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 SEPTEMBER 30, 2000 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 November 10, 2000, 80,285,395 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 per share data)

	September 30,	December 31,

	2000	1999
	(Unaudited)	(Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,047	$ 48,091
Marketable securities, at fair value (cost of $13,437 at December 31, 1999)	--	14,686
Receivables, less allowance of $5,697 and $7,246	247,618	200,396
Inventories	386,335	348,024
Deferred income taxes	20,003	10,684
Income taxes receivable	12,932	12,888
Prepaids and other current assets	11,372	7,776
	703,307	642,545
Property, plant and equipment, net	176,099	154,844
Deferred income taxes	14,537	11,726
Goodwill	308,697	177,377
Property held for sale	7,424	7,424
Other assets	4,983	5,488
	$ 1,215,047	$ 999,404
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 89	$ 300
Accounts payable	159,131	106,219
Customer prepayments	15,971	18,776
Accrued compensation	8,685	4,232
Other accrued liabilities	49,783	61,003
	233,659	190,530
Long-term debt	205,008	196,053
Deferred income taxes	3,039	6,138
Other liabilities	10,516	10,308
	452,222	403,029
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value $.01; 80,269,759 shares and 71,736,609 shares issued and outstanding at September 30, 2000 and December 31, 1999	803	717
Additional paid-in capital	581,139	415,701
Accumulated other comprehensive income	(17,927)	(11,923)
Retained earnings	198,810	191,880
	762,825	596,375
	$ 1,215,047	$ 999,404

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,	
	2000	1999	2000	1999

Revenues	$ 286,325	$ 194,870	$ 820,521	$ 617,140
Cost of revenues	222,040	157,071	640,338	500,839
Gross profit	64,285	37,799	180,183	116,301
Selling, general and administrative	42,046	35,898	132,842	113,906
Special charge	--	321	13,000	1,779
Operating income	22,239	1,580	34,341	616
Other income (expense):				
Interest and financial costs	(4,672)	(3,970)	(14,142)	(11,980)
Interest income	973	605	2,394	1,747
Other	667	2,798	(7,802)	(3,440)
Income/(loss) before income taxes	19,207	1,013	14,791	(13,057)
Provision/(benefit) for income taxes	7,299	539	7,863	(3,331)
Net income/(loss)	$ 11,908	$ 474	$ 6,928	$ (9,726)
Net income/(loss) per share:				
Basic	$ 0.15	$ 0.01	$ 0.09	$ (0.14)
Diluted	$ 0.15	$ 0.01	$ 0.09	$ (0.13)
Weighted average shares outstanding:				
Basic	80,111	71,681	78,991	71,668
Diluted	81,727	72,515	80,436	72,093

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine Months Ended September 30,	
	2000	1999
Cash flow from operating activities:		
Net income	$ 6,928	$ (9,726)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	25,813	20,720
Amortization of negative goodwill	--	(4,026)
Provision for losses on receivables	885	1,663
Provision for deferred income taxes	(8,176)	(1,587)
Gain on sale of assets	(2,862)	(1,413)
Foreign currency transaction gain (loss)	(706)	(248)
Special charge	13,000	1,779

Changes in assets and liabilities, net of acquisitions and divestments:		
Receivables	(18,558)	137,641
Net investment in marketable securities	14,686	3,000
Inventories	(21,797)	25,736
Prepaid and other current assets	(3,530)	(1,730)
Accounts payable	36,559	(66,347)
Other assets/liabilities, net	(19,290)	(17,288)
Net cash provided by operating activities	22,952	88,174
Cash flow from investing activities:		
Purchases of property, plant and equipment	(16,991)	(13,411)
Proceeds from sale of assets	6,590	30,760
Business acquired, net of cash	(48,208)	(65,000)
Net cash used by investing activities	(58,609)	(47,651)
Cash flow from financing activities:		
Payments on line of credit	1,744	(34,995)
Proceeds from stock options exercised	11,434	476
Other	37	(209)
Net cash provided (used) by financing activities	13,215	(34,728)
Effect of exchange rate (gain) on cash	(602)	137
Increase/(decrease) in cash and equivalents	(23,044)	5,932
Cash and cash equivalents, beginning of period	48,091	49,439
Cash and cash equivalents, end of period	$ 25,047	$ 55,371
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 14,921	$ 8,033
Income taxes	4,879	12,314

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 has been restated on an equivalent share basis and assumes the exchange of all Exchangeable Shares issued in connection with the 1997 combination with Dreco Energy Services Ltd. In addition, all periods presented have been restated to reflect the merger with IRI International Corporation.

