

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED JUNE 30, 2002 OR

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

Commission file number 1-12317

NATIONAL-OILWELL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

76-0475875

-----  
(State or other jurisdiction  
of incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

10000 RICHMOND AVENUE  
4TH FLOOR  
HOUSTON, TEXAS  
77042-4200

-----  
(Address of principal executive offices)

(713) 346-7500

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

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

YES X NO

--- ---

As of August 1, 2002, 80,988,764 common shares were outstanding, assuming the exchange on a one-for-one basis of all Exchangeable Shares of Dreco Energy Services Ltd. into shares of National-Oilwell, Inc. common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

June 30,  
 December 31,  
 2002 2001 -----  
 -----

(Unaudited)

ASSETS Current  
 assets: Cash and  
 cash equivalents

\$ 34,550 \$  
 43,220

Receivables,  
 less allowance  
 of \$9,705 and  
 \$9,094 342,009  
 382,153

Inventories  
 460,622 455,934  
 Deferred income  
 taxes 13,062  
 16,825 Prepaids  
 and other  
 current assets  
 17,348 10,434 --  
 -----

867,591 908,566  
 Property, plant  
 and equipment,  
 net 168,306  
 168,951 Deferred  
 income taxes  
 17,290 16,663  
 Goodwill 362,011  
 352,094 Property  
 held for sale  
 9,335 12,144  
 Other assets  
 12,308 13,278 --  
 -----

\$ 1,436,841 \$  
 1,471,696  
 =====

LIABILITIES AND  
 OWNERS' EQUITY  
 Current

liabilities:  
 Current portion  
 of long-term  
 debt 3,231  
 10,213 Accounts  
 payable 127,048  
 161,277 Customer  
 prepayments  
 11,873 9,843  
 Accrued  
 compensation  
 8,801 23,661  
 Other accrued  
 liabilities  
 49,353 72,315 --  
 -----

200,306 277,309  
 Long-term debt  
 300,000 300,000

Deferred income		
taxes	22,746	
20,380 Other		
liabilities		
6,263 6,467 ----		
-----		
529,315 604,156		
Commitments and		
contingencies		
Stockholders'		
equity: Common		
stock - par		
value \$.01;		
80,987,666		
shares and		
80,902,882		
shares issued		
and outstanding		
at June 30, 2002		
and December 31,		
2001 810 809		
Additional paid-		
in capital		
593,439 592,507		
Accumulated		
other		
comprehensive		
income (loss)		
(33,966)		
(34,873)		
Retained		
earnings 347,243		
309,097 -----		
-----		
907,526 867,540		
-----		
- \$ 1,436,841 \$		
1,471,696		
=====		
=====		

The accompanying notes are an integral part of these statements.



=====  
=====  
Net income per  
share: Basic \$  
0.21 \$ 0.31 \$  
0.47 \$ 0.58  
=====

=====  
=====  
Diluted \$ 0.21 \$  
0.31 \$ 0.47 \$  
0.57  
=====

=====  
=====  
Weighted average  
shares  
outstanding:  
Basic 80,980  
80,859 80,950  
80,738  
=====

=====  
=====  
Diluted 81,985  
82,088 81,785  
82,032  
=====

=====  
=====  
=====

The accompanying notes are an integral part of these statements.

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

Six Months Ended  
June 30, -----

----- 2002  
2001 -----

----- Cash  
flow from  
operating

activities: Net  
income \$ 38,146 \$  
46,777 Adjustments  
to reconcile net  
income to net cash  
used by operating  
activities:

Depreciation and  
amortization  
12,701 19,072  
Provision for  
losses on  
receivables 1,759  
1,520 Provision  
for deferred  
income taxes 366  
(39) Gain on sale  
of assets (2,108)  
(1,483) Foreign  
currency

transaction loss /  
(gain) 261 (449)  
Changes in assets  
and liabilities,  
net of

acquisitions:  
Receivables 40,924  
(101,293)

Inventories  
(1,084) (98,636)  
Prepaid and other  
current assets  
(6,904) (2,301)

