

NATIONAL OILWELL VARCO INC

Form 11-K

June 27, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 11-K
ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934 (No fee required, effective October 7, 1996)

For the fiscal year ended December 31, 2005

Or

Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934 (No fee required)

For the transition period from _____ to _____ to

Commission file number 1-12317

A. Full title of the plan and the address of the plan, if different from that of the issuer named below

National-Oilwell Retirement and Thrift Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office

**National Oilwell Varco, Inc.
10000 Richmond Avenue
6th Floor
Houston, Texas 77042-4200**

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REQUIRED INFORMATION

The National-Oilwell Retirement and Thrift Plan (the Plan) is subject to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

Item 4. In lieu of the requirements of Items 1, 2, and 3 of this Form 11-K, the following financial statements of the Plan, notes thereto, and the Report of Independent Registered Public Accounting Firm thereon are being filed in this Report:

- (a) Report of Independent Registered Public Accounting Firm
- (b) Statements of Net Assets Available for Benefits December 31, 2005 and 2004
- (c) Statement of Changes in Net Assets Available for Benefits Year ended December 31, 2005; and
- (d) Notes to Financial Statements

The Consent of Independent Registered Public Accounting Firm to the incorporation by reference of the foregoing financial statements in the Registration Statement on Form S-8 (No. 333-46459) pertaining to the Plan is being filed as Exhibit 23.1 to this Report.

**NATIONAL-OILWELL RETIREMENT AND THRIFT PLAN
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
December 31, 2005 and 2004, and Year Ended December 31, 2005
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Report of Independent Registered Public Accounting Firm

The Benefit Plan Administrative Committee
National-Oilwell Retirement and Thrift Plan

We have audited the accompanying statements of net assets available for benefits of the National-Oilwell Retirement and Thrift Plan as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 net assets available for benefits of the Plan at December 31, 2005 and 2004, and the changes in its net assets available for benefits for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2005, and delinquent participant contributions for the year ended December 31, 2005, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Houston, Texas
June 13, 2006

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Statements of Net Assets Available for Benefits

| | December 31 | |
|------------------------------------|---------------|---------------|
| | 2005 | 2004 |
| Assets | | |
| Cash | \$ 2,295,457 | \$ 83,387 |
| Receivables: | | |
| Transfer from other qualified plan | 669,838 | |
| Income | 2,428 | |
| Sales not yet settled | 430,998 | 74,259 |
| Total receivables | 1,103,264 | 74,259 |
| Investments | 389,492,395 | 155,492,476 |
| Total assets | 392,891,116 | 155,650,122 |
| Liabilities | | |
| Purchases not yet settled | 1,732,028 | 515,185 |
| Total liabilities | 1,732,028 | 515,185 |
| Net assets available for benefits | \$391,159,088 | \$155,134,937 |

See accompanying notes.

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National-Oilwell Retirement and Thrift Plan
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 2005

| | |
|---|--------------------|
| Additions: | |
| Employer contributions | \$ 9,821,706 |
| Participant contributions | 8,696,958 |
| Participant rollovers | 846,371 |
| Investment income | 2,135,584 |
| Net appreciation in fair value of investments | 15,580,613 |
| Total additions | 37,081,232 |
| Deductions: | |
| Benefits paid to participants | 12,401,151 |
| Corrective distributions | 14,776 |
| Administrative expenses | 395,412 |
| Total deductions | 12,811,339 |
| Other changes in net assets: | |
| Transfer from qualified plan | 211,754,258 |
| Total other changes in net assets | 211,754,258 |
| Net increase | 236,024,151 |
| Net assets available for benefits at: | |
| Beginning of year | 155,134,937 |
| End of year | \$ 391,159,088 |

See accompanying notes.

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National-Oilwell Retirement and Thrift Plan
Notes to Financial Statements
December 31, 2005

1. Description of Plan

The following description of the National-Oilwell Retirement and Thrift Plan (the Plan) is provided for general information only. Participants should refer to the *Summary Plan Description* for a more complete description of the Plan's provisions, a copy of which is available from National Oilwell Varco, L.P. (formerly, National-Oilwell, L.P.) (the Company). The Company is a wholly owned subsidiary of National-Oilwell, Inc., which effective March 11, 2005, merged with Varco International, Inc. (Varco), to form National Oilwell Varco, Inc. All employees who were employed by Varco on March 11, 2005, received active service credit for their period of service with Varco. Effective as of the close of business on December 31, 2005, the Varco International, Inc. 401(k) Plan (the Varco Plan) merged into the Plan and net assets of \$211,754,258 were transferred into the Plan.

