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, 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 X NO

As of August 12, 1998, 52,996,785 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 SHEETS
(IN THOUSANDS,EXCEPT SHARE DATA)

	June 30, 1998	December 31, 1997
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,955	$ 19,824
Receivables, less allowance of $3,951 and $4,056	250,208	223,991
Inventories	275,387	203,520
Deferred income taxes	10,719	9,839
Prepaids and other current assets	10,012	6,424
	573,281	463,598
Property, plant and equipment, net	88,233	74,282
Deferred income taxes	5,362	4,919
Goodwill	139,290	24,233
Other assets	988	479
	$ 807,154	$ 567,511
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,334	$ 1,340
Accounts payable	156,065	134,955
Customer prepayments	56,822	37,688
Accrued compensation	9,240	12,957
Other accrued liabilities	34,393	24,521
	257,854	211,461
Long-term debt	214,002	61,565
Deferred income taxes	2,993	2,675
Other liabilities	12,180	14,122
	487,029	289,823
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value $.01; 51,646,785 shares and 51,655,782 shares issued and outstanding at June 30, 1998 and December 31, 1997	517	517
Additional paid-in capital	209,060	207,954
Retained earnings	121,239	76,291
Accumulated other comprehensive income	(10,691)	(7,074)
	320,125	277,688
	$ 807,154	$ 567,511

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 June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Revenues	$ 294,843	$ 234,090	$ 596,695	$ 440,760
Cost of revenues	222,035	187,061	459,095	351,808
Gross profit	72,808	47,029	137,600	88,952
Selling, general and administrative	32,928	29,087	62,421	54,314
Operating income	39,880	17,942	75,179	34,638
Other income (expense):				
Interest and financial costs	(2,248)	(1,583)	(3,496)	(3,035)
Interest income	278	288	499	826
Other	187	517	(539)	(169)
Income before income taxes	38,097	17,164	71,643	32,260
Provision for income taxes	14,286	6,099	26,695	11,496
Net income	$ 23,811	$ 11,065	$ 44,948	$ 20,764
Net income per share:				
Basic	$ 0.46	$ 0.21	$ 0.86	$ 0.40
Diluted	$ 0.46	$ 0.21	$ 0.86	$ 0.40
Weighted average shares outstanding:				
Basic	51,963	51,223	51,973	50,830
Diluted	52,292	52,202	52,275	51,882

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,	
	1998	1997

Cash flow from operating activities:		
Net income	$ 44,948	$ 20,764
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	8,780	6,509
Provision for losses on receivables	(379)	180
Provision for deferred income taxes	(1,097)	(1,007)
Gain on sale of assets	(1,759)	(1,469)
Foreign currency transaction loss	(247)	(6)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(9,319)	(19,219)
Inventories	(42,434)	(14,424)
Prepaid and other current assets	(652)	3,452
Accounts payable	17,461	(6,858)
Other assets/liabilities, net	4,409	10,226
Net cash provided (used) by operating activities	19,711	(1,852)
Cash flow from investing activities:		
Purchases of property, plant and equipment	(9,368)	(12,034)
Proceeds from sale of assets	3,747	1,783
Business acquired, net of cash	(157,739)	(19,000)
Cash received from business acquired	535	955
Net cash used by investing activities	(162,825)	(28,296)
Cash flow from financing activities:		
Borrowings (payments) on line of credit	44,550	19,109
Net proceeds from issuance of long-term debt	148,937	10,127
Principal payments on long-term debt	(40,855)	(866)
Proceeds from issuance of common stock	--	37,240
Proceeds from stock options exercised	1,002	136
Net cash provided by financing activities	153,634	65,746
Effect of exchange rate (gain) on cash	(3,389)	(1,318)
Increase in cash and equivalents	7,131	34,280
Cash and cash equivalents, beginning of period	19,824	13,611
Cash and cash equivalents, end of period	$ 26,955	$ 47,891
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 2,608	$ 1,253
Income taxes	26,679	5,429

The accompanying notes are an integral part of these statements.

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 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 income statement reflects the combined six months ended June 30, 1998 compared to the combination of the six months ended June 30, 1997 for National-Oilwell and the six months ended May 31, 1997 for Dreco.

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with generally accepted accounting principles. In the opinion of management, the information furnished reflects all adjustments, all of which are of a normal, recurring nature, necessary for a fair presentation of the results of the interim periods. It is recommended that these statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1997. No significant accounting changes have occurred during the six months ended June 30, 1998.

