
FORM 10-Q

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 SEPTEMBER 30, 2001 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
(State or other jurisdiction
of incorporation or organization)

76-0475875
(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
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As of November 9, 2001, 80,889,525 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)

	September 30, 2001 ----- (Unaudited)	December 31, 2000 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,192	\$ 42,459
Receivables, less allowance of \$7,611 and \$5,885	460,583	295,163
Inventories	509,501	375,734
Deferred income taxes	16,426	17,105
Prepays and other current assets	11,327	12,642
	-----	-----
	1,020,029	743,103
Property, plant and equipment, net	175,654	173,646
Deferred income taxes	20,779	19,919
Goodwill	349,541	329,340
Property held for sale	8,271	8,271
Other assets	11,875	4,615
	-----	-----
	\$ 1,586,149	\$ 1,278,894
	=====	=====
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	219,848	165,801
Customer prepayments	17,960	19,371
Accrued compensation	17,920	10,996
Other accrued liabilities	77,770	66,614
	-----	-----
	333,498	262,782
Long-term debt	385,848	222,477
Deferred income taxes	15,297	16,030
Other liabilities	7,113	10,399
	-----	-----
	741,756	511,688
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value \$.01; 80,889,525 shares and 80,508,535 shares issued and outstanding at September 30, 2001 and December 31, 2000	809	805
Additional paid-in capital	592,295	583,225
Accumulated other comprehensive income	(29,460)	(21,858)
Retained earnings	280,749	205,034
	-----	-----
	844,393	767,206
	-----	-----
	\$ 1,586,149	\$ 1,278,894
	=====	=====

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001 -----	2000 -----	2001 -----	2000 -----
Revenues	\$ 486,812	\$ 286,325	\$ 1,281,712	\$ 820,521

Cost of revenues	366,907	222,040	967,140	640,338
Gross profit	119,905	64,285	314,572	180,183
Selling, general and administrative	63,003	42,046	174,650	132,842
Special charges	--	--	--	13,000
Operating income	56,902	22,239	139,922	34,341
Other income (expense):				
Interest and financial costs	(6,963)	(4,672)	(18,522)	(14,142)
Interest income	183	973	1,428	2,394
Other	(2,753)	667	(14)	(7,802)
Income before income taxes	47,369	19,207	122,814	14,791
Provision for income taxes	18,431	7,299	47,099	7,863
Net income	\$ 28,938	\$ 11,908	\$ 75,715	\$ 6,928
Net income per share:				
Basic	\$ 0.36	\$ 0.15	\$ 0.94	\$ 0.09
Diluted	\$ 0.36	\$ 0.15	\$ 0.93	\$ 0.09
Weighted average shares outstanding:				
Basic	80,887	80,111	80,787	78,991
Diluted	81,437	81,727	81,834	80,435

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)

	Nine Months Ended September 30,	
	2001	2000
Cash flow from operating activities:		
Net income	\$ 75,715	\$ 6,928
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	28,882	25,953
Provision for losses on receivables	2,609	885
Provision for deferred income taxes	(7)	(8,176)
Gain on sale of assets	(2,553)	(2,862)
Foreign currency transaction loss/(gain)	84	(706)
Special charge	--	13,000
Changes in assets and liabilities, net of acquisitions and divestments:		
Receivables	(151,667)	(18,558)
Net investment in marketable securities	--	14,686
Inventories	(124,838)	(21,797)
Prepaid and other current assets	1,518	(3,530)
Accounts payable	43,331	36,559
Other assets/liabilities, net	(14,420)	(19,430)
Net cash provided (used) by operating activities	(141,346)	22,952
Cash flow from investing activities:		
Purchases of property, plant and equipment	(22,208)	(16,991)
Proceeds from sale of assets	6,973	6,590
Businesses acquired and investments in joint ventures, net of cash	(36,710)	(48,208)
Net cash used by investing activities	(51,945)	(58,609)
Cash flow from financing activities:		
Proceeds from line of credit	16,578	1,744
Proceeds from stock options exercised	10,362	11,434
Net proceeds from issuance of long-term debt	146,631	--
Other	--	37
Net cash provided by financing activities	173,571	13,215
Effect of exchange rate loss on cash	(547)	(602)
Decrease in cash and equivalents	(20,267)	(23,044)
Cash and cash equivalents, beginning of period	42,459	48,091
Cash and cash equivalents, end of period	\$ 22,192	\$ 25,047

Supplemental disclosures of cash flow information:

Cash payments during the period for:

Interest	\$ 19,932	\$ 14,921
Income taxes	22,563	4,879

The accompanying notes are an integral part of these statements.