General

The Plan was established effective April 1, 1987, for the benefit of the employees of the Company. The Plan is a defined contribution plan covering substantially all domestic employees who have completed at least six months of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Participants may make both pretax and after-tax contributions to the Plan. The Plan allows pretax salary deferral contributions of 1% to 100% (less any after-tax contributions, required withholdings, or other elected deductions) of compensation, subject to certain Internal Revenue Service (IRS) limitations. After-tax contributions may be made at 1% to 18% of compensation. However, combined pretax and after-tax contributions, required withholdings, and other elected deductions cannot exceed 100% of compensation. The Company matches 100% of the first 3% and 50% of the next 2% of each participant's contribution. The Company may also make a discretionary contribution to the Plan, the Employer Retirement Contribution. The amount of the Employer Retirement Contribution is determined based upon participants' salary and years of service. Each participant may direct the trustee to invest both the participant's and the Company's contributions in one or more of the investment options offered by the Plan.

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1. Description of Plan (continued)

Vesting

Participants are immediately vested in participant and employer contributions and the related earnings that have been credited to their accounts.

Benefit Payments

The Plan pays lump-sum benefits on retirement, disability, death, or termination of employment. In-service withdrawals, subject to certain rules and restrictions, may also be made from certain account balances.

Participant Loans

The Plan includes a loan provision that permits participants to borrow up to the lesser of \$50,000 or 50% of the total value of their Plan assets. The loans are payable in principal installments plus interest at prime plus 1% through payroll deductions and are due in one- to five-year terms.

Administrative Expenses

Certain administrative expenses are paid from the Plan's assets. All other Plan expenses are paid by the Company.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue contributions at any time and to terminate the Plan subject to the provisions of ERISA. Participants are 100% vested in their accounts in any event. Assets would be distributed to participants as prescribed by ERISA.

2. Summary of Accounting Policies

Basis of Accounting

The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Benefit payments to participants are recorded upon distribution.

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2. Summary of Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the reported amounts in the financial statements and accompanying notes and schedules. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Short-term investments are stated at cost, which approximates fair value. Investments in common stocks and mutual funds are stated at fair value, based on quotations obtained from national securities exchanges. Investments in common collective trust funds are based on quoted market values as determined by the issuer based on the fair value of the underlying investments. Participant loans are stated at cost, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Risks and Uncertainties

The Plan provides for investments in various securities which, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits and participant account balances.

Table of Contents**3. Investments**

Individual investments that represent 5% or more of the Plan's net assets at either December 31, 2005 or 2004, are as follows:

| | December 31 | |
|--|---------------------|--------------|
| | 2005 | 2004 |
| National Oilwell Varco, Inc., common stock | \$25,950,576 | \$11,270,285 |
| Alger LargeCap Growth Institutional Portfolio Fund | 31,454,845 | |
| Wachovia Bank Enhanced Stock Market Fund | 18,288,306 | 17,097,142 |
| Vanguard Growth Index Fund | | 14,628,705 |
| Vanguard Total International Stock Index Fund | 16,627,991 | 13,010,413 |
| Vanguard Balanced Index Fund | | 9,161,945 |
| Gartmore Morley Stable Value Fund | 58,009,580 | 52,451,757 |
| Merrill Lynch Retirement Preservation Trust Fund | 47,275,589 | |

During 2005, the Plan's investments (including investments bought, sold, and held during the year) appreciated in value as follows:

| | |
|-------------------------------|---------------|
| Common stocks | \$ 8,540,241 |
| Common collective trust funds | 1,041,738 |
| Mutual funds | 5,998,634 |
| Net appreciation | \$ 15,580,613 |

4. Income Tax Status

The Plan has received a determination letter from the IRS dated September 8, 2003, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the IRC) and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the IRS, the Plan was restated. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The plan sponsor has indicated that it will take the necessary steps, if any, to bring the Plan's operations into compliance with the IRC.

Table of Contents**5. Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of the financial statements to the Form 5500.

| | Year Ended December 31 2005 |
|--|--|
| Net assets available for benefits per the financial statements | \$ 391,159,088 |
| Less: Benefits payable from Varco Plan | (706,010) |
| Net assets available for benefits per Form 5500 | \$ 390,453,078 |
| Transfer from qualified plan per the financial statements | \$ 211,754,258 |
| Less: Benefits payable from Varco Plan | (706,010) |
| Transfer from qualified plan per Form 5500 | \$ 211,048,248 |

Amounts allocated to withdrawing participants in the Varco Plan are recorded on the Plan's Form 5500 as benefits payable and represent claims that have been processed and approved for payment prior to December 31, but which have not yet been paid as of that date.