Accounts payable  
(32,942) 41,800

Other  
assets/liabilities,  
net (36,765)

(9,755) -----  
-- ----- Net

cash provided  
(used) by  
operating  
activities 14,354  
(104,787) -----

-----  
Cash flow from  
investing  
activities:

Purchases of  
property, plant  
and equipment  
(8,935) (14,558)

Proceeds from sale  
of assets 5,550  
4,158 Businesses  
acquired, net of  
cash (15,432)

(35,249) -----  
-----

Net cash used by  
investing  
activities  
(18,817) (45,649)  
-----

----- Cash flow  
 from financing  
 activities:  
 Payments on line  
 of credit (5,774)  
 (5,381) Proceeds  
 from stock options  
 exercised 932  
 6,486 Net proceeds  
 from issuance of  
 long-term debt --  
 146,631 -----  
 -- ----- Net  
 cash provided  
 (used) by  
 financing  
 activities (4,842)  
 147,736 -----  
 -- -----  
 Effect of exchange  
 rate gain (loss)  
 on cash 635 (63) -  
 -----  
 ----- Decrease in  
 cash and  
 equivalents  
 (8,670) (2,763)  
 Cash and cash  
 equivalents,  
 beginning of  
 period 43,220  
 42,459 -----  
 - ----- Cash  
 and cash  
 equivalents, end  
 of period \$ 34,550  
 \$ 39,696  
 =====  
 =====  
 Supplemental  
 disclosures of  
 cash flow  
 information: Cash  
 payments during  
 the period for:  
 Interest \$ 11,150  
 \$ 7,606 Income  
 taxes \$ 29,837 \$  
 12,233

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

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

The accompanying unaudited consolidated financial statements present information in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. They do not include all information or footnotes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with our 2001 Annual Report on Form 10-K.

In our opinion, the consolidated financial statements include all adjustments, all of which are of a normal, recurring nature, necessary for a fair presentation of the results for the interim periods. The results of operations for the three months and six months ended June 30, 2002 and 2001 may not be indicative of results for the full year.

2. ACQUISITIONS

On January 10, 2002, we completed the acquisition of the assets and business of HAL Oilfield Pump & Equipment Company ("Halco") for \$15.4 million. This business, which designs, manufactures and distributes centrifugal pumps, pump packages and expendable parts, is complementary to our Mission pump product line. The acquisition was accounted for as a purchase with goodwill approximating \$10.0 million.

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

3. INVENTORIES

Inventories consist of (in thousands):

	June 30,	December 31,
	2002	2001
Raw materials and supplies	\$ 34,712	\$ 39,272
Work in process	117,822	101,376
Finished goods and purchased products	308,088	315,286
Total	\$ 460,622	\$ 455,934



4. COMPREHENSIVE INCOME

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

Quarter Ended June 30, Six Months Ended June 30, -----	-----	-----
-----	-----	-----
-----	-----	-----
----- 2002 2001	-----	-----
2002 2001 -----	-----	-----
-----	-----	-----
-----	-----	-----
Net income \$		
16,961 \$ 25,299		
\$ 38,146 \$		
46,777 Currency		
translation		
adjustments		
3,357 (1,130)		
907 (11,322)		
Unrealized		
losses on		
securities -- 2		
-- (1,446) ----		
-----		
-----		
-----		
Comprehensive		
income \$ 20,318		
\$ 24,171 \$		
39,053 \$ 34,009		
=====		
=====		
=====		
=====		

5. BUSINESS SEGMENTS

Segment information (unaudited) follows (in thousands):

Quarter Ended June 30, Six Months Ended June 30, -----	-----	-----
-----	-----	-----
-----	-----	-----
----- 2002	-----	-----
2001 2002 2001	-----	-----
-----	-----	-----
-----	-----	-----
Revenues from		
unaffiliated		
customers		
Products and		
Technology \$		
203,688 \$		
260,426 \$		
425,707 \$		
456,984		
Distribution		
Services		
168,702 174,202		
335,669 337,916		



Services  
270,042 266,868

6. DEBT

Debt consists of (in thousands):

