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, 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 November 11, 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 BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 1998 (Unaudited)	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,471	$ 19,824
Receivables, less allowance of $4,640 and $4,056	251,194	223,991
Inventories	264,215	203,520
Deferred income taxes	12,497	9,839
Prepaids and other current assets	7,366	6,424
	556,743	463,598
Property, plant and equipment, net	100,125	74,282
Deferred income taxes	3,472	4,919
Goodwill	137,437	24,233
Other assets	6,004	479
	$ 803,781	$ 567,511
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,276	$ 1,340
Accounts payable	119,829	134,955
Customer prepayments	32,639	37,688
Accrued compensation	11,364	12,957
Other accrued liabilities	45,970	24,521
	211,078	211,461
Long-term debt	223,424	61,565
Deferred income taxes	3,365	2,675
Other liabilities	12,408	14,122
	450,275	289,823
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value $.01; 52,996,785 shares and 51,655,782 shares issued and outstanding at September 30, 1998 and December 31, 1997	531	517
Additional paid-in capital	215,415	207,954
Retained earnings	149,471	76,291
Accumulated other comprehensive income	(11,911)	(7,074)
	353,506	277,688
	$ 803,781	$ 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 September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Revenues	$ 306,457	$ 264,959	$ 903,152	$ 705,719
Cost of revenues	230,710	209,607	689,805	568,689
Gross profit	75,747	55,352	213,347	137,030
Selling, general and administrative	37,410	26,650	99,831	73,690
Special charge	--	10,660	--	10,660
Operating income	38,337	18,042	113,516	52,680
Other income (expense):				
Interest and financial costs	(4,688)	(1,768)	(8,184)	(4,803)
Interest income	251	466	750	1,292
Other	105	(25)	(434)	(194)
Income before income taxes and extraordinary loss	34,005	16,715	105,648	48,975
Provision for income taxes	12,426	7,268	39,121	18,764
Income before extraordinary loss	21,579	9,447	66,527	30,211
Extraordinary loss net of income tax benefit of $376	--	(623)	--	(623)
Net income	$ 21,579	$ 8,824	$ 66,527	$ 29,588
Net income per share:				
Basic				
Net income excluding merger and extraordinary item	$ 0.40	$ 0.34	$ 1.27	$ 0.75
Income before extraordinary item	0.40	0.18	1.27	0.59
Net income	0.40	0.17	1.27	0.58
Diluted				
Net income excluding merger and extraordinary item	$ 0.40	$ 0.34	$ 1.26	$ 0.74
Income before extraordinary item	0.40	0.18	1.26	0.58
Net income	0.40	0.17	1.26	0.57
Weighted average shares outstanding:				
Basic	53,313	51,289	52,419	50,983
Diluted	53,389	52,148	52,646	51,971

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, 1998	1997
Cash flow from operating activities:		
Net income	$ 66,527	$ 29,588
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	13,889	10,480
Provision for losses on receivables	(301)	(395)
Provision for deferred income taxes	(725)	(894)
Gain on sale of assets	(2,458)	(2,393)
Foreign currency transaction loss	(163)	115
Special charge	--	10,660
Extraordinary loss, net of tax benefit	--	623
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	3,915	(30,891)
Inventories	(31,855)	(37,654)
Prepaid and other current assets	2,182	(1,157)
Accounts payable	(19,903)	3,779
Other assets/liabilities, net	(17,649)	8,710
Net cash provided (used) by operating activities	13,459	(9,429)
Cash flow from investing activities:		
Purchases of property, plant and equipment	(17,858)	(19,462)
Proceeds from sale of assets	5,329	4,081
Businesses acquired, net of cash	(157,204)	(18,045)
Other	--	(1,403)
Net cash used by investing activities	(169,733)	(34,829)
Cash flow from financing activities:		
Borrowings on line of credit	53,772	45,095
Principal payments on long-term debt	(40,855)	(21,359)
Net proceeds from issuance of long-term debt	148,937	--
Proceeds from issuance of common stock	--	37,700
Proceeds from stock options exercised	1,002	235
Net cash provided (used) by financing activities	162,856	61,671
Effect of exchange rate losses on cash	(4,935)	(1,544)
Increase in cash and equivalents	1,647	15,869
Cash and cash equivalents, beginning of period	19,824	13,611
Change in cash during period to conform year end	--	(1,750)
Cash and cash equivalents, end of period	$ 21,471	$ 27,730
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 3,183	$ 2,629
Income taxes	42,259	12,225

