

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 2003 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-12317

NATIONAL-OILWELL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

76-0475875

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

10000 RICHMOND AVENUE
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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of May 5, 2003, 84,235,183 common shares were outstanding.

NATIONAL-OILWELL, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL-OILWELL, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2003	December 31, 2002
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 65,361	\$ 118,338
Receivables, net	439,975	428,116
Inventories	517,689	470,088
Costs in excess of billings	68,039	53,805
Deferred income taxes	28,844	26,783
Prepaid and other current assets	29,222	17,938
	-----	-----
Total current assets	1,149,130	1,115,068
Property, plant and equipment, net	240,451	208,420
Deferred income taxes	34,061	36,864
Goodwill, net	628,524	581,576
Property held for sale	7,389	7,389
Other assets	25,067	19,345
	-----	-----
	\$ 2,084,622	\$ 1,968,662
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	213,827	168,548
Customer prepayments	12,887	9,533
Accrued compensation	11,454	5,087
Billings in excess of costs	39,096	61,738
Other accrued liabilities	91,914	101,310
	-----	-----
Total current liabilities	369,178	346,216
Long-term debt	603,043	594,637
Deferred income taxes	55,496	54,612
Other liabilities	34,208	30,229
	-----	-----
Total liabilities	1,061,925	1,025,694

Commitments and contingencies

Minority interest 11,530 9,604

Stockholders' equity:

Common stock - par value \$.01; 84,230,896 and 81,014,713 shares issued and outstanding at March 31, 2003 and December 31, 2002	842	810
Additional paid-in capital	661,753	594,849
Accumulated other comprehensive loss	(52,760)	(44,461)
Retained earnings	401,332	382,166
	-----	-----
	1,011,167	933,364
	-----	-----
	\$ 2,084,622	\$ 1,968,662
	=====	=====

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,	
	2003	2002
	-----	-----
Revenues	\$ 500,576	\$ 388,986
Cost of revenues	380,131	295,941
	-----	-----
Gross profit	120,445	93,045
Selling, general, and administrative	77,017	55,329
	-----	-----
Operating income	43,428	37,716
Interest and financial costs	(10,254)	(6,063)
Interest income	1,109	237
Other income (expense), net	(2,369)	1,212
	-----	-----
Income before income taxes and minority interest	31,914	33,102
Provision for income taxes	10,822	11,917
	-----	-----
Income before minority interest	21,092	21,185
Minority interest in income of consolidated subsidiaries	(1,926)	--
	-----	-----
Net income	\$ 19,166	\$ 21,185
	=====	=====
Net income per share:		
Basic	\$ 0.23	\$ 0.26
	=====	=====
Diluted	\$ 0.23	\$ 0.26
	=====	=====
Weighted average shares outstanding:		
Basic	83,704	80,920
	=====	=====
Diluted	84,476	81,585
	=====	=====

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,	
	2003	2002
Cash flow from operating activities:		
Net income	\$ 19,166	\$ 21,185
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	8,672	6,333
Provision for losses on receivables	1,167	1,030
Provision for deferred income taxes	1,681	353
Gain on sale of assets	(1,441)	(600)
Foreign currency transaction (gain) loss	2,188	(604)
Interest rate contract	(30)	--
Tax benefit from exercise of nonqualified stock options	86	146
Changes in assets and liabilities, net of acquisitions:		
Receivables	1,964	1,244
Inventories	(36,241)	8,998
Prepaid and other current assets	(10,358)	(4,029)
Accounts payable	42,980	(16,496)
Other assets/liabilities, net	(40,808)	(29,763)
	(10,974)	(12,203)
Cash flow from investing activities:		
Purchases of property, plant and equipment	(7,831)	(4,409)
Proceeds from sale of assets	2,200	1,718
Businesses acquired, net of cash	(47,113)	(15,432)
	(52,744)	(18,123)
Cash flow from financing activities:		
Borrowings against lines of credit	105,265	64,840
Payments against lines of credit	(95,359)	(49,887)
Proceeds from stock options exercised	376	641
	10,282	15,594
Effect of exchange rate gain on cash	459	33
Decrease in cash and equivalents	(52,977)	(14,699)
Cash and cash equivalents, beginning of period	118,338	43,220
Cash and cash equivalents, end of period	\$ 65,361	\$ 28,521
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	\$ 11,369	\$ 10,476
Income taxes	\$ 9,760	\$ 14,886

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported and contingent amounts of assets and liabilities as of the date of the financial statements and 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 accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. They do not include all information or footnotes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with our 2002 Annual Report on Form 10-K/A.