June 30,	December
31, 2002	2001
-----	
-----	
Revolving credit facilities \$ 3,231	\$ 10,213
6-7/8% senior notes 150,000	150,000
6-1/2% senior notes 150,000	150,000
-----	-----
303,231	310,213
Less current portion 3,231	10,213
-----	-----
---	---
\$ 300,000	\$ 300,000
=====	=====
=====	=====

On July 30, 2002, we replaced the existing credit facility with a new three-year unsecured \$175 million revolving credit facility. It is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit. Interest is based upon prime or Libor plus 0.5% subject to a ratings based grid. In securing this new credit facility we incurred approximately \$0.9 million in fees which will be amortized to expense over the term of the facility.

In 1997, we entered into a five-year unsecured \$125 million revolving credit facility that expires in September 2002. The credit facility is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit, of which \$20.7 million were outstanding at June 30, 2002 and December 31, 2001. The credit facility provides for interest at prime or LIBOR plus 0.5% (4.75% and 2.375% at June 30, 2002) subject to adjustment based on National Oilwell's Capitalization Ratio, as defined.

We also have additional credit facilities totaling \$62.5 million that are used primarily for letters of credit. Borrowings against these credit facilities totaled \$9.0 million at June 30, 2002, of which \$5.8 million were applicable to letters of credit.

The senior notes contain reporting covenants and the credit facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage. At June 30, 2002 and December 31, 2001, the Company was in compliance with all covenants governing these facilities.

7. RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with SFAS No. 142. Other intangible assets will continue to be amortized over their useful lives. During the second quarter of 2002, we completed the first of the required impairment tests of goodwill and indefinite lived assets, which indicated no impairment was required as of January 1, 2002. The following information provides net income for the three-month and six-month period ended June 30, 2001 adjusted to exclude amortization expense recognized in this period related to goodwill (in thousands):

Three months	
Six months	
ended June	
30, 2001	
ended June	
30, 2001 ---	
-----	
-----	
Reported net	
income \$	
25,299 \$	
46,777 Add	
back:	
Goodwill	
amortization,	
net of tax	
2,733 5,424	
-----	
-----	
Adjusted net	
income \$	
28,032 \$	
52,201	
Adjusted net	
income per	
share: Basic	
\$ 0.35 \$	
0.65 Diluted	
\$ 0.34 \$	
0.64	
Weighted	
average	
shares	
outstanding:	
Basic 80,859	
80,738	
Diluted	
82,088	
82,032	

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

In July, 2002, the Financial Accounting Standards Board issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructuring, involuntarily terminating employees, and consolidating facilities, initiated after December 31, 2002. We do not

believe the adoption of this new statement will have a material impact on our consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INTRODUCTION

National Oilwell is a worldwide leader in the design, manufacture and sale of drilling systems, drilling equipment and downhole products as well as the distribution to the oil and gas industry of maintenance, repair and operating products. Our revenues are directly related to the level of worldwide oil and gas drilling and production activities and the profitability and cash flow of oil and gas companies and drilling contractors, which in turn are affected by current and anticipated prices of oil and gas. Oil and gas prices have been volatile over the last ten years, ranging from \$10 - \$40 per barrel. Oil prices were low in 1998, generally ranging from \$11 to \$16 per barrel. In 1999, oil prices recovered to more normal historical levels, and were generally in the \$25-\$30 per barrel range during 2000. Prices once again declined in the second half of 2001, generally ranging between \$18 and \$22. During 2002, oil prices have increased and have remained in the \$24-\$28 per barrel range during the 2nd quarter of 2002. Spot gas prices have also been volatile over the last ten years, ranging from less than \$1.00 per mmbtu to above \$10.00. Gas prices were moderate in 1998 and 1999, generally ranging from \$1.80 to \$2.50 per mmbtu. Gas prices strengthened throughout 2000, generally ranging from \$4-\$8 per mmbtu. In the second half of 2001, gas prices were under pressure again, and generally ranged from \$2.20 to \$3.00 per mmbtu. Gas prices have increased in 2002 and averaged around \$3.40 per mmbtu during the 2nd quarter of 2002 but softened during July, 2002 to an average of \$2.95 per mmbtu. We expect our revenues to increase if our customers gain confidence in sustained commodity prices at recent levels and in the overall economic climate, and as their cash flows from operations improve.