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 nine months ended September 30, 1998 compared to the combination of the nine months ended September 30, 1997 for National-Oilwell with the six months ended May 31, 1997 and the three months ended September 30, 1997 for Dreco. As a result of conforming reporting periods subsequent to the Combination to a calendar quarter basis, the operating results for Dreco for the month of June 1997 were included in the Consolidated Statements of Stockholders' Equity. For June 1997, Dreco recorded revenues of $13.4 million, net income of $917,000 and net income per share of $0.04.

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 nine months ended September 30, 1998.

2. INVENTORIES

Inventories consist of (in thousands):

	September 30, 1998	December 31, 1997
Raw materials and supplies	$ 26,316	$ 19,970
Work in process	50,911	34,849
Finished goods and purchased products	186,988	148,701
Total	$264,215	$203,520

3. ACQUISITIONS

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:

	Nine Months Ended September 30,	
	1998	1997
Revenues	$ 936,611	$ 764,944
Income before extraordinary item	65,770	33,614
Net income	65,770	32,991
Net income per share:		
Basic		
Income before extraordinary item	$ 1.25	$ 0.66
Net income	1.25	0.65
Diluted		
Income before extraordinary item	$ 1.25	$ 0.65
Net income	1.25	0.63

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.

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 was accounted for under the pooling of interests method of accounting. The Company's financial statements prior to July 1, 1998 have not been restated since the transaction did not have a material effect on the Company's historical financial statements.

4. NET INCOME PER SHARE

The computation of earnings per common share is based on SFAS No. 128, "Earnings per Share" which was issued by the Financial Accounting Standards Board in 1997. The statement, which was effective for fiscal years ending after December 15, 1997, replaces the presentation of primary and fully diluted earnings per common share with a presentation of basic and diluted earnings per common share.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended September 30, 1998	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Numerator for basic and diluted earnings per share:				
Net income before extraordinary loss	$21,579	$ 9,447	$66,527	$30,211
Denominator:				
Denominator for basic earnings per share--weighted average shares	53,313	51,289	52,419	50,983
Effect of dilutive securities:				
Employee stock options	76	859	227	988
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions	53,389	52,148	52,646	51,971
Basic earnings per share	$ 0.40	$ 0.18	$ 1.27	$ 0.59
Diluted earnings per share	$ 0.40	$ 0.18	$ 1.26	$ 0.58

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. 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 $18,380 and $8,353 during the third quarter of 1998 and 1997. For the first nine months of 1998 and 1997, total comprehensive income was $59,711 and $26,863, 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.

6. SPECIAL CHARGES

In connection with the Combination described in Note 1 above, National-Oilwell incurred one-time combination expenses of $10.7 million ($8.1 million net of income taxes, or $0.31 per share) related to various professional fees and integration costs.

7. EXTRAORDINARY LOSS

The Combination described in Note 1 above required the existing credit facility to be replaced, resulting in the write-off of $1.0 million ($0.6 million after tax) in deferred financing costs related to the replaced agreement.

8. SUBSEQUENT EVENT

On November 9, 1998, the Company announced the signing of a definitive agreement to acquire the business of DOSCO, a major Canadian oilfield distribution supplier, in exchange for 3.0 million shares of National-Oilwell common stock and a $10.0 million (Canadian) short-term note. The transaction, which is subject to a due diligence process and certain regulatory approvals, will be accounted for under the purchase method of accounting.

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.