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NATIONAL-OILWELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

Information concerning our common stock and per share data has been restated on an equivalent share basis and assumes the exchange of all Exchangeable Shares issued in connection with the combination with Dresco Energy Services Ltd. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us 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 2000 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 nine months ended September 30, 2001 and 2000 may not be indicative of results for the full year. No significant accounting changes have occurred during the nine months ended September 30, 2001.

2. ACQUISITIONS

Effective June 1, 2001, we acquired Rye Supply Company, Inc., an oilfield distribution company with U.S. operations in West Texas and New Mexico, for approximately \$9.5 million, generating approximately \$5 million in goodwill.

On April 30, 2001, we acquired the assets and business of Tech Power Controls Co. and certain affiliated companies for approximately \$11 million. This business designs, manufactures and services SCR systems for both land and offshore applications and is a complementary fit to our existing SCR product line. Goodwill associated with this purchase is approximately \$7 million.

On January 5, 2001, we completed the acquisition of the stock of Maritime Hydraulics (Canada) Ltd. for Canadian \$25 million (US\$ 16.5 million). This business, which designs, manufactures and sells coiled tubing units and truck mounted wireline and nitrogen pumping units. Goodwill associated with this transaction was approximately \$11 million.

On January 3, 2001, the assets and business of Integrated Power Systems (IPS) were acquired for approximately \$9 million. IPS manufactures, sells and services SCR units primarily used on land-based drilling rigs and is a complementary fit to our existing SCR product line. Goodwill of approximately \$4 million was recorded in conjunction with this purchase.

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3. INVENTORIES

Inventories consist of (in thousands):

	September 30, 2001	December 31, 2000
	-----	-----
Raw materials and supplies	\$ 35,067	\$ 32,306
Work in process	128,595	63,758
Finished goods and purchased products	345,839	279,670
	-----	-----
Total	\$ 509,501	\$ 375,734
	=====	=====

4. COMPREHENSIVE INCOME

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Net income	\$ 28,938	\$ 11,908	\$ 75,715	\$ 6,928
Currency translation adjustments	5,166	3,984	(6,156)	(7,121)
Unrealized gains (losses) on securities	--	162	(1,446)	732
	-----	-----	-----	-----
Comprehensive income	\$ 34,104	\$ 16,054	\$ 68,113	\$ 539
	=====	=====	=====	=====

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5. BUSINESS SEGMENTS

Segment information (unaudited) follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenues from unaffiliated customers				
Products and Technology	\$ 294,011	\$ 152,989	\$ 750,995	\$ 441,874
Distribution Services	192,801	133,336	530,717	378,647
	-----	-----	-----	-----
	486,812	286,325	1,281,712	820,521
Intersegment revenues				
Products and Technology	23,006	13,829	63,078	35,139
Distribution Services	768	61	1,563	256
	-----	-----	-----	-----
	23,774	13,890	64,641	35,395
Operating income				
Products and Technology	50,413	20,297	124,542	49,404
Distribution Services	9,244	3,892	23,052	7,388
	-----	-----	-----	-----
Total profit for reportable segments	59,657	24,189	147,594	56,792
Special charges	--	--	--	13,000
Unallocated corporate costs	(2,755)	(1,950)	(7,672)	(9,451)
Operating income	56,902	22,239	139,922	34,341
Net interest expense	(6,780)	(3,699)	(17,094)	(11,748)
Other income (expense)	(2,753)	667	(14)	(7,802)
	-----	-----	-----	-----
Income before income taxes	\$ 47,369	\$ 19,207	\$ 122,814	\$ 14,791
	=====	=====	=====	=====
Total assets				
Products and Technology	\$ 1,289,321	\$ 1,005,554		
Distribution Services	280,736	219,480		

6. LONG-TERM DEBT

Long-term debt consists of (in thousands):