We conduct our operations through the following segments:

#### Products and Technology

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

#### Distribution Services

Distribution Services revenues result primarily from the sale of maintenance, repair and operating supplies ("MRO") from our network of approximately 150 distribution service centers worldwide. These products are purchased from numerous manufacturers and vendors, including our Products and Technology segment.

RESULTS OF OPERATIONS

Operating results by segment are as follows (in thousands):

Quarter Ended  
June 30, Six  
Months Ended  
June 30, -----  
-----  
-----  
-----  
-----

----- Revenues  
2002 2001 2002  
2001 -----  
-----  
-----

-----  
Products and  
Technology \$  
224,823 \$  
275,814 \$  
466,095 \$  
497,056  
Distribution  
Services 168,835  
174,602 336,364  
338,711  
Eliminations  
(21,268)  
(15,788)  
(41,083)  
(40,867) -----  
-----  
-----  
-----

Total \$ 372,390  
\$ 434,628 \$  
761,376 \$  
794,900  
=====

=====

Operating Income  
Products and  
Technology \$  
30,067 \$ 42,020  
\$ 65,517 \$  
74,129  
Distribution  
Services 4,714  
7,409 9,282  
13,808 Corporate  
(2,544) (2,638)  
(4,846) (4,917)  
=====

=====

Total \$ 32,237 \$  
46,791 \$ 69,953  
\$ 83,020  
=====

Products and Technology

Q2 2002 versus Q2 2001

Revenues for the Products and Technology segment decreased by \$51 million (18%) in the second quarter of 2002 as compared to the same quarter in 2001 as lower

drilling activity in the Western Hemisphere markets impacted all product lines. Capital equipment revenues fell \$12 million and drilling spare part sales were down \$7 million, reflecting the lower number of rigs operating in the United States. Sales of Mission expendable pump parts and centrifugal pumps and packages declined \$8 million (20%) in the quarter when compared to the same quarter in the prior year. The downhole motors and tools business experienced a 23% decline in revenue, reflecting in particular the reduced activity in the Canadian marketplace.

Operating income decreased by \$12 million in the second quarter of 2002 compared to the same quarter in 2001 due principally to the lower revenue volume, offset in part by the exclusion of goodwill amortization (\$2.6 million in the second quarter of 2001), as required by the new accounting standard "SFAS No. 142".

1st six months 2002 versus 1st six months 2001

Products and Technology segment revenues declined \$31 million in the first six months of 2002 as compared to the same period in 2001. This 6% decrease was a direct result of lower rig activity in North America, a key driver of sales of drilling spare parts, pump expendable parts and downhole tools and motors. All product lines reported lower revenues during the first half of 2002 when compared to 2001 with the exception of capital equipment which increased \$30 million.

Operating income decreased \$9 million in the first six months of 2002 compared to 2001 due principally to the lower revenue volume and increases in selling expenses, agent commissions and certain fixed costs. Reductions of \$5.2 million and \$0.9 million in goodwill amortization (amortization is no longer required by the new accounting standard "SFAS No. 142") and depreciation, respectively, offset a portion of the margin shortfall.

Backlog of the Products and Technology capital products was \$278 million at June 30, 2002 compared to \$385 million at December 31, 2001 and \$441 million at June 30, 2001. Approximately 60% of the product in current backlog will be delivered during 2002 with the remainder during 2003.

## Distribution Services

### Q2 2002 versus Q2 2001

Distribution Services revenues decreased during the second quarter of 2002 over the comparable 2001 period by \$6 million. This 3% decrease is driven primarily by the lower market activity in North America. Revenues from the sale of parts manufactured by the Products & Technology segment were flat while the tubular revenues, generated principally in Canada, were \$4 million lower when compared to the second quarter of 2001. Maintenance, repair and operating supplies revenues declined approximately \$2 million.