In our opinion, 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, 2003 are not necessarily indicative of the results to be expected for the full year.

2. ACQUISITIONS

On January 16, 2003, we acquired the Mono pumping products business from Halliburton Energy Services for approximately \$89 million, consisting of \$22.7 million in cash and 3.2 million shares of our common stock. This transaction, which consisted of purchasing all the outstanding stock of Monoflo, Inc. in the United States and Mono Group in the United Kingdom, generated approximately \$46 million in goodwill and will add to the non-capital product lines within our Products and Technology segment.

On January 2, 2003, we acquired LSI, a Houston, Texas based distributor of specialty electrical products, for approximately \$13 million. This transaction generated approximately \$6 million in goodwill and is complementary to our distribution services business.

During December 2002, we completed the acquisition of Hydralift ASA, a Norwegian based company specializing in the offshore drilling equipment industry, for a total purchase price, including the assumption of debt, of approximately \$300 million. Allocation of the purchase price, which is preliminary, will be allocated to the assets acquired and liabilities assumed based on their relative fair values. The final allocation of the purchase price will be based upon independent appraisals and other valuations and may reflect other actions including product line rationalizations or other actions.

3. INVENTORIES

Inventories consist of (in thousands):

	March 31, 2003	December 31, 2002
	-----	-----
Raw materials and supplies	\$ 49,709	\$ 60,699
Work in process	181,409	109,924
Finished goods and purchased products	286,571	299,465
	-----	-----
Total	\$ 517,689	\$ 470,088
	=====	=====

4. COMPREHENSIVE INCOME

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

	Quarter Ended March 31,	
	2003	2002
Net income	\$ 19,166	\$ 21,185
Currency translation adjustments	(8,269)	(2,450)
Interest rate contract	30	--
Comprehensive income	\$ 10,927	\$ 18,735

5. BUSINESS SEGMENTS

Segment information (unaudited) follows (in thousands):

	Quarter Ended March 31,	
	2003	2002
Revenues from unaffiliated customers		
Products and Technology	\$ 316,691	\$ 222,019
Distribution Services	183,885	166,967
	500,576	388,986
Intersegment revenues		
Products and Technology	18,785	19,253
Distribution Services	451	562
	19,236	19,815
Operating income		
Products and Technology	41,832	35,450
Distribution Services	4,716	4,568
	46,548	40,018
Total profit for reportable segments	46,548	40,018
Unallocated corporate costs	(3,120)	(2,302)
	43,428	37,716
Operating income	43,428	37,716
Net interest expense	(9,145)	(5,826)
Other income (expense)	(2,369)	1,212
	\$ 31,914	\$ 33,102
Income before income taxes and minority interest	\$ 31,914	\$ 33,102
Total assets		
Products and Technology	\$ 1,761,710	\$ 1,210,795
Distribution Services	291,116	251,045

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6. DEBT

Debt consists of (in thousands):

March 31,	December 31,
2003	2002

Credit facilities	\$ 103,043	\$ 94,637
6.875% senior notes	150,000	150,000
6.50% senior notes	150,000	150,000
5.65% senior notes	200,000	200,000
	-----	-----
	603,043	594,637
Less current portion	--	--
	-----	-----
	\$ 603,043	\$ 594,637
	=====	=====

At March 31, 2003, we had \$320 million of committed credit facilities and were in compliance with all covenants governing these facilities.

We replaced an existing credit facility in July 2002 with a new three-year unsecured \$175 million revolving credit facility. Borrowings against this facility at March 31, 2003 totaled \$23 million. This facility is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit, of which \$23 million were outstanding at March 31, 2003. Interest is based upon prime or Libor plus 0.5% subject to a ratings based grid. In securing this new credit facility, we incurred approximately \$0.9 million in fees, which are being amortized to expense over the term of the facility. This credit facility contains financial covenants and ratios regarding maximum debt to capital and minimum interest coverage.

