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 JUNE 30, 1999 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.)

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 12, 1999, 58,257,909 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, 1999 (Unaudited)	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,555	$ 11,440
Receivables, less allowance of $5,580 and $4,718	167,927	281,312
Inventories	189,495	241,987
Deferred income taxes	9,298	16,489
Prepaids and other current assets	8,432	6,533
	420,707	557,761
Property, plant and equipment, net	89,959	91,756
Deferred income taxes	12,938	6,757
Goodwill	144,320	145,696
Property held for sale	10,694	9,981
Other assets	5,469	6,042
	$ 684,087	$ 817,993
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 321	$ 7,447
Accounts payable	74,539	118,579
Customer prepayments	8,945	25,392
Accrued compensation	3,326	7,237
Other accrued liabilities	41,118	52,696
	128,249	211,351
Long-term debt	150,000	205,637
Deferred income taxes	2,521	4,097
Other liabilities	10,062	10,105
	290,832	431,190
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value $.01; 56,337,909 shares and 55,996,785 shares issued and outstanding at June 30, 1999 and December 31, 1998	563	561
Additional paid-in capital	246,824	248,198
Accumulated other comprehensive income	(9,327)	(13,827)
Retained earnings	155,195	151,871
	393,255	386,803
	$ 684,087	$ 817,993

The accompanying notes are an integral part of these statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Revenues	$ 159,095	$ 294,843	$ 344,336	$ 596,695
Cost of revenues	127,333	222,035	272,462	459,095
Gross profit	31,762	72,808	71,874	137,600
Selling, general and administrative	28,140	32,928	57,965	62,421
Operating income	3,622	39,880	13,909	75,179
Other income (expense):				
Interest and financial costs	(3,114)	(2,248)	(6,988)	(3,496)
Interest income	337	278	503	499
Other	(1,442)	187	(2,025)	(539)
Income before income taxes	(597)	38,097	5,399	71,643
Provision for income taxes	(209)	14,286	2,075	26,695
Net income	$ (388)	$ 23,811	$ 3,324	$ 44,948
Net income per share:				
Basic	$ (0.01)	$ 0.46	$ 0.06	$ 0.86
Diluted	$ (0.01)	$ 0.46	$ 0.06	$ 0.86
Weighted average shares outstanding:				
Basic	56,326	51,963	56,319	51,973
Diluted	56,326	52,292	56,482	52,275

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, 1999	Six Months Ended June 30, 1998
Cash flow from operating activities:		
Net income	$ 3,324	$ 44,948
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	10,840	8,780
Provision for losses on receivables	1,244	(379)
Provision for deferred income taxes	(566)	(1,097)
Loss (gain) on sale of assets	(294)	(1,759)
Foreign currency transaction gain (loss)	15	(247)
Changes in assets and liabilities, net of acquisitions and divestments:		
Receivables	107,991	(9,319)
Inventories	27,136	(42,434)
Prepaid and other current assets	(1,893)	(652)
Accounts payable	(44,618)	17,461
Other assets/liabilities, net	(28,414)	4,409
Net cash provided by operating activities	74,765	19,711
Cash flow from investing activities:		
Purchases of property, plant and equipment	(7,522)	(9,368)
Proceeds from sale of assets	29,503	3,747
Business acquired, net of cash	--	(157,739)
Cash received from business acquired	--	535
Net cash provided (used) by investing activities	21,981	(162,825)
Cash flow from financing activities:		
Borrowings (payments) on line of credit	(62,763)	44,550
Net proceeds from issuance of long-term debt	--	148,937
Principal payments on long-term debt	--	(40,855)
Proceeds from stock options exercised	148	1,002
Net cash provided (used) by financing activities	(62,615)	153,634
Effect of exchange rate (gain) on cash	(16)	(3,389)
Increase in cash and equivalents	34,115	7,131
Cash and cash equivalents, beginning of period	11,440	19,824
Cash and cash equivalents, end of period	$ 45,555	$ 26,955
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 7,119	$ 2,608
Income taxes	7,785	26,679

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 combination with Dreco Energy Services Ltd. The Company employs accounting policies that are in accordance with generally accepted accounting principles in the United States which requires Company management to make 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, and the 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 generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. Accordingly, 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 1998 Annual Report on Form 10-K.

