

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 1998 OR

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

Commission file number 1-12317

NATIONAL-OILWELL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

76-0475815

(State or other jurisdiction of incorporation or organization)

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

5555 SAN FELIPE
HOUSTON, TEXAS
77056

(Address of principal executive offices)

(713) 960-5100

(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 NO

As of May 12, 1998, 51,635,761 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)

March 31,

December 31,

	1998	1997
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,252	\$ 19,824
Receivables, less allowance of \$4,110 and \$4,056	222,969	223,991
Inventories	224,802	203,520
Deferred income taxes	7,803	9,839
Prepays and other current assets	4,345	6,424
	-----	-----
	481,171	463,598
Property, plant and equipment, net	73,893	74,282
Deferred income taxes	7,366	4,919
Goodwill	24,152	24,233
Other assets	949	479
	-----	-----
	\$ 587,531	\$ 567,511
	=====	=====
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,332	\$ 1,340
Accounts payable	127,340	134,955
Customer prepayments	50,157	37,688
Accrued compensation	8,897	12,957
Other accrued liabilities	25,051	24,521
	-----	-----
	212,777	211,461
Long-term debt	57,172	61,565
Deferred income taxes	2,682	2,675
Other liabilities	12,510	14,122
	-----	-----
	285,141	289,823
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value \$.01; 51,684,967 shares and 51,655,782 shares issued and outstanding at March 31, 1998 and December 31, 1997	517	517
Additional paid-in capital	208,342	207,954
Retained earnings	97,428	76,291
Accumulated other comprehensive income	(3,897)	(7,074)
	-----	-----
	302,390	277,688
	-----	-----
	\$ 587,531	\$ 567,511
	=====	=====

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31,	
	-----	-----
	1998	1997
	-----	-----
Revenues	\$ 301,852	\$ 206,670
Cost of revenues	237,060	164,747
	-----	-----
Gross profit	64,792	41,923
Selling, general and administrative	29,493	25,227
	-----	-----

Operating income	35,299	16,696
Other income (expense):		
Interest and financial costs	(1,248)	(1,452)
Interest income	221	538
Other	(726)	(686)
	-----	-----
Income before income taxes	33,546	15,096
Provision for income taxes	12,409	5,397
	-----	-----
Net income	\$ 21,137	\$ 9,699
	=====	=====
Net income per share:		
Basic	\$ 0.41	\$ 0.19
	=====	=====
Diluted	\$ 0.40	\$ 0.19
	=====	=====
Weighted average shares outstanding:		
Basic	51,982	50,436
	=====	=====
Diluted	52,257	51,562
	=====	=====

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31,	
	----- 1998 -----	----- 1997 -----
Cash flow from operating activities:		
Net income	\$ 21,137	\$ 9,699
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	4,258	2,899
Provision for losses on receivables	212	25
Provision for deferred income taxes	(404)	965
Gain on sale of assets	(647)	(605)
Foreign currency transaction loss	635	389
Changes in assets and liabilities, net of acquisitions:		
Receivables	1,065	(3,452)
Inventories	(22,309)	(7,381)
Prepaid and other current assets	1,458	205
Accounts payable	(10,071)	(5,844)
Other assets/liabilities, net	10,963	(14,682)
Net cash provided (used) by operating activities	6,297	(17,782)
Cash flow from investing activities:		
Purchases of property, plant and equipment	(4,925)	(5,657)
Proceeds from sale of assets	1,103	994
Cash received from business acquired	-	955
Net cash used by investing activities	(3,822)	(3,708)
Cash flow from financing activities:		
Borrowings (payments) on line of credit	(4,049)	5,709
Proceeds (retirement) of long-term debt	(344)	9,686
Proceeds from issuance of common stock	-	37,240
Proceeds from stock options exercised	388	136

Net cash provided (used) by financing activities	(4,005)	52,771
Effect of exchange rate (gain) loss on cash	2,958	(507)
Increase in cash and equivalents	1,428	30,774
Cash and cash equivalents, beginning of period	19,824	13,611
Cash and cash equivalents, end of period	\$ 21,252	\$ 44,385
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	\$ 1,363	\$ 645
Income taxes	10,156	540

The accompanying notes are an integral part of these statements.