Recently acquired Hydralift ASA has multi-currency term loans and revolving credit facilities totaling \$145 million, which expire in 2006. These facilities contain financial covenants and the term loans have mandatory repayments of approximately \$14 million beginning in May 2004. Interest is based upon a pre-agreed upon percentage point spread from either the prime interest rate or NIBOR. At March 31, 2003, borrowings totaled \$77 million and there were \$24 million of outstanding letters of credit and guarantees.

We also have additional uncommitted credit facilities totaling \$134 million that are used primarily for acquisitions, general corporate purposes and letters of credit. Borrowings against these additional credit facilities totaled \$3 million at March 31, 2003 and an additional \$10 million had been used for letters of credit and guarantees.

7. STOCK-BASED COMPENSATION

We apply Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for our stock option plans. Accordingly, no compensation expense has been recognized for stock option grants as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation expense for the stock option grants been determined on the fair value at the grant dates consistent with the method of Statement of Financial Accounting Standards Board (SFAS) No. 123, "Accounting for Stock-Based Compensation", our net income and income per share would have been adjusted to the pro forma amounts indicated below (amounts in thousands, except per share amounts):

		Quarter Ended March 31,
		2003
		2002

Net income, as reported	\$ 19,166	\$ 21,185
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,242)	(2,385)
	-----	-----
Pro forma net income	\$ 16,924	\$ 18,800
Net income per common share:		
Basic, as reported	\$ 0.23	\$ 0.26
Basic, pro forma	0.20	0.23

Diluted, as reported	\$	0.23	\$	0.26
Diluted, pro forma		0.20		0.23

For purposes of determining compensation expense using the provisions of SFAS No. 123, the fair value of option grants was determined using the Black-Scholes option-valuation model. The weighted average fair value per share of stock options granted in the first quarter of 2003 was \$9.20 and \$8.95 in 2002. The key input variables used in valuing the options granted in 2003 and 2002 were: risk-free interest rate of 2.58% in 2003 and 2.40% in 2002; dividend yield of zero in each year; stock price volatility of 50% in 2003 and 54% in 2002, and expected option lives of five years for each year presented.

8. RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations", which sets forth the accounting and reporting to be followed for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses disposal activities and termination costs in exiting an activity. Effective January 1, 2003 we adopted these new accounting pronouncements and they did not have a significant impact on our results of operations or financial position.

The FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation," ("SFAS No. 148") in December 2002. SFAS No. 148 amends the disclosure requirements of Statement of Financial Accounting Standards No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148, which we adopted on January 1, 2003, did not have a material impact on our consolidated financial statements (see Note 7).

The FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements, Including Guarantees of Indebtedness of Others," ("FIN 45"), which we adopted effective January 1, 2003. FIN 45 requires that upon issuance of certain types of guarantees, a guarantor recognize and account for the fair value of the guarantee as a liability. FIN 45 contains exclusions to this requirement, including the exclusion of a parent's guarantee of its subsidiaries' debt to a third party. Upon adoption, this new accounting pronouncement had no material impact on our consolidated financial position, results of operations or cash flows.

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The FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"), which we adopted effective January 31, 2003. This statement addresses the consolidation of variable interest entities ("VIEs") by business enterprises that are the primary beneficiaries. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the enterprise that has the majority of the risks or rewards associated with the VIE. We have no material interests in VIEs that will require disclosure or consolidation under FIN 46.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

We design, manufacture and sell drilling systems, drilling equipment and downhole products as well as distribute maintenance, repair and operating products to the oil and gas industry. Our revenues and operating results 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. Oil and gas prices have been and are likely to continue

to be volatile.

We conduct our operations through the following segments:

Products and Technology

Our Products and Technology segment designs and manufactures complete land drilling and workover rigs, and drilling related systems for offshore rigs. Technology has increased the desirability of one vendor assuming responsibility for the entire suite of components used in the drilling process, as mechanical and hydraulic components are replaced by or augmented with integrated computerized systems. In addition to traditional components such as drawworks, mud pumps, top drives, derricks, cranes, jacking and mooring systems, and other structural components, we provide automated pipehandling, control and electrical power systems. We have also developed new technology for drawworks and mud pumps applicable to the highly demanding offshore markets.