In the opinion of the Company, the consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods. The results of operations for the six months ended June 30,1999 and 1998 may not be indicative of results for the full year. No significant accounting changes have occurred during the six months ended June 30, 1999.

2. INVENTORIES

Inventories consist of (in thousands):

	June 30, 1999	December 31, 1998
Raw materials and supplies	$ 21,582	$ 24,304
Work in process	19,382	39,991
Finished goods and purchased products	148,531	177,692
Total	$189,495	$241,987

3. SPECIAL CHARGES

During the fourth quarter of 1998, the Company recorded a special charge of $16.4 million related to operational changes resulting from the depressed market for the oil and gas industry. This charge was comprised of $11.0 million in estimated cash expenditures related to employee severance and facility exit costs and $5.4 million in the write-down of certain assets. As of June 30, 1999, the entire amount has been spent or formally committed.

4. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires the recognition of all derivatives on the balance sheet at fair value. The Company will adopt the new Statement effective January 1, 2001 and anticipates it will have no significant effect on its results of operations or financial position.

5. COMPREHENSIVE INCOME

Total comprehensive income was as follows (in thousands):

	1999	1998
Three months ended June 30	$ 6,210	$ 17,017
Six months ended June 30	7,824	41,331

6. BUSINESS SEGMENTS

Effective January 1, 1999 the Company changed the structure of its internal organization and now includes the former Downhole Products segment as a product line within the Products and Technology segment. Prior year segment information has been restated to reflect this change.

Segment information (unaudited) follows (in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Revenues from unaffiliated customers				
Products and Technology	$ 76,619	$ 161,599	$ 175,782	$ 307,262
Distribution Services	$ 82,476	$ 133,244	$ 168,554	$ 289,433
Intersegment revenues				
Products and Technology	7,168	16,244	15,684	36,425
Distribution Services	281	--	373	--
Operating income (loss)				
Products and Technology	7,746	37,825	21,288	69,216
Distribution Services	(2,429)	3,832	(4,539)	9,070
Total profit for reportable segments	5,317	41,657	16,749	78,286
Unallocated corporate costs	(1,695)	(1,777)	(2,840)	(3,107)
Net interest expense	(2,777)	(1,970)	(6,485)	(2,997)
Other income (expense)	(1,442)	187	(2,025)	(539)
Income before income taxes	$ (597)	$ 38,097	$ 5,399	$ 71,643

TOTAL ASSETS	June 30, 1999	June 30, 1998
Products and Technology	$ 550,826	$ 609,464
Distribution Services	155,464	154,192

7. SALE OF ASSETS

Included in Other Expense 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. SUBSEQUENT EVENTS

On July 1, 1999, the Company purchased 100% of the outstanding stock of Dupre' Supply Company and Dupre' International Inc. in exchange for 1,920,000 shares of National Oilwell common stock. In conjunction with this acquisition, approximately $11 million in cash was used to pay-off an existing line of credit. These companies are leading suppliers of pipe, fittings, valves and valve automation services and complement the existing operations of the Distribution Services segment. This transaction will be accounted for under the pooling-of-interests method of accounting and historical financial statements will be restated.

On July 8, 1999, the Company acquired the assets of CE Drilling Products, Inc. for approximately $65 million in cash, financed primarily by borrowing $57 million under its revolving credit facility. This business involves the manufacture, sale and service of drilling machinery and related parts. This transaction will be accounted for under the purchase method of accounting.

For July 1999, the first full month following the acquisitions, the Company reported consolidated revenues of $51.3 million and a net loss of $1.5 million ($0.03 per diluted share).

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 machinery and equipment and in the distribution of maintenance, repair and operating products used in oil and gas drilling and production. 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 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 is expected to have a negative impact on National Oilwell's 1999 operating results. Oil prices have recovered during the second quarter of 1999 to approximately $20 per barrel. National Oilwell expects its revenues to increase if its customers gain confidence in sustained commodity prices at this level and their cash flows from operations improve.

