FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 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	76-0475815
(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.

As of May 12, 2000, 66,351,790 common shares were outstanding, assuming the exchange on a one-for-one basis of all Exchangeable Shares of Dreco Energy Services Ltd. into shares of National-Oilwell, Inc. common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL-OILWELL, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	March 31, 2000 (Unaudited)	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,822	$ 12,403
Receivables, less allowance of $5,913 and $5,506	232,854	185,920
Inventories	254,155	254,052
Deferred taxes	7,513	9,296
Income taxes receivable	10,171	10,171
Prepaid and other current assets	5,644	6,534
Total current assets	524,159	478,376
Property, plant and equipment, net	114,766	109,147
Deferred taxes	8,301	7,781
Goodwill, net	310,400	174,498
Property held for sale	7,424	7,424
Other assets	5,099	5,085
	$ 970,149	$ 782,311
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ --	$ --
Accounts payable	122,088	100,963
Customer prepayments	11,291	16,838
Accrued compensation	3,178	4,232
Other accrued liabilities	44,641	54,177
Total current liabilities	181,198	176,210
Long-term debt	227,425	196,007
Deferred taxes	2,844	6,138
Other liabilities	8,114	8,881
Total liabilities	419,581	387,236
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value $.01; 66,340,591 shares and 58,223,971 shares issued and outstanding at March 31, 2000 and December 31, 1999	663	582
Additional paid-in capital	402,723	246,553
Accumulated other comprehensive income	(15,237)	(11,537)
Retained earnings	162,419	159,477
	550,568	395,075
	$ 970,149	$ 782,311

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 March 31,	
	2000	1999
Revenues	$ 229,386	$ 203,923
Cost of revenues	186,967	162,459
Gross profit	42,419	41,464
Selling, general and administrative	33,188	31,187
Operating income	9,231	10,277
Other income (expense):		
Interest and financial costs	(4,590)	(4,210)
Interest income	288	166
Other	(184)	(614)
Income before income taxes	4,745	5,619
Provision for income taxes	1,803	2,284
Net income	$ 2,942	$ 3,335
Net income per share:		
Basic	$ 0.05	$ 0.06
Diluted	$ 0.05	$ 0.06
Weighted average shares outstanding:		
Basic	63,557	58,198
Diluted	64,303	58,267

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31, 2000	1999
Cash flow from operating activities:		
Net income	$ 2,942	$ 3,335
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	6,919	5,784
Provision for losses on receivables	853	547
Provision (benefit) for deferred income taxes	(2,031)	228
Gain on sale of assets	(823)	(341)
Foreign currency transaction loss	163	558
Changes in assets and liabilities, net of acquisitions:		
Receivables	(23,218)	70,314
Inventories	4,168	19,187
Prepaid and other current assets	890	(1,027)
Accounts payable	7,780	(28,792)
Other assets/liabilities, net	(15,257)	(31,869)
Net cash provided/(used) by operating activities	(17,614)	37,924
Cash flow from investing activities:		
Purchases of property, plant and equipment	(5,281)	(4,198)
Proceeds from sale of assets	2,199	880
Business acquired, net of cash	(4,526)	--
Net cash used by investing activities	(7,608)	(3,318)
Cash flow from financing activities:		
Borrowings/(payments) on line of credit	24,418	(32,950)
Proceeds from stock options exercised	2,224	--
Other	--	(390)
Net cash provided/(used) by financing activities	26,642	(33,340)
Effect of exchange rate (gain) loss on cash	(1)	(24)
Increase in cash and equivalents	1,419	1,242
Cash and cash equivalents, beginning of period	12,403	11,963
Cash and cash equivalents, end of period	$ 13,822	$ 13,205
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 6,468	$ 6,351
Income taxes	884	6,253

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 three months ended March 31, 2000 and 1999 may not be indicative of results for the full year. No significant accounting changes have occurred during the three months ended March 31, 2000.

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 at $19.50 per share for all of the outstanding shares of Hitec with goodwill related to the transaction approximating $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.

2. INVENTORIES

Inventories consist of (in thousands):

	March 31, 2000	December 31, 1999
Raw materials and supplies	$ 19,992	$ 19,434
Work in process	37,900	32,793
Finished goods and purchased products	196,263	201,825
Total	$ 254,155	$ 254,052

3. 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.