Distribution Services

Our Distribution Services segment provides maintenance, repair and operating supplies and spare parts from our network of distribution service centers to drill site and production locations throughout North America and to offshore contractors worldwide. Increasingly, this business also is expanding to locations outside North America, including the Middle East, Southeast Asia, and South America. Using our information technology platforms and processes, we can provide complete procurement, inventory management, and logistics services to our customers. Products are purchased from numerous manufacturers and vendors, including our Products and Technology segment.

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RESULTS OF OPERATIONS

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

	Quarter Ended March 31,	
	2003	2002
Revenues		
	-----	-----
Products and Technology	\$ 335,476	\$ 241,272
Distribution Services	184,336	167,529
Eliminations	(19,236)	(19,815)
	-----	-----
Total	\$ 500,576	\$ 388,986
	=====	=====
Operating Income		
Products and Technology	\$ 41,832	\$ 35,450
Distribution Services	4,716	4,568
Corporate	(3,120)	(2,302)
	-----	-----
Total	\$ 43,428	\$ 37,716
	=====	=====

Products and Technology

Revenues for the Products and Technology segment increased \$94 million during the first quarter of 2003 as compared to the same quarter in 2002 due to the Hydralift ASA and Mono acquisitions. Despite the relatively strong hydrocarbon prices experienced during the first quarter, many operators and drilling contractors took a cautious approach regarding their capital spending needs, and spending for our products were generally flat to slightly down.

Operating income increased by \$6 million in the first quarter of 2003 compared to the same quarter in 2002 due to the impact of the Hydralift and Mono acquisitions. Lower gross margins of 0.5% and increased selling and administrative costs offset a portion of the benefits derived from those acquisitions.

Backlog of the Products and Technology capital products was \$368 million at March 31, 2003, a small increase from the December 31, 2002 balance of \$364

million. Backlog at March 31, 2002, which excluded any Hydralift ASA capital products, was \$300 million. Most of the product in current backlog will be delivered during 2003.

Distribution Services

Distribution Services revenues increased \$17 million, or approximately 10%, during the first quarter of 2003 over the comparable 2002 period. North American revenues were the principal contributor to this increase as the number of active rigs running in the U.S. gradually increased during the quarter. Revenue growth in the international sector, adversely impacted by the Venezuelan political instability and the Iraqi war impact in the Middle East, increased only 7%, or \$3 million. Maintenance, repair and operating supplies revenues accounted for all of the revenue increase.

Operating income in the first quarter of 2003 reflects only a slight increase of \$0.1 million over the prior year results due to slightly lower margins and an increase in expenses. Infrastructure costs have been incurred to improve our geographic coverage, employee retention and overall customer service.

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Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. These costs are approximately \$0.8 million higher during the quarter ending March 31, 2003 when compared to the same period in the prior year due to corporate-led marketing and training initiatives and general overhead incurred to support a larger company.

Interest Expense

Interest expense increased during the three months ended March 31, 2003 as compared to the prior year due to the senior notes issued in November 2002 to acquire Hydralift ASA plus interest incurred on Hydralift's existing borrowings. Other financial costs, principally bank fees related to letters of credit and performance bonds, increased during the three months ending March 31, 2003 when compared to the same period of the prior year, reflecting our increased international activity.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2003 we had working capital of \$780 million, an increase of \$31 million from December 31, 2002 primarily due to increases in inventories and costs associated with major projects accounted for under the percentage -of -completion accounting method. Cash decreased \$53 million during the quarter ended March 31, 2003 due primarily to financing the Mono and LSI acquisitions for \$35 million and payment of semi-annual interest on the senior notes of approximately \$10 million.

Total capital expenditures were \$8 million during the first three months of 2003 compared to \$4 million in the first three months of the prior year. The majority of these capital expenditures represent additions to the downhole rental tool fleet and enhancements to information management systems. We believe we have sufficient existing manufacturing capacity to meet currently anticipated demand through 2003 for our products and services.

At March 31, 2003, we had \$320 million of committed credit facilities and were in compliance with all covenants governing these facilities.

