Robinson-Humphrey Company, Inc. ....	150,000
Smith Barney Inc. ....	150,000
Jefferies & Company, Inc. ....	75,000
Johnson Rice & Company L.L.C. ....	75,000
Petrie Parkman & Co., Inc. ....	75,000
Rauscher Pierce Refsnes, Inc. ....	75,000
Southeast Research Partners, Inc. ....	75,000
Stephens Inc. ....	75,000
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Total.....	4,000,000 =====

The Representatives have advised the Company that the Underwriters propose to offer the shares of Common Stock to the public initially at the public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of \$.72 per share. The Underwriters may allow, and such dealers may reallow, a discount not in excess of \$.10 per share on sales to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The Company has granted the Underwriters an option, exercisable by the Representatives, to purchase up to 600,000 additional shares of Common Stock at the initial public offering price, less the underwriting

discount. Such option, which expires 30 days after the date of this Prospectus, may be exercised solely to cover over-allotments. To the extent that the Representatives exercise such option, each of the Underwriters will be obligated, subject to certain conditions, to purchase approximately the same percentage of the option shares that the number of shares to be purchased initially by that Underwriter bears to the total number of shares to be purchased initially by the Underwriters.

Prior to the Offering, there has been no public market for the Common Stock. The initial public offering price of the Common Stock will be determined through negotiations between the Company and the Representatives and may bear no relationship to the market prices of the Common Stock after this offering. The factors considered in determining the initial public offering price of the Common Stock, in addition to prevailing market conditions, were current and historical conditions in the supply and demand for the Company's products (which conditions may be influenced by oil and gas prices), business prospects of the Company and the prospects in general for the industries in which the Company operates, management of the Company, the earnings and cash flow multiples of the market prices of common stock of other publicly traded companies in industries in which the Company operates and the Company's cash flow and earnings prospects. There can be no assurance that an active market for the Common Stock will develop upon completion of the Offering or, if developed, that such market will be sustained. Prices for the Common Stock after the Offering may be influenced by a number of factors, including the depth and liquidity of the market for the Common Stock, investor perceptions of the Company and the oil and gas industry in general, and general economic and other conditions.

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

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

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

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

## LEGAL MATTERS

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

## EXPERTS

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

## AVAILABLE INFORMATION

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

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

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## REPORTS OF INDEPENDENT AUDITORS

Board of Directors  
National-Oilwell, Inc.

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

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

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

ERNST & YOUNG LLP

Houston, Texas  
August 29, 1996

Partners  
National-Oilwell

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

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

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

ERNST & YOUNG LLP

Houston, Texas  
January 31, 1996

## NATIONAL-OILWELL, INC.

 CONSOLIDATED BALANCE SHEETS  
 (IN THOUSANDS, EXCEPT SHARE AMOUNTS)

## ASSETS

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

The accompanying notes are an integral part of these statements.

## NATIONAL-OILWELL, INC.

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

	SUCCESSOR		PREDECESSOR		
	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		
	1996	1995	1995	1994	1993
	(UNAUDITED)				
Revenues.....	\$294,643	\$266,443	\$545,803	\$562,053	\$627,281
Cost of revenues.....	254,556	231,556	474,791	482,423	547,401
Gross profit.....	40,087	34,887	71,012	79,630	79,880
Selling, general, and administrative....	26,681	30,903	57,231	64,422	79,391
Special charges (credits).....	--	(7,500)	(8,458)	(13,916)	8,565
Operating income (loss).....	13,406	11,484	22,239	29,124	(8,076)
Interest and financial costs.....	(6,738)	(1,437)	(2,358)	(5,777)	(8,277)
Interest income.....	320	374	1,097	1,046	1,001
Other income (expense).....	(321)	161	(1,401)	528	(240)
Income (loss) before income taxes.....	6,667	10,582	19,577	24,921	(15,592)
Provision for income taxes.....	2,667	1,204	1,937	1,041	1,871
Net income (loss).....	\$ 4,000	\$ 9,378	\$ 17,640	\$ 23,880	\$(17,463)
Weighted average shares outstanding.....	13,249				
Net income per share.....	\$ 0.30				
Pro forma -- unaudited					
Historical income before income taxes.....			\$ 19,577		
Pro forma adjustments other than income taxes.....			(12,718)		
Pro forma income before income taxes.....			6,859		
Pro forma provision for income taxes.....			2,413		
Pro forma net income.....			\$ 4,446		
Pro forma common shares outstanding...			13,249		
Pro forma net income per share.....			\$ 0.34		