	September 30, 2001	December 31, 2000
	-----	-----
Revolving credit facilities	\$ 85,848	\$ 72,477
6-7/8% senior notes	150,000	150,000
6-1/2% senior notes	150,000	--
	-----	-----
	385,848	222,477
Less current portion	--	--
	-----	-----
	\$ 385,848	\$ 222,477
	=====	=====

In March 2001, we sold \$150 million of 6-1/2% unsecured senior notes due March 15, 2011. Proceeds were used to repay indebtedness under our existing revolving credit facility and to fund working capital needs. Interest is payable on March 15 and September 15 of each year.

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In June 1998, we sold \$150 million of 6-7/8% unsecured senior notes due July 1, 2005. Interest is payable on January 1 and July 1 of each year.

In 1997, National Oilwell entered into a five-year unsecured \$125 million revolving credit facility. The credit facility is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit, of which \$21.3 million and \$19.4 million were outstanding at September 30, 2001 and December 31, 2000, respectively. The credit facility provides for interest at prime or LIBOR plus 0.625% (6.0% and 3.7% at September 30, 2001) subject to downward adjustment based on National Oilwell'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. At September 30, 2001 and December 31, 2000, we were in compliance with all the covenants governing this credit facility.

National Oilwell also has additional credit facilities totaling \$50.0 million used primarily for letters of credit, of which \$9.0 million were outstanding at September 30, 2001.

7. OTHER INCOME/(EXPENSE)

During July 2001, the Company sold its specialty steel business, acquired through the merger with IRI International Corporation, for \$3.2 million, generating a \$1.2 million pre-tax loss on the disposal (\$0.8 million after-tax).

During June 2000, the Company liquidated a marketable securities portfolio maintained by IRI International Corporation prior to the merger for \$11.2 million, generating a pre-tax loss on the sale of \$8.5 million (\$5.2 million after-tax). Proceeds were used to pay down debt.

8. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2001, the Financial Accounting Standards Board ("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. 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. We do not anticipate that the statement will have a material impact on our financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. 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 the Statements. Other intangible assets will continue to be amortized over their useful lives. In addition, accounting for acquisitions under the pooling-of-interests method is no longer permitted.

We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the Statement is expected to result in an increase in net income of \$11 million (\$0.13 per diluted share) per year. Prior to implementation, as of January 1, 2002 we will perform the first of the required impairment tests of goodwill and indefinite lived

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intangible assets. We have not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

On January 1, 2001 we adopted Financial Accounting Standard Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The adoption of this accounting standard did not have a significant effect on our results of operations or financial position.

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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 comprehensive systems and components used in oil and gas drilling and production, as well as in providing supply chain integration services to the upstream oil and gas industry. We manufacture and assemble drilling machinery, including drawworks, mud pumps and top drives, which are the major mechanical components of drilling rigs, as well as masts, derricks and substructures. We also provide coiled tubing units, electrical power systems, computerized control systems and automation systems for drilling rigs. In addition, we provide engineering and fabrication services to integrate our drilling products and deliver complete land drilling and workover rigs as well as drilling modules for mobile offshore drilling rigs or platforms. Our Products and Technology segment also designs and manufactures drilling motors and specialized downhole tools for rent and sale. Drilling motors are essential components of systems for horizontal, directional, extended reach and performance drilling. Downhole tools include fishing tools, drilling jars, shock tools and other specialized products. Our Distribution Services segment offers comprehensive supply chain integration services to the drilling and production segments, utilizing state of the art information technology platforms to provide procurement, inventory management and logistics services.

National Oilwell'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. Beginning in late 1997, oil prices declined to less than \$15 per barrel due to concerns about excess production, less demand from Asia due to an economic slowdown and warmer than average weather in many parts of the United States. In late July 1999, oil prices recovered to a range of \$25-\$35 per barrel and remained in this range throughout the first half of 2001. Oil prices have fallen to the \$20-\$22 range during the third quarter 2001 due to concerns about the global economic environment. Natural gas prices have fluctuated significantly as well, increasing from a fairly consistent \$2.00-\$3.00 per MCF to over \$10.00 per MCF in the winter of 2000/2001. Increased supply and lower demand then pushed prices

back down to the \$2.00-\$3.00 range by the third quarter of 2001. As a result, general market conditions have been extremely volatile. Lower commodity prices are expected to reduce our revenues during the fourth quarter of 2001 and at least through the first half of 2002.