RESULTS OF OPERATIONS

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

	Quarter Ended June 30,		Six Months Ended June 30,	
Revenues	1999	1998	1999	1998
Products and Technology	$ 83,787	$ 177,843	$ 191,466	$ 343,687
Distribution Services	82,757	133,244	168,927	289,433
Eliminations	(7,449)	(16,244)	(16,057)	(36,425)
Total	$ 159,095	$ 294,843	$ 344,336	$ 596,695
Operating Income				
Products and Technology	$ 7,746	$ 37,825	$ 21,288	$ 69,216
Distribution Services	(2,429)	3,832	(4,539)	9,070
Corporate	(1,695)	(1,777)	(2,840)	(3,107)
Total	$ 3,622	$ 39,880	$ 13,909	$ 75,179

Products and Technology

Effective January 1, 1999 the Company changed the structure of its internal organization and now includes the former Downhole Products segment as a product line within the Products and Technology segment. Prior year segment information has been restated to reflect this change. The Company sold its drill bit manufacturing business in June 1999 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.

The Products and Technology segment designs and manufactures a large line 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 result 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 National Oilwell's and other manufacturers' equipment.

Revenues for the Products and Technology segment decreased by $94.1 million (56%) in the second quarter of 1999 as compared to the same quarter in 1998 due primarily to reduced sales of major capital equipment and drilling replacement parts. Sales in the second quarter of 1999 of new mud pumps, SCR systems, power swivels, derricks and masts, cranes, and complete rigs all showed a significant decline from second quarter 1998 levels. Operating income decreased by $30.1 million in the second quarter compared to the same quarter in 1998 due principally to the lower revenue volume. Operating costs were comparable between the periods as cost reduction initiatives completed in 1999 were offset by the inclusion of higher fixed costs related to acquisitions completed during 1998.

Products and Technology revenues in the first half of 1999 decreased $152.2 million as compared to 1998 due primarily to the reduced demand for new capital equipment, drilling replacement parts and downhole motor and tool sales. Operating income decreased by $47.9 million in the first half of 1999 as a result of the decline in revenues.

Backlog of the Products and Technology capital products was $26 million at June 30, 1999 compared to $77 million at December 31, 1998 and $260 million at June 30, 1998. Substantially all of the current backlog is expected to be shipped by the end of 1999. New orders and order cancellations during the first half of 1999 totaled approximately $18 million and $9 million, respectively.

Distribution Services

Distribution Services revenues result primarily from the sale of maintenance, repair and operating supplies ("MRO") 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. The Company sold its tubular business 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 business was $23.6 million and $0.6 million, respectively.

Distribution Services revenues during the second quarter of 1999 fell short of the comparable 1998 period by $50.5 million. This 38% decrease reflects the reduced demand for MRO and tubular products precipitated primarily by lower oil prices. Revenues in the tubular business accounted for $30 million of this decline with MRO sales in the United States comprising the majority of the remaining shortfall, offset partially by a $9 million increase in Canadian revenues. Operating income in the second quarter of 1999 was $6.3 million below the second quarter of 1998. A $8.3 million reduction in base margin due to the decline in revenues was partially offset by $2.0 million in reduced operating expenses resulting from the completion of prior year initiatives to adjust to lower activity levels.

Revenues for the Distribution Services segment fell $120.5 million in the first half of 1999 when compared to the prior year, reflecting the significant decrease in oil prices between the periods. Despite a revenue growth in Canada of approximately $15 million, sales in the United States showed a $125 million decline including a tubular business reduction of $74 million. Operating income was $13.6 million lower in the first six months of 1999 when compared to 1998 and is attributable entirely to the lower revenue levels offset, in part, by reduced operating costs of approximately $5 million.

Corporate

Corporate costs during the second quarter of 1999 of $1.7 million and the first six months of 1999 of $2.8 million were comparable to the same periods in the prior year.