We replaced an existing credit facility in July 2002 with a new three-year unsecured \$175 million revolving credit facility. Borrowings against this facility at March 31, 2003 totaled \$23 million. This facility is available for acquisitions and general corporate purposes and provides up to \$50 million for letters of credit, of which \$23 million were outstanding at March 31, 2003. Interest is based upon prime or Libor plus 0.5% subject to a ratings based grid. In securing this new credit facility, we incurred approximately \$0.9 million in fees, which are being amortized to expense over the term of the facility. This credit facility contains financial covenants and ratios regarding maximum debt to capital and minimum interest coverage.

Recently acquired Hydralift ASA has multi-currency term loans and revolving credit facilities totaling \$145 million, which expire in 2006. These facilities contain financial covenants and the term loans have mandatory repayments of approximately \$14 million beginning in May 2004. Interest is based upon a pre-agreed upon percentage point spread from either the prime interest rate or

NIBOR. At March 31, 2003, borrowings totaled \$77 million and there were \$24 million of outstanding letters of credit and guarantees.

We also have additional uncommitted credit facilities totaling \$134 million that are used primarily for acquisitions, general corporate purposes and letters of credit. Borrowings against these additional credit facilities totaled \$3 million at March 31, 2003 and an additional \$10 million had been used for letters of credit and guarantees.

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We believe cash generated from operations and amounts available under the credit facilities and from other sources of debt will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations. We also believe any significant increase in capital expenditures caused by any need to increase manufacturing capacity can be funded from operations or through debt financing.

During the three months ended March 31, 2003, we did not enter into any transactions, arrangements, or relationships with unconsolidated entities or other persons which would materially affect liquidity, or the availability of or requirements for capital resources, from the amounts disclosed in our Form 10-K/A for the year ending December 31, 2002.

We intend to pursue additional acquisition candidates, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. We expect to fund future cash acquisitions primarily with cash flow from operations and borrowings, including the unborrowed portion of the credit facility or new debt issuances, but may also issue additional equity either directly or in connection with acquisitions. There can be no assurance that additional financing for acquisitions will be available at terms acceptable to us.

Inflation has not had a significant impact on our operating results or financial condition in recent years.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements requires us to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Our estimation process generally relates to potential bad debts, obsolete and slow moving inventory, pension plan accounting, value of intangible assets, and deferred income tax accounting. Our estimates are based on historical experience and on our future expectations that we believe to be reasonable under the circumstances. The combination of these factors result in the amounts shown as carrying values of assets and liabilities in the financial statements and accompanying notes. Actual results could differ from our current estimates and those differences may be material.

These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K/A for the year ending December 31, 2002.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations", which sets forth the accounting and reporting to be followed for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses disposal activities and termination costs in exiting an activity. Effective January 1, 2003 we adopted these new accounting pronouncements and they did not have a significant impact on our results of operations or financial position.

The FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation," ("SFAS No. 148") in December 2002. SFAS No. 148 amends the disclosure requirements of Statement of Financial Accounting Standards No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148, which we adopted on January 1, 2003, did not have a material impact on our consolidated financial statements (see Note 7).

The FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements, Including Guarantees of Indebtedness of Others," ("FIN 45"), which we adopted effective January 1, 2003. FIN 45 requires that upon issuance of certain types of guarantees, a guarantor recognize and account for the fair value of the guarantee as a liability. FIN 45 contains exclusions to this requirement, including the exclusion of a parent's guarantee of its subsidiaries' debt to a third party. Upon adoption, this new accounting pronouncement had no material impact on our consolidated financial position, results of operations or cash flows.

The FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"), which we adopted effective January 31, 2003. This statement addresses the consolidation of variable interest entities ("VIEs") by business enterprises that are the primary beneficiaries. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the enterprise that has the majority of the risks or rewards associated with the VIE. We have no material interests in VIEs that will require disclosure or consolidation under FIN 46.

FORWARD-LOOKING STATEMENTS

Some of the information in this document contains, or has incorporated by reference, forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements typically are identified by use of terms such as "may," "will," "expect," "anticipate," "estimate," and similar words, although some forward-looking statements are expressed differently. You should be aware that our actual results could differ materially from results anticipated in the forward-looking statements due to a number of factors, including but not limited to changes in oil and gas prices, customer demand for our products and worldwide economic activity. You should also consider carefully the statements under "Risk Factors" which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. We undertake no obligation to update any such factors or forward-looking statements to reflect future events or developments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in foreign currency exchange rates and interest rates. Additional information concerning each of these matters follows:

Foreign Currency Exchange Rates

We have operations in foreign countries, including Canada, Norway and the United Kingdom, as well as operations in Latin America, China and other European countries. The net assets and liabilities of these operations are exposed to changes in foreign currency exchange rates, although such fluctuations generally do not affect income since their functional currency is the local currency. For operations where our functional currency is not the local currency, such as Singapore and Venezuela, the net asset or liability position is insignificant and, therefore, changes in foreign currency exchange rates are not expected to have a material impact on earnings.