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

2. INVENTORIES

Inventories consist of (in thousands):

	June 30, 1998	December 31, 1997
Raw materials and supplies	$ 21,932	$ 19,970
Work in process	55,324	34,849
Finished goods and purchased products	198,131	148,701
Total	$ 275,387	$ 203,520

3. ACQUISITION

On May 29, 1998, the Company acquired all of the capital stock of Phoenix Energy Products Holdings, Inc. for approximately $115 million in a business combination which was accounted for under the purchase method of accounting. Phoenix manufactures and sells multiple product lines that are complementary to those of the Company. The acquisition of the stock and the repayment of approximately $41 million in Phoenix debt was financed primarily through the issuance of $150 million in unsecured seven year senior notes which have a coupon interest rate of 6.875% payable on January 1 and July 1.

Assuming the acquisition had occurred at the beginning of each period, pro forma summary results of operations would have been as follows:

	Six Months Ended June 30,	
	1998	1997
Revenues	$ 630,154	$ 480,633
Net income	$ 44,191	$ 20,681
Net income per share:		
Basic	$ 0.85	$ 0.41
Diluted	$ 0.85	$ 0.40

The unaudited pro forma summary is not necessarily indicative of results of operations that would have occurred had the purchase been made at the beginning of the year or of future results of operations of the combined businesses.

4. SUBSEQUENT EVENT

On July 21, 1998, the Company purchased 100% of the capital stock of Roberds-Johnson Industries, Inc., a manufacturer of a broad range of drilling equipment, in exchange for 1.35 million shares of National-Oilwell common stock. This transaction will be accounted for under the pooling of interests method of accounting and will not have a material effect on the Company's historical financial statements, and financial statements prior to July 1, 1998 will not be restated.

5. 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 stockholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of Statement 130. Total comprehensive income amounted to $17,017 and $10,032 during the second quarter of 1998 and 1997. For the first six months of 1998 and 1997, total comprehensive income was $41,331 and $18,510, respectively.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 1999. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of the new Statement will have a significant effect on earnings or the financial position of the Company.

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 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 82% of the Exchangeable Shares have been exchanged for National-Oilwell common stock as of June 30, 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.

On May 29, 1998, the Company acquired all of the capital stock of Phoenix Energy Products Holdings, Inc. for approximately $115 million in a business combination which was accounted for under the purchase method of accounting. Phoenix manufactures and sells multiple product lines that are complementary to those of the Company. The acquisition of the stock and the repayment of approximately $41 million in Phoenix debt was financed primarily through the issuance of $150 million in unsecured seven year senior notes which have a coupon interest rate of 6.875% payable on January 1 and July 1.

On July 21, 1998, the Company purchased 100% of the common stock of Roberds-Johnson Industries, Inc., a manufacturer of a broad range of drilling equipment, in exchange for 1.35 million shares of National-Oilwell common stock. This transaction will be accounted for under the pooling of interests method of accounting and will not have a material effect on the Company's historical financial statements, and financial statements prior to July 1, 1998 will not be restated.

RESULTS OF OPERATIONS

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997

Revenues				
Products and Technology	$ 160,130	$ 80,426	$ 308,164	$ 145,759
Downhole Products	17,713	14,809	35,523	30,519
Distribution Services	133,244	154,870	289,433	294,428
Eliminations	(16,244)	(16,015)	(36,425)	(29,946)
Total	$ 294,843	$ 234,090	$ 596,695	$ 440,760
Operating Income				
Products and Technology	$ 32,305	$ 9,041	$ 57,433	$ 16,681
Downhole Products	5,520	4,567	11,783	10,705
Distribution Services	3,832	6,569	9,070	11,399
Corporate	(1,777)	(2,235)	(3,107)	(4,147)
Total	$ 39,880	$ 17,942	$ 75,179	$ 34,638

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 $79.7 million in the second quarter of 1998 as compared to the same quarter in 1997 due to increased sales of major capital equipment. Sales of new mud pumps, SCR systems and cranes were particularly strong. Operating income increased by $23.3 million in the second quarter compared to the same quarter in 1997 due principally to the increased sales volume. Operating income as a percentage of revenues increased from 11% to 20%, primarily due to manufacturing and operating cost efficiencies that result from higher volumes.

Products and Technology revenues increased $162.4 million in the first half of 1998 as compared to 1997 due primarily to the increased demand for new capital equipment and the inclusion of approximately $17 million of revenues generated by acquisitions. Operating income increased by $40.8 million in the first half of 1998 compared to the same period of 1997, with approximately $4 million of the increase attributable to the acquired businesses and the balance due to the higher activity levels.

Backlog of the Products and Technology capital products was $260 million at June 30, 1998 compared to $271 million at December 31, 1997 and $141 million at June 30, 1997. Substantially all of the current backlog is expected to be shipped by March 31, 1999.