RESULTS OF OPERATIONS

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues				
Products and Technology	\$ 317,017	\$ 166,818	\$ 814,073	\$ 477,013
Distribution Services	193,569	133,397	532,280	378,903
Eliminations	(23,774)	(13,890)	(64,641)	(35,395)
Total	\$ 486,812	\$ 286,325	\$ 1,281,712	\$ 820,521
Operating Income excluding special charges				
Products and Technology	\$ 50,413	\$ 20,297	\$ 124,542	\$ 49,404
Distribution Services	9,244	3,892	23,052	7,388
Corporate	(2,755)	(1,950)	(7,672)	(9,451)
Total	\$ 56,902	\$ 22,239	\$ 139,922	\$ 47,341

Products and Technology

Our Products and Technology segment designs and manufactures a wide range of proprietary products, including drawworks, mud pumps, top drives, coiled tubing units, electrical control systems and downhole motors and tools, 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 fluctuate between periods depending on the size and timing of order shipments. In addition, the segment provides pump expendable products for maintenance of National-Oilwell's and other manufacturers' equipment.

During the first six months of 2001, we acquired the assets and business of Integrated Power Systems and Tech Power Controls Co. and certain affiliated companies for approximately \$19.5 million. Both companies manufacture, sell and service SCR units and are a complementary fit to our existing SCR product line. In January 2001, we also acquired the stock of Maritime Hydraulics (Canada) Ltd for Canadian \$25 million (US\$ 16.5 million). Maritime Hydraulics designs, manufactures and sells coiled tubing units and truck mounted wireline and nitrogen pumping units. Goodwill of approximately \$22 million was recorded in conjunction with these purchases.

Revenues for the Products and Technology segment increased by \$150 million (90%) in the third quarter of 2001 as compared to the same quarter in 2000 due primarily to increased sales of capital equipment, drilling spare parts, expendable pumps and related parts, and downhole motors and tools. Operating income increased by \$30 million in the third quarter of 2001 compared to the same quarter in 2000 due principally to the higher revenue volume.

Products and Technology revenues in the first nine months of 2001 increased \$337 million (71%) as compared to 2000 due to strong capital backlog sales, generally improved market opportunities in all product lines and year 2001 acquisitions. Capital equipment sales from backlog increased \$157 million and drilling spares sales increased \$31 million during the first nine months when compared to the

same period of the prior year. Mission pumps and expendable parts increased \$46 million while downhole motors and tools were higher by \$63 million. Operating income increased by \$75 million in the first nine months of 2001 as a result of the higher volume.

Revenues from Products and Technology segment acquisitions completed subsequent to September 30, 2000 under the purchase method of accounting generated \$33 million and \$66 million in incremental revenues in the third quarter and first nine months of 2001, respectively. These acquisitions accounted for operating income of \$5 million and \$9 million during the third quarter and the first nine months of 2001 over the same period of the prior year.

Backlog of the Products and Technology capital products was \$453 million at September 30, 2001 compared to \$282 million at December 31, 2000 and \$180 million at September 30, 2000. Virtually all of the products in the current backlog will be delivered by the end of 2002.

Distribution Services

Our Distribution Services segment offers comprehensive supply chain integration services to the drilling and production segments of the oil and gas industry. Our network of approximately 130 service centers located in the United States, Canada and near other major drilling and production activity areas worldwide use state of the art information technology platforms to provide procurement, inventory

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management and logistics services. These service centers stock and sell a variety of expendable items for oilfield applications purchased from numerous manufacturers and vendors, including our Products and Technology segment.

Distribution Services revenues increased during the third quarter of 2001 over the comparable 2000 period by \$60 million. This 45% increase is driven primarily by higher hydrocarbon prices with our U.S. operations up 51% and Canada 25%. Revenues from the sale of parts manufactured by the Products & Technology segment were up 24% while the maintenance, repair and operating supplies revenues increased 49% over the second quarter of 2000. Operating income in the third quarter of 2001 of \$9 million was a \$5 million improvement over the third quarter of 2000, principally due to the higher revenue volume.