Some of our revenues in foreign countries are denominated in US dollars, and therefore, changes in foreign currency exchange rates impact our earnings to the extent that costs associated with those US dollar revenues are denominated in the local currency. In order to mitigate that risk, we may utilize

foreign currency forward contracts to better match the currency of our revenues and associated costs. We do not use foreign currency forward contracts for trading or speculative purposes. The counterparties to these contracts are major

financial institutions, which minimizes counterparty credit risk.

The impact of foreign currency exchange rates has not materially affected our results of operations in any of the last three years.

Interest Rate Risk

Our long-term borrowings consist of \$150 million in 6.875% senior notes, \$150 million in 6.5% senior notes and \$200 million in 5.65% senior notes. We also have borrowings under our other credit facilities totaling \$103.0 million at March 31, 2003. A portion of the borrowings under our other credit facilities are denominated in multiple currencies which could expose us to market risk with exchange rate movements. These instruments carry interest at a pre-agreed upon percentage point spread from either the prime interest rate, LIBOR or NIBOR. Under our credit facilities, we may, at our option, fix the interest rate for certain borrowings based on a spread over LIBOR or NIBOR for 30 days to 6 months. Based upon our March 31, 2003 borrowings under our variable rate facilities of \$103.0 million, an immediate change of one percent in the interest rate would cause a change in annual interest expense of approximately \$1.0 million. Our objective in maintaining a portion of our debt in variable rate borrowings is the flexibility obtained regarding early repayment without penalties and lower overall cost as compared with fixed-rate borrowings.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days before filing this report, we carried out an evaluation, under the supervision and with the participation of the company's management, including the company's President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures. Based upon that evaluation, the company's President and Chief Executive Officer along with the company's Chief Financial Officer concluded that the company's disclosure controls and procedures are effective in timely alerting them to material information relating to the company (including its consolidated subsidiaries) required to be included in the company's periodic Securities and Exchange Commission filings.

There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of our evaluation.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 99.1 Certification pursuant to Section 906 of the Sarbanes - Oxley Act of 2002
- 99.2 Certification pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

(b) Reports on Form 8-K

A report on Form 8 - K was filed on February 12, 2003 regarding a press release announcing our financial results for the fourth quarter and full year ended December 31,2002.

A report on Form 8 - K was filed on April 25, 2003 regarding a press release announcing our financial results for the three months ended March 31,2003.

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 15, 2003

/s/ Steven W. Krablin

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

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CERTIFICATION

I, Merrill A. Miller, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of National-Oilwell, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 15, 2003

/s/ Merrill A. Miller, Jr.

Merrill A. Miller, Jr.
Chief Executive Officer

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CERTIFICATION

I, Steven W. Krablin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National-Oilwell, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 15, 2003

/s/ Steven W. Krablin

Steven W. Krablin.
Chief Financial Officer

INDEX TO EXHIBITS

(a) Exhibits

- | | |
|------|---|
| 99.1 | Certification pursuant to Section 906 of the Sarbanes - Oxley Act of 2002 |
| 99.2 | Certification pursuant to Section 906 of the Sarbanes - Oxley Act of 2002 |

I, Merrill A. Miller, Jr., Chairman, President and Chief Executive Officer of National-Oilwell, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and
- (2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of National-Oilwell, Inc.

Dated: May 15, 2003

/s/ Merrill A. Miller, Jr.

Merrill A. Miller, Jr.
Chairman, President and Chief Executive Officer

I, Steven W. Krablin, Chief Financial Officer of National-Oilwell, Inc.,
certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and

- (2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of National-Oilwell, Inc.

Dated: May 15, 2003

/s/ Steven W. Krablin

Steven W. Krablin
Chief Financial Officer