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 $2.9 million (20%) in the second quarter of 1998 when compared to the same period in 1997, due to the inclusion of $1.3

million of revenues generated by acquisitions completed during the quarter and the balance due to a general increase in activity levels. Operating income increased $1.0 million in the second quarter of 1998 compared to the same quarter in 1997. Acquisitions accounted for $0.4 million of the increase in operating income with the remainder due to margin earned on the incremental revenues.

Revenues during the first six months of 1998 increased $5.0 million (16%) over the comparable 1997 period due to revenues from acquisitions of $1.3 million and higher drilling accessories sales and tool sales/rentals. Operating income increased $1.1 million during the first six months of 1998 compared to the same period in 1997 with revenues from acquisitions accounting for approximately one-third of the increase.

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 second quarter of 1998 fell short of the comparable 1997 period by $21.6 million. This 14% decrease reflects the reduced demand for tubular and MRO products precipitated by lower oil prices. Operating income in the second quarter of 1998 was $2.7 million (42%) below the second quarter of 1997. A $3.2 million reduction in margin due to the decline in revenues was partially offset by $0.5 million in reduced operating expenses.

Revenues for the Distribution Services segment fell $5.0 million in the first half of 1998 when compared to the prior year, reflecting the significant decrease in oil prices between the periods. Operating income was $2.3 million lower in the first six months of 1998 when compared to 1997. A reduction in margin of $1.5 million coupled with an increase in operating expenses of $0.8 million contributed to this shortfall in operating income.

Corporate

Corporate costs during the second quarter of 1998 and the first six months of 1998 were $0.5 million and $1.0 million lower than the prior year primarily due to elimination of duplicate corporate costs that existed prior to the Combination.

Interest Expense

Interest expense increased during the three months and six months ended June 30, 1998 due to the incurrence of debt to finance the Phoenix acquisition. Additional increases will occur in the third quarter of 1998 due to the inclusion of interest expense for three months rather than the one month of June.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1998, the Company had working capital of $315 million, an increase of $63 million from December 31, 1997. Acquisitions completed in the first half of 1998 accounted for $40 million of this working capital increase.

Total capital expenditures were $9.4 million during the first six 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 significant increase in demand for oilfield equipment products, to the extent qualified subcontracting and outsourcing options are not available, could result in additional increases in capital expenditures.

In June 1998, the Company sold $150 million in unsecured seven year senior notes to raise cash for the purchase of Phoenix. The notes have a coupon interest rate of 6.875% payable on January 1 and July 1.

The Company has a five-year unsecured $125 million revolving credit facility (the "Credit Facility") of which $52 million is available at June 30, 1998 for acquisitions and general corporate purposes. The Credit Facility provides for interest at prime or LIBOR plus 0.625% (8.5% and 6.03% at June 30,1998), 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.

YEAR 2000

National-Oilwell is conducting a comprehensive review of its computer systems and other operational equipment to identify the systems that may be impacted by the Year 2000 problem. The Year 2000 problem is a result of computer programs being written using two digits (rather than four) to define the applicable year. This could result in a systems failure or miscalculations causing disruptions of operations, including, among other things, an inability to process transactions, send invoices, or engage in similar normal business activities. This review covers internal computer systems and process control systems, as well as embedded systems in products delivered and purchased in the supply chain. In addition, the Company has initiated formal communication with its significant suppliers, customers and business partners to determine the extent to which the Company is vulnerable to these third parties' failure to remedy their own Year 2000 issues. Third party vendors of hardware and packaged software have also been contacted about their products' compliance status.

The Company currently estimates that it will incur costs of approximately $500,000 to complete its assessment of the problem. The total cost of the Year 2000 readiness is dependent upon this assessment and has not yet been determined. The Company anticipates having all critical systems Year 2000 compliant no later than September 30, 1999 and currently does not have a contingency plan. Based on the Company's assessment of its computer systems and other operational equipment to date, the Company believes that, with modifications to existing software and converting to new software, the Year 2000 problem will not be material to the operations of the Company.

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 modification 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, but are not limited to, the availability and cost of personnel, the ability to identify and correct all Year 2000 impacted areas, 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 13, 1998. Stockholders elected three directors nominated by the board of directors for terms expiring in 2001 by the following votes: Howard I. Bull - 42,863,427 votes for and 348,791 votes withheld, James C. Comis III - 42,863,671 votes for and 348,547 votes withheld and Frederick W. Pheasey - 42,863,671 votes for and 348,547 votes withheld. There were no nominees to office other than the directors elected.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

The Company filed a report on Form 8-K on June 17, 1998 regarding the acquisition of Phoenix Energy Products Holdings, Inc. Financial statements and pro forma financial information were not included in the filing but are expected to be filed on Form 8-K/A by August 17, 1998.

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 13, 1998	/s/ Steven W. Krablin
	Steven W. Krablin Principal Financial and Accounting Officer and Duly Authorized Signatory

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
27.1	Financial Data Schedule	

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