The Company employs accounting policies that are in accordance with generally accepted accounting principles in the United States. Accordingly, Company management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates.

The accompanying unaudited consolidated financial statements present information in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements and should be read in conjunction with the Company's 1999 Annual Report on Form 10-K.

In the opinion of the Company, 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 nine months ended September 30, 2000 and 1999 may not be indicative of results for the full year. No significant accounting changes have occurred during the nine months ended September 30, 2000.

2. ACQUISITIONS

During February 2000, the Company completed its merger with Hitec ASA, a leading supplier of highly advanced systems and solutions, including leading-edge automation and remote control technologies, for the oil and gas industry. The Company issued approximately 7.9 million shares of common stock valued at $19.50 per share and cash of $4 million for all of the outstanding shares of Hitec. Goodwill related to the transaction approximated $136 million. Hitec's financial results are included in National Oilwell's consolidated results effective February 1, 2000. Pro forma results of operations are not presented since they are not considered material.

On June 27, 2000, the Company issued 13.5 million shares of common stock for all of the outstanding shares of IRI. The transaction was a tax-free exchange and was recorded in accordance with the pooling-of-interests method of accounting. All prior periods have been restated. In conjunction with the merger, the Company recorded a special charge of $13.0 million in June 2000, consisting principally of direct deal costs and employee severance payments. Integration of the merged companies was begun in the third quarter 2000 and included a comprehensive review of operations, product lines, staffing and facility needs, asset valuations and liabilities. This review process is currently ongoing and any additional charges will be recognized during the fourth quarter 2000 as the merger is fully implemented. The need for or amount of any additional charges has not been determined.

Effective September 1, 2000, the Company acquired the Wheatley Gaso and Omega pump product lines from Halliburton Company for approximately $13 million. Goodwill related to this cash transaction approximated $3 million and is accounted for under the purchase method of accounting. On September 27, 2000, National Oilwell acquired the assets and certain liabilities of the Baylor Company and its subsidiaries in a cash transaction approximating $29 million. Baylor designs and manufactures braking systems and large synchronous generators used on drilling rigs. The transaction was accounted for under the purchase method of accounting with goodwill approximating $5 million.

3. INVENTORIES

Inventories consist of (in thousands):

	September 30, 2000	December 31, 1999
Raw materials and supplies	$ 61,840	$ 54,958
Work in process	56,874	46,722
Finished goods and purchased products	267,621	246,344
Total	$386,335	$348,024

4. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company expects to adopt the new Statement effective January 1, 2001. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. The Company has not completed its evaluation but currently does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

5. COMPREHENSIVE INCOME

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net income/(loss)	$11,908	$ 474	$ 6,928	$(9,726)
Currency translation adjustments	3,984	(4,898)	(7,121)	1,079
Unrealized gains on securities	162	146	732	528
Comprehensive income/(loss)	$16,054	$(4,278)	$ 539	$(8,119)

6. BUSINESS SEGMENTS

Segment information (unaudited) follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenues from unaffiliated customers				
Products and Technology	$ 152,972	$ 93,611	$ 441,856	$ 312,975
Distribution Services	133,336	101,263	378,647	304,176
Intersegment revenues				
Products and Technology	13,846	5,659	35,157	21,343
Distribution Services	61	490	256	856
Operating income (loss)				
Products and Technology	20,297	5,636	49,404	19,446
Distribution Services	3,892	(633)	7,388	(6,215)
Total profit for reportable segments	24,189	5,003	56,792	13,231
Special charge	--	321	13,000	1,779
Unallocated corporate costs	(1,950)	(3,102)	(9,451)	(10,836)
Operating income	22,239	1,580	34,341	616
Net interest expense	(3,699)	(3,365)	(11,748)	(10,233)
Other income (expense)	667	2,798	(7,802)	(3,440)
Income/(loss) before income taxes	$ 19,207	$ 1,013	$ 14,791	$ (13,057)

Total assets September 30, September 30,

	2000	1999
Products and Technology	$1,005,554	$ 746,634
Distribution Services	219,480	187,420

7. SALE OF ASSETS

During June 2000, the Company liquidated a marketable securities portfolio maintained by IRI 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.