Operating income in the second quarter of 2002 of \$5 million was approximately \$3 million lower when compared to the second quarter of 2001, principally due to the lower revenue volume, a 5% reduction in gross margin percent and higher infrastructure expenses to cover our expanded international market.

### 1st six months 2002 versus 1st six months 2001

Revenues for the Distribution Services segment decreased \$2 million in the first half of 2002 when compared to the prior year. Revenue increases in the international market were offset by decreases in both the U.S. and Canadian operations. Revenues from the sale of parts manufactured by the Products & Technology segment were up \$6 million (12%) while the maintenance, repair and operating supplies revenues reflected a 1% decline from the first six months of 2001. Tubular revenues were lower by approximately \$4 million, or 35%.

Operating income in the first half of 2002 of \$9 million was approximately \$5 million lower than the comparable period in 2001. Gross margin accounted for roughly half of the decline due to the lower sales volume and a decline in base margin percent, due in part to intense project bidding in the U.S. Significant infrastructure growth and ongoing e-commerce initiatives previously managed at the corporate level account for the remaining decline in operating profit in the first six months of 2002 when compared to 2001. Excluding goodwill amortization, as required under the new accounting standard "SFAS No. 142", operating income in the second quarter and first six months of 2001 would have increased \$0.2 million and \$0.5 million, respectively.

## Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. These costs remained virtually flat during the quarter and six months ending June 30, 2002 when compared to the same time periods in the prior year.

## Interest Expense

Interest expense decreased slightly during the three months ended June 30, 2002 as compared to the prior year due to a lower average debt level during the period. For the first six months of 2002, interest expense was slightly higher than the previous year as the March, 2001 issuance of the \$150 million in senior notes were outstanding for the entire period, more than offsetting the reduced costs associated with borrowings on the revolving credit facility.

Other financial costs, primarily bank fees related to letters of credit and performance bonds, increased slightly during the three and six month periods ending June 30, 2002 when compared to the same period of the prior year, reflecting our increased international activity.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002 we had working capital of \$667 million, an increase of \$36 million from December 31, 2001 primarily due to income from operations and a \$40 million decrease in accounts receivable. Inventory increased approximately \$5 million as decreases in both raw material and finished goods were offset by increases in work-in-process resulting from the 2nd quarter increase in capital equipment orders. A reduction in accounts payable of \$34 million, the \$15 million acquisition of Halco in January, 2002, income tax payments of \$30 million reflected in the reduction of other accrued liabilities and payment of the 2001 company-wide incentive plan offset a portion of the positive increases in working capital.

Total capital expenditures were \$9 million during the first half of 2002 compared to \$15 million in the first six months of the prior year. Enhancements to information management systems and additions to the downhole rental tool fleet represent the majority of these capital expenditures. We believe we have sufficient existing manufacturing capacity to meet currently anticipated demand through 2002 for our products and services.

On July 30, 2002, we replaced the existing credit facility with a new three-year unsecured \$175 million revolving credit facility. It is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit. Interest is based upon prime or Libor plus 0.5% subject to a ratings based grid. In securing this new credit facility we incurred approximately \$0.9 million in fees which will be amortized to expense over the term of the facility.

In 1997, we entered into a five-year unsecured \$125 million revolving credit facility that expires in September 2002. The credit facility is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit, of which \$20.7 million were outstanding at June 30, 2002 and December 31, 2001. The credit facility provides for interest at prime or LIBOR plus 0.5% (4.75% and 2.375% at June 30, 2002) subject to adjustment based on National Oilwell's Capitalization Ratio, as defined.

We also have additional credit facilities totaling \$62.5 million that are used primarily for letters of credit. Borrowings against these credit facilities totaled \$9.0 million at June 30, 2002, of which \$5.8 million were applicable to letters of credit.

The senior notes contain reporting covenants and the credit facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage. At June 30, 2002 and December 31, 2001, the Company was in compliance with all covenants governing these facilities.