Beginning in late 1997, increased production of oil by certain exporting countries and lower growth in demand for oil, particularly in Southeast Asia, caused a significant decline in the price of oil from the $18-20 per barrel range to the $13-15 per barrel range in the first half of 1998. Lower oil prices quickly resulted in lower spending in areas where production costs are relatively high, in particular the shallow and heavy oil areas in West Texas, Kansas, California and Canada. This in turn affected all segments of the Company's business. When significant decreases in worldwide oil production were not evident by mid 1998, we believe the Company's customers anticipated a continuation of low prices for an extended period and began to reduce their intended levels of expenditure for offshore and deep land drilling equipment. The lower level of new orders coupled with $23 million of project cancellations and deferrals and record shipments resulted in a decline in the Company's backlog from $260 million at June 30, 1998 to $159 million at September 30, 1998. Reduction in new orders for and backlog of capital equipment will result in future revenue decreases for the Products and Technology segment.

Until confidence in future oil prices above current levels is restored, new orders are expected to remain at lower levels than experienced in 1997 and the first half of 1998 and may become restricted to equipment for specific projects that require capabilities that are not currently available. Due to long project lead times and contractual obligations, any cancellations of orders included in the September 30, 1998 backlog are not expected to be significant.

In contrast to the low oil prices, gas prices have remained at a sufficient level to encourage continued exploration for and production of gas throughout 1998. Gas prices are expected to increase further if the United States experiences a more normal demand for gas heating needs in the November 1998 - April 1999 heating season than experienced in the prior year.

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 September 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 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 was accounted for under the pooling of interests method of accounting. The Company's financial statements prior to July 1, 1998 have not been restated since the transaction did not have a material effect on the Company's historical financial statements.

RESULTS OF OPERATIONS

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Revenues				
Products and Technology	$ 197.7	$ 102.3	$ 505.9	$ 248.0
Downhole Products	13.4	18.1	48.9	48.6
Distribution Services	115.3	162.4	404.7	456.8
Eliminations	(19.9)	(17.8)	(56.3)	(47.7)
Total	$ 306.5	$ 265.0	$ 903.2	$ 705.7
Operating Income				
Products and Technology	$ 35.2	$ 15.0	$ 92.7	$ 31.7
Downhole Products	2.9	7.7	14.7	18.5
Distribution Services	2.1	8.1	11.1	19.5
Corporate	(1.9)	(2.1)	(5.0)	(6.3)
	38.3	28.7	113.5	63.4
Special Charge	--	10.7	--	10.7
Total	$ 38.3	$ 18.0	$ 113.5	$ 52.7

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. As noted above, continued low prices for oil are expected to have a negative impact on future results.

Revenues for the Products and Technology segment increased by $95.4 million in the third quarter of 1998 as compared to the same quarter in 1997 due to increased sales of major capital equipment and drilling spares. Specifically, the sale of complete rig packages, mud pumps, drawworks and SCR equipment were substantially greater than the prior 1997 quarter. Revenues generated by 1998 acquisitions totaled approximately $37 million during the third quarter of 1998.

Operating income increased by $20.2 million in the third quarter compared to the same quarter in 1997 due principally to the increased sales volume and higher margins from manufacturing and operating cost efficiencies resulting from the higher volumes.

Products and Technology revenues increased $257.9 million in the first nine months of 1998 as compared to 1997 due primarily to the increased demand for new capital equipment and the inclusion of approximately $43.0 million of revenues generated by acquisitions. Operating income increased by $61.0 million in the first nine months of 1998 compared to the same period of 1997 due to the higher activity levels.

Backlog of the Products and Technology capital products was $159 million at September 30, 1998 compared to $271 million at December 31, 1997 and $240 million at September 30, 1997. Substantially all of the current backlog is expected to be shipped by June 30, 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 decreased by $4.7 million (26%) in the third quarter of 1998 when compared to the same period in 1997, due to lower rental of tools and lower motor sales, particularly in Canada. Operating income decreased $4.8 million in the third quarter of 1998 compared to the same quarter in 1997. This decrease in operating income was a result of reduced margins due to the volume reduction and an increase in overhead spending caused by the addition of two minor acquisitions.