Included in Other Expense for the nine months ended September 30, 1999 are losses totaling $1.9 million from the sale of assets related to two product lines. On June 17, 1999, the Company sold its tubular business for approximately $15 million, generating a pre-tax loss of $0.9 million ($0.5 million after-tax). Revenues and operating loss recorded in 1999 for the tubular business was $23.6 million and $0.6 million, respectively. On June 24, 1999 the Company sold its drill bit manufacturing business for approximately $12 million, recording a pre-tax loss of $1.0 million ($0.6 million after-tax). Revenues and operating income recorded in 1999 for the drill bit business was $6.1 million and $0.1 million, respectively.

8. SPECIAL CHARGE

In conjunction with the merger, 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 administrative and operational functions. Cash payments related to all direct transaction costs and most severance payments are complete.

9. SUBSEQUENT EVENT

On October 30, 2000, the Company announced it had entered into a memorandum of understanding to acquire the stock of Maritime Hydraulics (Canada) Ltd. from Aker Maritime ASA for Canadian $25 million (approximately U.S. $16 million). Maritime Hydraulics Canada designs, manufactures and sells coiled tubing units and truck mounted wireline and nitrogen pumping units. The transaction will be accounted for in accordance with the purchase method of accounting and is expected to close in January 2001.

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 of maintenance, repair and operating products to the oil and gas industry. 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. The resulting lower demand for products and services had an increasingly negative effect on both business segments in 1999. Oil prices have recovered since late July 1999 to a range of $25-$35 per barrel. The higher prices have already resulted in higher revenues for National Oilwell and the Company expects its revenues to increase further if its customers gain confidence in sustained commodity prices at this level and as their cash flows from operations improve.

RESULTS OF OPERATIONS

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
Revenues	2000	1999	2000	1999
Products and Technology	$ 166,818	$ 99,270	$ 477,013	$ 334,318
Distribution Services	133,397	101,753	378,903	305,032
Eliminations	(13,890)	(6,153)	(35,395)	(22,210)
Total	$ 286,325	$ 194,870	$ 820,521	$ 617,140
Operating Income				
Products and Technology	$ 20,297	$ 5,636	$ 49,404	$ 19,446
Distribution Services	3,892	(633)	7,388	(6,215)
Corporate	(1,950)	(3,102)	(9,451)	(10,836)
	22,239	1,901	47,341	2,395
Special charge	--	321	13,000	1,779
Total	$ 22,239	$ 1,580	$ 34,341	$ 616

Products and Technology

The Products and Technology segment designs and manufactures a wide range of proprietary products, including drawworks, mud pumps, power swivels, 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 February 2000, the Company completed its merger with Hitec ASA, a leading supplier of highly advanced systems and solutions, including leading-edge automation and remote control technologies, for the oil and gas industry. In connection therewith, the Company issued approximately 7.9 million shares of common stock and $4 million in cash. Hitec's financial results are included in National Oilwell's consolidated results effective February 1, 2000. This transaction has been

accounted for as a purchase for financial reporting purposes with goodwill related to this transaction approximating $136 million. With the addition of Hitec, the Company intends to expand its emphasis on technology, especially in the areas of automation and remotely controlled equipment.

On June 27, 2000, the Company issued 13.5 million shares of common stock for all of the outstanding shares of IRI. The transaction was a tax-free exchange and was recorded in accordance with the pooling-of-interests method of accounting. All prior periods have been restated. In conjunction with the merger, the Company recorded a special charge of $13.0 million in June 2000, consisting principally of direct deal costs and employee severance payments. Integration of the merged companies was begun in the third quarter 2000 and included a comprehensive review of operations, product lines, staffing and facility needs, asset valuations and liabilities. This review process is currently ongoing and any additional charges will be recognized during the fourth quarter 2000 as the merger is fully implemented. The need for or amount of any additional charges has not been determined.

Effective September 1, 2000, the Company acquired the Wheatley Gaso and Omega pump product lines from Halliburton Company for approximately $13 million. Goodwill related to this cash transaction approximated $3 million and is accounted for under the purchase method of accounting.