6. Subsequent Events

On December 29, 2005, the Plan was amended for the following changes effective January 1, 2006: the Plan was renamed the National Oilwell Varco, Inc. 401(k) and Retirement Savings Plan; Plan eligibility was changed from completion of six months of service to immediate participation for employees hired on or after January 1, 2006; each former Varco employee who was eligible for the Varco Plan as of December 31, 2005, was eligible to participate in the Plan for purposes of Company contributions; and the Company began matching 100% of the first 4% of each participant's contribution.

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National-Oilwell Retirement and Thrift Plan
Schedule H, Line 4(a) Schedule of Delinquent Participant Contributions
EIN: 76-0488987 PN: 001
Year Ended December 31, 2005

**Participant Contributions
Transferred Late to Plan**
\$24,103

**Total That Constitute Nonexempt
Prohibited Transactions**
\$24,103

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National-Oilwell Retirement and Thrift Plan
Schedule H, Line 4(i) Schedule of Assets (Held At End of Year)
December 31, 2005
EIN: 76-0488987 PN: 001

| Identity of Issue, Borrower, Lessor, or Similar Party | Description of Investment | Current Value |
|---|--|------------------|
| *National Oilwell Varco, Inc. | 413,885 shares of common stock | \$ 25,950,576 |
| Alger Retirement Group | Alger LargeCap Growth Institutional Portfolio Fund | 31,454,845 |
| Alger Retirement Group | Alger MidCap Growth Institutional Portfolio Fund | 9,526,516 |
| Allianz Global Investors | Allianz NFJ SmallCap Value Fund | 4,909,763 |
| American Funds | Growth Fund of America | 6,920,513 |
| Davis Funds | Davis New York Venture Fund | 8,453,401 |
| Dreyfus Funds | Dreyfus Midcap Index Fund | 12,162,548 |
| Dreyfus Funds | Dreyfus Small Cap Stock Index Fund | 3,237,898 |
| Evergreen Investments | Evergreen Money Market Fund | 444,030 |
| Gartmore Trust Company | Gartmore Morley Stable Value Fund | 58,009,580 |
| Lord Abbett Family of Funds | Lord Abbett MidCap Value Fund | 4,825,835 |
| Managers Funds | The Managers Special Equity Fund | 1,850,479 |
| *Merrill Lynch | Basic Value Fund | 9,663,023 |
| *Merrill Lynch | Equity Index Trust Fund | 3,070,613 |
| *Merrill Lynch | Focus Value Fund | 135,910 |
| *Merrill Lynch | Global Allocation Fund | 11,691,597 |
| *Merrill Lynch | International Value Fund | 7,156,350 |
| *Merrill Lynch | Retirement Preservation Trust Fund | 47,275,589 |
| *Merrill Lynch | US Government Fund | 6,025,488 |
| Oakmark Funds | The Oakmark International Fund | 5,978,911 |
| PIMCO Funds | PIMCO Total Return Portfolio Fund | 18,886,955 |
| Van Kampen Funds | Van Kampen Growth & Income Fund | 9,986,172 |
| Van Kampen Funds | Van Kampen Real Estate Securities Fund | 2,441,341 |
| Vanguard | Vanguard Balanced Index Institutional Fund | 9,721,415 |
| Vanguard | Vanguard Growth Index Institutional Fund | 14,414,711 |
| Vanguard | Vanguard Small Cap Growth Index Fund | 3,437,048 |
| Vanguard | Vanguard Small Cap Value Index Fund | 3,371,491 |
| Vanguard | Vanguard Total Bond Market Index Fund | 7,763,797 |
| Vanguard | Vanguard Total International Stock Index Fund | 16,627,991 |
| Vanguard | Vanguard Value Index Institutional Fund | 8,235,473 |
| Various | Self-directed brokerage accounts | 342,085 |
| *Wachovia Bank | Enhanced Stock Market Fund | 18,288,306 |
| *Participant loans | Various maturities and interest rates ranging from 4.25% to 10.50% | 17,232,145 |
| | | \$ 389,492,395 |

*Party-in-interest

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SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

National-Oilwell Retirement and Thrift Plan

June 27, 2006

/s/ Daniel L. Molinaro

Date

Daniel L. Molinaro
Member of the National Oilwell Varco
Benefits Plan Administrative Committee

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EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|--|
| 23.1 | Consent of Independent Registered Public Accounting Firm |
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