Revenues during the first nine months of 1998 were at the same level as the comparable 1997 period. However, a significant movement in product mix from motor sales and rentals unfavorably impacted margins. Operating income decreased $3.8 million during the first nine months of 1998 compared to the same period in 1997, attributable primarily to the margin decline, lower lost-in-hole revenues and higher depreciation expense.

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 third quarter of 1998 fell short of the comparable 1997 period by $47.1 million. This 29% decrease reflects the reduced demand for tubular and MRO products precipitated by lower oil prices. North American revenues were off approximately 30%, with tubular revenues roughly half of the level achieved in the third quarter of 1997. Operating income in the third quarter of 1998 was approximately $6 million below the third quarter of 1997. A $7.7 million reduction in gross margin due to the decline in revenues was partially offset by $1.5 million in reduced operating expenses.

Revenues for the Distribution Services segment fell $52.1 million in the first nine months of 1998 when compared to the prior year, reflecting the significant decrease in oil prices between the periods. Operating income was $8.4 million lower in the first nine months of 1998 when compared to 1997. A reduction in gross margin of $9.1 million coupled with a decrease in operating expenses of $0.7 million contributed to this shortfall in operating income.

Corporate

Corporate costs during the third quarter of 1998 and the first nine months of 1998 were $0.2 million and $1.3 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 nine months ended September 30, 1998 due to the incurrence of debt to finance the Phoenix acquisition.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1998, the Company had working capital of $345 million, an increase of $94 million from December 31, 1997. Acquisitions completed during the first nine months of 1998 accounted for $48 million of this working capital increase. An inventory build-up of $42 million in the Products and Technology segment, primarily to support completion of orders in backlog, accounted for virtually all of the remaining increase.

Total capital expenditures were $17.9 million during the first nine 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 for its products and services.

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 $35 million is available at September 30, 1998 for acquisitions and general corporate purposes. The Credit Facility provides for interest at prime or LIBOR plus 0.625% (8.25% and 6.3% at September 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 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.

SUBSEQUENT EVENT

On November 9, 1998, the Company announced the signing of a definitive agreement to acquire the business of DOSCO, a major Canadian oilfield distribution supplier, in exchange for 3.0 million shares of National-Oilwell common stock and a $10.0 million (Canadian) short-term note. The transaction, which is subject to a due diligence process and certain regulatory approvals, will be accounted for under the purchase method of accounting.

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.

In early 1998, the Company's Distribution Services segment decided to upgrade its main business system with SAP R/3 ("SAP"), a Year 2000-ready program. This system installation is expected to be complete in the third quarter of 1999. In addition, the Company continues to identify, evaluate and implement modifications to its business systems in order to achieve year 2000 date conversion compliance. 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 although the Company currently estimates that it may be in the range of $1.0 to $3.0 million, excluding the cost of upgrading to SAP. 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. While the ability of third parties with whom the Company transacts business to address adequately their year 2000 issue is outside the Company's control, the Company will evaluate the need to change product and services 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 the Company. The Company expects to complete all new installations, conversions and necessary systems modifications and conversions by September 30, 1999. To date, the Company has not identified any information technology assets under the control of the Company that present a material risk of not being year 2000 ready or for which a suitable alternative cannot be implemented or is not being implemented. Accordingly, the Company does not have a contingency plan with respect to the year 2000 issue if all systems upgrades are delayed beyond the end of 1999. There can be no assurance, however, that the Company will be able to install and maintain year 2000 compliant software and should this occur the Company could face significant operational difficulties.

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, but are not limited to, 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. Due to the general uncertainty inherent in the Year 2000 issues (partially attributable to the interconnection of global businesses), the Company cannot confidently predict its ability to resolve appropriately all Year 2000 issues that may affect its operations and business or expose it to third-party liability.

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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

Financial Statements of Businesses Acquired and Proforma Financial Information on Form 8-K/A filed 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: November 13, 1998

/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

5
1,000

9-MOS
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JAN-01-1998
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903,152
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689,805
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(8,184)
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1.26