On September 27, 2000, National Oilwell acquired the assets and certain liabilities of the Baylor Company and its subsidiaries in a cash transaction approximating $29 million. Baylor designs and manufactures braking systems and large synchronous generators used on drilling rigs. The transaction was accounted for under the purchase method of accounting with goodwill approximating $5 million.

Revenues for the Products and Technology segment increased by $68 million (68%) in the third quarter of 2000 as compared to the same quarter in 1999 due primarily to increased sales of capital equipment, drilling replacement and expendable pump parts, and downhole motors and tools. Revenues associated with Year 2000 acquisitions accounted for $19 million, or approximately 28% of the increase. Operating income increased by $15 million in the third quarter of 2000 compared to the same quarter in 1999 due principally to the higher revenue volume as margin percentage remained virtually the same. Year 2000 acquisitions accounted for $4 million of the operating income increase.

Products and Technology revenues in the first nine months of 2000 increased $143 million as compared to 1999 due to the overall improved market opportunities, as reflected in IRI results increasing by $37 million (53%) and the inclusion of Hitec revenues of $27 million. Operating income increased by $30 million, or 154%, in the first nine months of 2000 as a result of the higher volumes with Year 2000 acquisitions accounting for $12 million of the increase.

Backlog of the Products and Technology capital products was $180 million at September 30, 2000 compared to $114 million at December 31, 1999 and $49 million at September 30, 1999. Backlog increased by $38 million during the current quarter.

Distribution Services

Distribution Services revenues result primarily from the sale of maintenance, repair and operating ("MRO") supplies from National Oilwell's network of distribution service centers and, prior to July 1999, from the sale of well casing and production tubing. These products are purchased from numerous manufacturers and vendors, including National Oilwell's Products and Technology segment. The Company sold its tubular product line in June 1999 for approximately $15 million, generating a pre-tax loss of $0.9 million ($0.5 million after-tax). Revenues and operating loss recorded in 1999 for the tubular operations were $23.6 million and $0.6 million, respectively.

Distribution Services revenues increased during the third quarter of 2000 over the comparable 1999 period by $32 million. This 31% increase in MRO products reflects the enhanced drilling activity driven primarily by higher, more stable oil and gas prices. North American revenues account for all of this increase with Canada increasing 20% and the United States higher by 36%. Operating income in the third quarter of 2000 of $3.9 million was a $4.5 million improvement over the third quarter of 1999, principally due to the higher revenue volume and improved margins.

Revenues for the Distribution Services segment increased $74 million in the first nine months of 2000 when compared to the prior year. Reflecting the significant increase in oil prices between the periods, Canadian revenues were higher by 35% while MRO revenues in the United States were 20% greater. Operating income was $14 million higher in the first nine months of 2000 when compared to 1999 and is attributable to the higher volume levels and favorable margin improvements resulting from the sale of the low margin tubular product line.

Corporate

Corporate costs during the third quarter of 2000 of $2 million represent a significant reduction from prior quarters due to the elimination of the IRI corporate operations as a result of the merger. Corporate costs for the first nine months of 2000 of $9.5 million were slightly lower than the 1999 comparable time frame.

Interest Expense

Interest expense increased during the three months and nine months ended September 30, 2000 as compared to the prior year due to higher levels of debt incurred in connection with completed acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2000 the Company had working capital of $470 million, an increase of $18 million from December 31, 1999. The Wheatley Gaso/Omega and Baylor Company acquisitions in September 2000 were accountable for a $43 million increase in working capital at September 30, 2000. Significant increases in accounts receivable and inventory of $48 million and $38 million were partially offset by an increase in accounts payable of $53 million. Cash and equivalents were reduced $23 million and $15 million of marketable securities were liquidated to repay outstanding debt.

Total capital expenditures were $17 million during the first nine months of 2000 compared to $13 million in the first nine months of 1999. 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 for its products and services.

The Company has a five-year unsecured $125 million revolving credit facility which is available for acquisitions and general corporate purposes. The credit facility provides for interest at prime or LIBOR plus 0.375%, 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 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, 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 the Company.

SPECIAL CHARGE

In conjunction with the merger, 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 administrative and operational functions. Cash payments related to all direct transaction costs and most severance payments are complete.

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.

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: November 14, 2000 /s/ Steven W. Krablin

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

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
27.1	Financial Data Schedule

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