Interest Expense

Interest expense increased during the three months and six months ended June 30, 1999 as compared to the prior year due to the sale of $150 million of 6.875% unsecured senior notes in June 1998.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1999, the Company had working capital of $292 million, a decrease of $54 million from December 31, 1998. Significant reductions in accounts receivable and inventory of $113.4 million and $52.5 million were partially offset by reduced accounts payable and customer prepayments of $44.0 million and $16.4 million. Cash generated from operations was used to repay outstanding debt.

Total capital expenditures were $7.5 million during the first six months of 1999 compared to $9.4 million in the first half of 1998. Enhancements to information and inventory control systems represent a large portion of these capital expenditures. The Company has sufficient existing manufacturing capacity to meet currently anticipated demand though 1999 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 0.625%, 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. Subsequent to June 30,1999 the Company borrowed approximately $57 million under the credit facility in connection with an acquisition.

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. There can be no assurance that additional financing for acquisitions will be available at terms acceptable to the Company.

YEAR 2000

The year 2000 issue is the result of computer programs having been written using two digits rather than four to define the applicable year. Any computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The new system installation for the Company's Distribution Services segment remains on target for completion in the third quarter of 1999 and will be Year 2000 compliant. In addition, the Company continues to implement modifications to its other business systems in order to achieve year 2000 date conversion compliance. The total cost of the year 2000 readiness is estimated at $1.0 million, of which approximately $0.7 million has been spent. The Year 2000 review covers internal computer systems and process control systems, as well as embedded systems in products delivered. In addition, the Company continues to communicate with its significant suppliers, customers and business partners to determine the extent to which we are vulnerable to any failure of these third parties' to remedy their own Year 2000 issues. Third party vendors of hardware and packaged software have also been contacted about their products' compliance status. While the ability of third parties with whom the Company transacts business to address adequately their year 2000 issue is outside its control, the Company will evaluate the need to change sources as necessary.

Management believes that with installation of new systems, conversion to new software and modifications to existing software, the year 2000 issue will pose no significant operational problems for National Oilwell. Completion of all new installations, conversions and necessary systems modifications and conversions is expected by September 30, 1999. Accordingly, the Company does not have a contingency plan with respect to the year 2000 issue. There can be no assurance, however, that the Company will be able to install and maintain year 2000 compliant software and should this occur, operational difficulties could result. In such circumstances, delays in financial processes could occur, but neither these nor any product-related problems are expected to have an adverse effect on the Company's financial position.

The costs of the project and the dates on which the Company believes it will complete its Year 2000 project are based on management's best estimates. These estimates were derived using numerous assumptions of future events, including continued availability of resources, third party's Year 2000 status and plans and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include the availability and cost of personnel, the ability to identify and correct all Year 2000 impacted areas, timely and effective action by third parties, the ability to implement interfaces between Year 2000-ready systems and those systems not being replaced, and other similar uncertainties.

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 sales of capital equipment, backlog, capacity, liquidity and capital resources, plans for acquisitions and any related financings and the impact of Year 2000. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of stockholders was held on May 19, 1999. Stockholders elected three directors nominated by the board of directors for terms expiring in 2002 by the following votes: W. McComb Dunwoody - 49,168,433 votes for and 28,764 votes withheld, William E. Macaulay - 49,168,433 votes for and 28,764 votes withheld, and Joel V. Staff - 49,168,223 votes for and 28,974 votes withheld. Stockholders elected Ben A. Guill for a term expiring in 2000 - 49,168,433 votes for and 28,764 votes withheld. There were no nominees to office other than the directors elected.

Stockholders also approved an amendment to the Amended and Restated National-Oilwell, Inc. Stock Award and Long-Term Incentive Plan by the following vote: 48,294,255 votes for, 581,330 votes against and 321,612 votes abstained.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

(a) 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, 1999

/s/ Steven W. Krablin

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

EXHIBIT INDEX

Exhibit Number	Description
27.1	Financial Data Schedule

5
1,000

6-MOS
DEC-31-1999
JAN-01-1999
JUN-30-1999
45,555
0
173,507
5,580
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147,315
57,356
684,087
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344,336
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272,462
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3,324
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0.06