Revenues for the Distribution Services segment increased \$153 million in the first nine months of 2001 when compared to the prior year. Canadian revenues were up 13% and the U.S. operations 53% as a result of sustained North American drilling and production activity during most of the first nine months of 2001. This volume increase generated an operating income increase of \$16 million during the first nine months of 2001 when compared to the similar 2000 period.

Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. Corporate spending of \$2.8 million during the third quarter of 2001 is \$0.8 million greater than the same period of the prior year due to various e-strategy, marketing and corporate governance initiatives. A reduction of \$1.8 million in the first nine months of 2001 as compared to 2000 reflects the elimination of the IRI International Inc. corporate operations as a result of the June 2000 merger, offset partially by an increase in spending on various e-strategy and other corporate initiatives.

Interest Expense

Interest expense increased during the three months and nine months ended September 30, 2001 as compared to the prior year due to higher levels of debt, including the March 2001 \$150 million issuance of senior notes. Funding for acquisitions and working capital requirements resulting from the general increase in activity are the primary drivers of this rise in debt.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001 we had working capital of \$687 million, an increase of \$207 million from December 31, 2000, primarily due to the significant ramp up in business during this period. Acquisitions completed during the first nine months

of 2001 were accountable for \$40 million of this increase. Significant increases in accounts receivable of \$165 million and inventory of \$134 million were partially offset by an increase in accounts payable and customer prepayments of \$53 million and income tax, interest and compensation accruals of \$18 million. Cash and equivalents decreased \$20 million during the first nine months of 2001.

Total capital expenditures were \$22 million during the first nine months of 2001 compared to \$17 million in the same period of the prior year. Additions to the downhole rental tool fleet and our information management systems, including e-strategy initiatives, represent the majority of these capital expenditures. We believe we have sufficient existing manufacturing capacity to meet currently anticipated demand for our products and services.

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In March 2001, we sold \$150 million of 6.50% unsecured senior notes due March 15, 2011. Proceeds were used to repay indebtedness under our existing revolving credit facility. Interest is payable on March 15 and September 15 of each year.

In June 1998, we sold \$150 million of 6.875% unsecured senior notes due July 1, 2005. Interest is payable on January 1 and July 1 of each year.

In 1997, National Oilwell entered into a five-year unsecured \$125 million revolving credit facility. The credit facility is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit, of which \$21.3 million and \$19.4 million were outstanding at September 30, 2001 and December 31, 2000, respectively. The credit facility provides for interest at prime or LIBOR plus 0.625% (6.0% and 3.7% at September 30, 2001) subject to downward adjustment based on National Oilwell'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. At September 30, 2001 and December 31, 2000, we were in compliance with all the covenants governing this credit facility.

National Oilwell also has additional credit facilities totaling \$50.0 million used primarily for letters of credit, of which \$9.0 million were outstanding at September 30, 2001.

During June 2000, the Company liquidated a marketable securities portfolio maintained by IRI International Corporation prior to the merger for \$11.2 million, generating a pre-tax loss on the sale of \$8.5 million (\$5.2 million after-tax). Proceeds were used to pay down debt.

We believe cash generated from operations and amounts available under the credit facility 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 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.

SPECIAL CHARGES

In conjunction with the merger with IRI International Corporation in June 2000, the Company recorded a special charge of \$13.0 million, approximately half of which was direct transaction costs. The remaining amount pertains to severance payments related to the integration of executive and administrative functions.

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RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2001, the Financial Accounting Standards Board ("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. 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. We do not anticipate that the statement will have a material impact on our financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. 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 the Statements. Other intangible assets will continue to be amortized over their useful lives. In addition, accounting for acquisitions under the pooling-of-interests method is no longer permitted.

We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the Statement is expected to result in an increase in net income of \$11 million (\$0.13 per diluted share) per year. Prior to implementation, as of January 1, 2002 we will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets. We have not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

On January 1, 2001 we adopted Financial Accounting Standard Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The adoption of this accounting standard did not have a significant effect on our results of operations or financial position.

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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(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: November 13, 2001

/s/ STEVEN W. KRABLIN

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