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

## NATIONAL-OILWELL, INC.

CONSOLIDATED STATEMENTS OF OWNERS' EQUITY  
(IN THOUSANDS)

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

The accompanying notes are an integral part of these statements.

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Principles of Consolidation

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

## Fair Value of Financial Instruments

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

**Inventories**

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

**Property, Plant and Equipment**

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

**Intangible Assets**

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

**Foreign Currency**

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

**Revenue Recognition**

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

**Income Taxes**

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

**Net Income Per Share**

Average shares outstanding includes 11,064,548 issued shares of common stock, 282,392 shares of common stock pursuant to exercisable warrants and 1,902,543 shares of common stock associated with the conversion of Class A common stock as discussed at Note 8.

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Concentration of Credit Risk

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

## Long-Lived Assets

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

## 3. INVENTORIES

Inventories consist of (in thousands):

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

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

## 4. PROPERTY, PLANT AND EQUIPMENT

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

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 5. LONG-TERM DEBT

Long-term debt consists of (in thousands):

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

## Credit Agreement

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

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

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

## Subordinated Note

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

## Seller Notes

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

## 6. PENSION PLANS

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

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

## 7. COMMITMENTS AND CONTINGENCIES

## Commitments

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

## Contingencies

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

## Environmental

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 8. COMMON STOCK

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

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

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

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

In January 1996, the Company established Value Appreciation Plans that are intended to reward participants for enhancing the value of the Company common stock. If target internal rates of return are achieved as of a triggering event such as a qualified public offering, the 34 participants will be paid in cash or common stock over time a percentage of the equity value as of such occurrence. The Value Appreciation Plans will result in a one-time charge before taxes of \$12.2 million. The Company currently expects to pay \$2.9 million of this amount in cash at the time of the Offering, \$3.5 million in cash in five annual installments beginning January 17, 1997 and issue 340,926 shares of common stock. One-half of the shares of common stock will be issued one year after the Offering and the remaining one-half on January 17, 1999.

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 9. INCOME TAXES

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

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

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

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

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

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

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

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

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 10. SPECIAL CHARGES (CREDITS)

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

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

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

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

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

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

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

## 11. RELATED PARTY TRANSACTIONS

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

## 12. BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

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

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

## Business Segments (in thousands)

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

## Geographic Areas (in thousands)

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

## NATIONAL-OILWELL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

	HISTORICAL -----	PRO FORMA -----
Revenues.....	\$ 545,803 =====	\$ 545,803 =====
Operating income.....	\$ 22,239	\$ 21,239(A)
Interest and financial costs, net.....	1,261	12,817(B)
Other (income) expense.....	1,401 -----	1,563(C) -----
Income (loss) before income taxes.....	19,577	6,859
Provision for income taxes.....	1,937 -----	2,413(D) -----
Net income.....	\$ 17,640 =====	\$ 4,446 =====
Earnings per share.....		\$ 0.34 =====
Average shares outstanding.....		13,249 =====

- - - - -

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

Average shares outstanding reflects 11,346,940 shares of common stock and common stock equivalents currently outstanding and 1,902,543 shares of common stock issuable upon the conversion of the shares of Class A common stock.

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

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

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 UNTIL NOVEMBER 22, 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

-----  
 4,000,000 SHARES

[NATIONAL-OILWELL, INC. LOGO]

NATIONAL-OILWELL, INC.

COMMON STOCK

-----  
 PROSPECTUS

MERRILL LYNCH & CO.

GOLDMAN, SACHS & CO.

SIMMONS & COMPANY  
 INTERNATIONAL

OCTOBER 28, 1996  
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