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NATIONAL-OILWELL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Effective September 25, 1997, National-Oilwell completed a combination ("Combination") with Dreco Energy Services Ltd. ("Dreco"). As a result of the Combination, each Dreco Class "A" common share ("Dreco Common Share") outstanding was converted into .9159 of a Dreco Exchangeable Share ("Exchangeable Share") and, accordingly, approximately 14.4 million Exchangeable Shares were issued. Each Exchangeable Share is intended to have substantially identical economic and legal rights as, and will ultimately be exchanged on a one-for-one basis for, a share of National-Oilwell common stock.

The Combination was accounted for as a pooling-of-interests and the consolidated financial statements of National-Oilwell and Dreco have been combined with all prior periods restated to give effect to the Combination. Information concerning common stock and per share data has been restated on an equivalent share basis and assumes the exchange of all Exchangeable Shares.

National-Oilwell has a year end of December 31 and, prior to the Combination, Dreco had a year end of August 31. The restated financial statements combine the December 31, 1996 balance sheet of National-Oilwell with the November 30, 1996 balance sheet of Dreco. The income statement reflects the combined three months ended March 31, 1998 compared to the combination of the three months ended March 31, 1997 for National-Oilwell with the three months ended February 28, 1997 for Dreco.

2. INVENTORIES

Inventories consist of (in thousands):

	March 31, 1998	December 31, 1997
	-----	-----
Raw materials and supplies	\$ 21,705	\$ 19,970
Work in process	41,406	34,849
Finished goods and purchased products	161,691	148,701
	-----	-----
Total	\$ 224,802	\$ 203,520
	=====	=====

3. RECENTLY ISSUED ACCOUNTING STANDARDS

As of January 1, 1998, the Company adopted Statement 130, Reporting Comprehensive Income. Statement 130 establishes new rules for the reporting and display of comprehensive income and its components. The adoption of this Statement had no impact on the Company's net income or shareholders' equity. Statement 130 requires unrealized gains or losses on the Company's available-for-sale securities and foreign currency translation adjustments,

which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of Statement 130.

During the first quarter of 1998 and 1997, total comprehensive income amounted to \$24,314 and \$8,478.

4. RECLASSIFICATIONS

Certain prior-year amounts have been reclassified to conform to the current year presentation.

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

INTRODUCTION

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'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.

Effective September 25, 1997, National-Oilwell completed a combination ("Combination") with Dreco Energy Services Ltd. ("Dreco"). As a result of the Combination, each Dreco Class "A" common share ("Dreco Common Share") outstanding was converted into .9159 of a Dreco Exchangeable Share ("Exchangeable Share") and, accordingly, approximately 14.4 million Exchangeable Shares were issued. Each Exchangeable Share is intended to have substantially identical economic and legal rights as, and will ultimately be exchanged on a one-for-one basis for, a share of National-Oilwell common stock. Approximately 80% of the Exchangeable Shares have been exchanged for National-Oilwell common stock as of March 31, 1998.

The Combination was accounted for as a pooling-of-interests and the consolidated financial statements of National-Oilwell and Dreco have been combined with all prior periods restated to give effect to the Combination. Information concerning common stock and per share data has been restated on an equivalent share basis and assumes the exchange of all Exchangeable Shares.

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RESULTS OF OPERATIONS

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

	Quarter Ended March 31,	
	1998	1997
Revenues		
Products and Technology	\$ 148,034	\$ 65,333
Downhole Products	17,810	15,710
Distribution Services	156,189	139,558
Eliminations	(20,181)	(13,931)
Total	\$ 301,852	\$ 206,670
Operating Income		
Products and Technology	\$ 25,128	\$ 7,640
Downhole Products	6,263	6,138
Distribution Services	5,238	4,830
Eliminations	(1,330)	(1,912)

Total	----- \$ 35,299 =====	----- \$ 16,696 =====
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Products and Technology

The Products and Technology segment designs and manufactures a large line of proprietary products, including drawworks, mud pumps, power swivels, electrical control systems and reciprocating pumps, as well as complete land drilling and well servicing rigs and structural components such as masts, derricks and substructures. 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. This segment also provides drilling pump expendable products for maintenance of the Company's and other manufacturers' equipment.