4. COMPREHENSIVE INCOME

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

	Quarter Ended March 31, 2000	Quarter Ended March 31, 1999
Net income	$ 2,942	$ 3,335
Currency translation adjustments	(4,019)	(2,287)
Unrealized gains on securities	319	189
Comprehensive income/(loss)	$ (758)	$ 1,237

5. BUSINESS SEGMENTS

Segment information (unaudited) follows (in thousands):

	Quarter Ended March 31, 2000	Quarter Ended March 31, 1999
Revenues from unaffiliated customers		
Products and Technology	$ 106,519	$ 99,163
Distribution Services	122,867	104,852
Intersegment revenues		
Products and Technology	9,404	8,516
Distribution Services	110	-
Operating income (loss)		
Products and Technology	10,012	13,542
Distribution Services	950	(2,120)
Total profit for reportable segments	10,962	11,422
Unallocated corporate costs	(1,731)	(1,145)
Net interest expense	(4,302)	(4,044)
Other expense	(184)	(614)
Income before income taxes	$ 4,745	$ 5,619

	March 31, 2000	March 31, 1999
Total assets		
Products & Technology	$ 764,495	$ 606,826
Distribution Services	$ 218,202	$ 208,765

6. ANNOUNCED MERGER TRANSACTION

On March 15, 2000, National Oilwell signed a definitive merger agreement with IRI International Corporation (NYSE: IIR) whereby National Oilwell would issue approximately 13.5 million shares of common stock in exchange for all of the outstanding common stock of IRI. The transaction is subject to stockholder approval of both companies and regulatory approval with closing anticipated in the second quarter of 2000. The transaction is expected to be accounted for under the pooling-of-interests method of accounting.

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-$31 per barrel. National Oilwell expects its revenues to increase if its customers gain confidence in sustained commodity prices at this level and as their cash flows from operations improve, allowing them to purchase products sold by National Oilwell.

RESULTS OF OPERATIONS

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

	Quarter Ended March 31,	
	2000	1999
Revenues		
Products and Technology	$115,923	$ 107,679
Distribution Services	122,977	104,852
Eliminations	(9,514)	(8,608)
Total	$229,386	$ 203,923
Operating Income		
Products and Technology	10,012	13,542
Distribution Services	950	(2,120)
Corporate	(1,731)	(1,145)
Total	$ 9,231	$ 10,277

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 result 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. 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.

Revenues for the Products and Technology segment increased by $8.2 million (8%) in the first quarter of 2000 as compared to the same quarter in 1999 due primarily to the inclusion of two months of Hitec revenues. Downhole motor sales were up almost 50% and capital equipment sales increased 10% due to the shipment of three rigs, offset in part by reduced shipments of pumps and cranes. Operating income decreased by $3.5 million (26%) in the first quarter compared to the same quarter in 1999 resulting primarily from lower margins due to product mix, increased goodwill amortization due to recent acquisitions and increased fixed costs associated with the Hitec acquisition.
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Backlog of the Products and Technology group was $82 million at March 31, 2000, an increase of $5 million from December 31, 1999. At March 31, 1999, backlog stood at $50 million. Substantially all of the current backlog will be shipped by the end of September 2000.

Distribution Services

Distribution Services revenues result primarily from the sale of maintenance, repair and operating supplies ("MRO") 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 during the first quarter of 2000 exceeded the comparable 1999 period by $18 million. This 17% increase, despite the loss of $14 million of tubular revenue resulting from the sale of the product line, reflects increased sales of maintenance, repair and normal operating supplies in the recovering North American markets. Canadian revenues were 55% higher than the same period in 1999 and the US operations recorded a 10% increase. Operating income in the first quarter of 2000 was $3.1 million higher than the first quarter of 1999 due to revenue volume, offset in part by product mix as Canada shipped a significant amount of lower margin line pipe and tubular products during the quarter.

Corporate

Corporate costs during the first quarter of 2000 increased $0.6 million from the comparable 1999 quarter primarily as a result of expenses related to National Oilwell's e-strategy initiatives.

Interest Expense

Interest expense increased during the three months ended March 31, 2000 when compared to the prior year due to the higher debt level, including debt associated with the Hitec acquisition of $7 million.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2000, the Company had working capital of $343 million, a $41 million increase from December 31, 1999. While inventory remained unchanged during the quarter, accounts receivable increased $47 million due in part to the revenue increase and the acquisition of Hitec. Accounts payable and other current liabilities increased $5 million.

Total capital expenditures were $5.3 million during the first three months of 2000. Enhancements to information and inventory control systems, including costs related to an aggressive e-strategy initiative, represent a significant 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 that is available for acquisitions and general corporate purposes. The credit facility provides for interest at prime or LIBOR plus 0.625% (9.00% and 6.625% at March 31, 2000), subject to adjustment based on the Company's Capitalization Ratio, as defined therein. The credit facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage. National Oilwell also has additional credit facilities totaling $22.6 million used primarily for letters of credit, of which $4.8 million were outstanding at March 31, 2000.

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 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.

ANNOUNCED MERGER TRANSACTION

On March 15, 2000, National Oilwell signed a definitive merger agreement with IRI International Corporation (NYSE: IIR) whereby National Oilwell would issue approximately 13.5 million shares of common stock in exchange for all of the outstanding common stock of IRI. The transaction is subject to stockholder approval of both companies and regulatory approval with closing anticipated in the second quarter of 2000. The transaction is expected to be accounted for under the pooling-of-interests method of accounting.

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: May 12, 2000

/s/ Steven W. Krablin

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

EXHIBIT INDEX

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3-MOS
DEC-31-2000
JAN-01-2000
MAR-31-2000
13,822
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238,767
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