We believe cash generated from operations and amounts available under the credit facilities and from other sources of debt will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations. We also believe any significant increase in capital expenditures caused by any need to increase manufacturing capacity can be funded from operations or through debt financing.

We have not entered into any transactions, arrangements, or relationships with unconsolidated entities or other persons which would materially affect liquidity, or the availability of or requirements for capital resources.

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

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

## RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with SFAS No. 142. Other intangible assets will continue to be amortized over their useful lives. During the second quarter of 2002, we completed the first of the required impairment tests of goodwill and indefinite lived assets, which indicated no impairment was required as of January 1, 2002. The following information provides net income for the three-month and six-

month period ended June 30, 2001 adjusted to exclude amortization expense recognized in this period related to goodwill (in thousands):

Three months	
Six months	
ended June	
30, 2001	
ended June	
30, 2001	---
-----	
-----	
Reported net	
income \$	
25,299	\$
46,777	Add
back:	
Goodwill	
amortization,	
net of tax	
2,733	5,424
-----	---
-----	
Adjusted net	
income \$	
28,032	\$
52,201	
Adjusted net	
income per	
share: Basic	
\$ 0.35	\$
0.65	Diluted
\$ 0.34	\$
0.64	
Weighted	
average	
shares	
outstanding:	
Basic	80,859
	80,738
Diluted	
	82,088
	82,032

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

In July, 2002, the Financial Accounting Standards Board issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructuring, involuntarily terminating employees, and consolidating facilities, initiated after December 31, 2002. We do not believe the adoption of this new statement will have a material impact on our consolidated financial statements.

#### FORWARD-LOOKING STATEMENTS

This document, other than historical financial information, contains forward-looking statements that involve risks and uncertainties. Such statements relate to our revenues, sales of capital equipment, backlog, capacity, liquidity and capital resources and plans for acquisitions and any related financings. Readers are referred to documents filed by us with the Securities and Exchange Commission which identify significant risk factors which could cause actual results to differ from those contained in the forward-looking statements,

including "Risk Factors" at Item 1 of the Annual Report on Form 10-K. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. We disclaim any obligation or intent to update any such factors or forward-looking statements to reflect future events or developments.

PART II - OTHER INFORMATION

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

The annual meeting of stockholders was held on May 15, 2002. Stockholders elected two directors nominated by the board of directors for terms expiring in 2005 by the following votes: Joel V. Staff - 65,066,615 votes for and 2,584,135 votes withheld, and William E. Macaulay - 65,339,675 votes for and 2,311,075 votes withheld. There were no nominees to office other than the directors elected.

Stockholders also approved an increase in the number of shares of common stock available for the issuance of stock options grants under the National Oilwell, Inc. Amended and Restated Stock Award and Long-Term Incentive Plan from 4,500,000 to 8,400,000 by the following vote: 60,549,456 votes for, 6,207,905 votes against and 893,389 votes abstained.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company has not filed any report on Form 8-K during the quarter for which this report is filed.

SIGNATURE

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

Date: August 12, 2002  
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/s/ Steven W. Krablin  
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Steven W. Krablin  
Principal Financial and Accounting Officer  
and Duly Authorized Signatory

INDEX TO EXHIBITS

EXHIBIT  
NUMBER  
DESCRIPTION

- - - - -  
- - - - -

99.1  
Certification  
pursuant to  
Section 906  
of the  
Sarbanes-  
Oxley Act of  
2002 99.2  
Certification  
pursuant to  
Section 906  
of the  
Sarbanes-  
Oxley Act of  
2002

I, Merrill A. Miller, Jr., Chairman, President and Chief Executive Officer of National-Oilwell, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and
- (2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of National-Oilwell, Inc.

Dated: August 12, 2002

/s/ Merrill A. Miller, Jr.

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Merrill A. Miller, Jr.  
Chairman, President and Chief Executive Officer

I, Steven W. Krablin, Chief Financial Officer of National-Oilwell, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and
- (2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of National-Oilwell, Inc.

Dated: August 12, 2002

/s/ Steven W. Krablin  
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Steven W. Krablin  
Chief Financial Officer