Revenues for the Products and Technology segment increased by \$82.7 million (127%) in the first quarter of 1998 as compared to the same quarter in 1997 due to increased sales of major capital equipment and drilling spare parts. Sales of new mud pumps, masts, derricks and cranes were particularly strong, representing \$24 million of the increase. Operating income increased by \$17.5 million (229%) in the first quarter compared to the same quarter in 1997. Operating income as a percentage of revenues increased from 12% to 17%, primarily due to manufacturing and operating cost efficiencies that result from higher volumes.

Backlog of the Products and Technology group has remained strong during the first quarter of 1998 and was \$273 million at March 31, 1998, compared to \$271 million at December 31, 1997 and \$86 million at March 31, 1997. Substantially all of the current backlog will be shipped by the end of 1998.

Downhole Products

National-Oilwell designs and manufactures drilling motors and specialized drilling tools for rent and sale. Rentals generally involve products that are not economical for a customer to own or maintain because of the broad range of equipment required for the diverse hole sizes and depths encountered in drilling for oil and gas. Sales generally involve products that require infrequent service, are disposable or are sold in countries where National-Oilwell does not provide repair and maintenance services.

Downhole Products revenues increased by \$2.1 million (13%) in the first quarter of 1998 when compared to the same period in 1997, primarily due to a general increase in activity levels.

Operating income for the Downhole Products segment increased slightly in the first quarter of 1998 compared to the same quarter in 1997, as additional depreciation charges offset the margin recognized on the incremental revenues. A change in product mix from motor spare parts to mechanical products further reduced operating income.

Distribution Services

Distribution Services revenues result primarily from the sale of MRO products from the Company's network of 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 Products and Technology segment.

Distribution Services revenues during the first quarter of 1998 exceeded the comparable 1997 period by \$16.6 million. This 12% increase reflects the increased spending levels of the Company's tubular products alliance partners as sales of MRO products and other commodities remained flat. Operating income in the first quarter of 1998 was \$0.4 million (8%) greater than the first quarter of 1997.

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Corporate

Corporate costs during the first quarter of 1998 were \$0.6 million lower than the prior year primarily due to elimination of duplicate corporate costs that existed prior to the Combination.

Interest Expense

Interest expense decreased slightly during the three months ended March 31, 1998 due to both lower levels of debt and lower interest rates resulting from the credit facility entered into in conjunction with the Combination.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1998, the Company had working capital of \$268 million, an increase of \$16 million from December 31, 1997. Net cash provided by operating activities was \$6 million, as a \$22 million increase in inventories, primarily caused by increases in work in process and finished goods to support higher activity levels in the Products and Technology segment, used a significant portion of the cash generated from net income.

Total capital expenditures were \$4.9 million during the first three months of 1998. Enhancements to information and inventory control systems represent a large portion of these capital expenditures. The Company believes it has sufficient existing manufacturing capacity to meet currently anticipated demand through 1998 for its products and services. Any significantly greater increases in demand for oilfield equipment products, to the extent qualified subcontracting and outsourcing are not available, could result in additional increases in capital expenditures.

The Company has a five-year unsecured \$125 million revolving credit facility (the "Credit Facility") that is available for acquisitions and general corporate purposes. The Credit Facility provides for interest at prime or LIBOR plus 0.375% (8.5% and 6.03% at March 31, 1998), subject to adjustment based on the Company's Capitalization Ratio, as defined. The Credit Facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage.

The Company believes that cash generated from operations and amounts available under the 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 through debt financing.

The Company intends to pursue acquisition candidates, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. The Company expects 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. There can be no assurance that additional financing for acquisitions will be available at terms acceptable to the Company.

FORWARD-LOOKING STATEMENTS

This document, other than historical financial information, contains forward-looking statements that involve risks and uncertainties. Such statements relate to the Company's 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 the Company 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. The Company disclaims any obligation or intent to update any such factors or forward-looking statements to reflect future events or developments.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
 - 27.1 Financial Data Schedule
- (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: May 12, 1998

/ s / Steven W. Krablin

Steven W. Krablin
Principal Financial and Accounting Officer
and Duly Authorized Signatory

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EXHIBIT INDEX

27.1 Financial Data Schedule

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