FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED JUNE 30,2004 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 [X]   NO [ ]

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

As of July 27, 2004, 85,887,739 common shares were outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2004 (Unaudited)	December 31, 2003
ASSETS		

Current assets:		
Cash and cash equivalents	$ 62,678	$ 74,217
Receivables, net	442,487	460,910
Inventories, net	621,739	546,690
Costs in excess of billings	104,431	107,625
Deferred income taxes	14,273	15,410
Prepaid and other current assets	20,640	41,548
Total current assets	1,266,248	1,246,400
Property, plant and equipment, net	241,222	252,365
Deferred income taxes	50,544	52,391
Goodwill	592,126	587,341
Intangibles, net	78,117	79,281
Property held for sale	7,711	8,693
Other assets	20,056	16,265
	$ 2,256,024	$ 2,242,736

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	--	14,910
Accounts payable	211,102	228,576
Customer prepayments	24,179	26,424
Accrued compensation	23,952	25,382
Billings in excess of costs	46,114	49,259
Accrued income taxes	19,281	24,673
Other accrued liabilities	102,134	82,991
Total current liabilities	426,762	452,215
Long-term debt	579,300	593,980
Deferred income taxes	59,269	52,368
Other liabilities	40,469	37,996
Total liabilities	1,105,800	1,136,559
Commitments and contingencies		
Minority interest	16,210	15,748
Stockholders' equity:		
Common stock - par value $.01; 85,824,674 and 85,124,979 shares issued and outstanding at June 30, 2004 and December 31, 2003	858	851
Additional paid-in capital	688,833	674,965
Accumulated other comprehensive loss	(47,015)	(44,374)
Retained earnings	491,338	458,987
	1,134,014	1,090,429
	$ 2,256,024	$ 2,242,736

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003 (Restated)	2004	2003 (Restated)
Revenues	$ 533,555	$ 475,398	$ 1,029,760	$ 975,974
Cost of revenues	415,965	368,774	808,622	751,139

Gross profit	117,590	106,624	221,138	224,835
Selling, general, and administrative	79,307	68,684	157,103	146,229
Operating income	38,283	37,940	64,035	78,606
Interest and financial costs	(9,573)	(9,308)	(18,869)	(19,562)
Interest income	703	517	1,332	1,626
Other income (expense), net	1,045	(1,180)	(282)	(3,549)
Income before income taxes and minority interest	30,458	27,969	46,216	57,121
Provision for income taxes	8,833	8,590	13,403	18,475
Income before minority interest	21,625	19,379	32,813	38,646
Minority interest in income of consolidated subsidiaries	(238)	(1,112)	(462)	(3,038)
Net income	$ 21,387	$ 18,267	$ 32,351	$ 35,608
Net income per share:				
Basic	$ 0.25	$ 0.22	$ 0.38	$ 0.42
Diluted	$ 0.25	$ 0.21	$ 0.38	$ 0.42
Weighted average shares outstanding:				
Basic	85,795	84,440	85,595	84,072
Diluted	86,389	84,990	86,162	84,733

The accompanying notes are an integral part of these statements.

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

	Six Months Ended June 30, 2004	2003 (Restated)
Cash flow from operating activities:		
Net income	$ 32,351	$ 35,608
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	20,703	18,690
Provision for losses on receivables	3,581	2,221
Provision for deferred income taxes	5,385	1,681
Gain on sale of assets	(2,262)	(2,154)
Foreign currency transaction (gain) loss	(960)	3,331
Interest rate contract	(40)	(60)
Tax benefit from exercise of nonqualified stock options	2,747	3,301
Changes in assets and liabilities, net of acquisitions:		
Receivables	14,842	(41,939)
Inventories	(75,049)	(23,708)
Costs in excess of billings	3,194	1,822
Prepaid and other current assets	22,045	(19,783)
Accounts payable	(17,474)	40,143
Billings in excess of cost	(3,145)	(40,565)
Other assets/liabilities, net	12,913	2,558
Net cash provided (used) by operating activities	18,831	(18,854)
Cash flow from investing activities:		
Purchases of property, plant and equipment	(14,127)	(15,641)
Proceeds from sale of assets	4,707	3,922
Businesses acquired, net of cash	--	(47,113)
Net cash used by investing activities	(9,420)	(58,832)
Cash flow from financing activities:		
Borrowings against lines of credit	278,764	201,484

Payments against lines of credit	(308,355)	(188,145)
Proceeds from stock options exercised	11,580	7,935
Net cash provided (used) by financing activities	(18,011)	21,274
Effect of exchange rate gain (loss) on cash	(2,939)	227
Decrease in cash and equivalents	(11,539)	(56,185)
Cash and cash equivalents, beginning of period	74,217	118,338
Cash and cash equivalents, end of period	$ 62,678	$ 62,153
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 17,210	$ 18,007
Income taxes	$ 14,207	$ 24,007

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 2003 Annual Report on Form 10K. The financial statements for the three months and six months ended June 30, 2003 have been restated as disclosed in Note 12 to our consolidated financial statements included in our 2003 Annual Report on Form 10K.

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 and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year.

2. 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 June 30,		Six Months Ended June 30,	
	2004	2003 (Restated)	2004	2003 (Restated)

Net income, as reported	$ 21,387	$ 18,267	$ 32,351	$ 35,608
Deduct:				
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,020)	(2,135)	(3,530)	(4,377)
Pro forma net income	$ 19,367	$ 16,132	$ 28,821	$ 31,231
Net income per common share:				
Basic, as reported	$ 0.25	$ 0.22	$ 0.38	$ 0.42
Basic, pro forma	0.23	0.19	0.34	0.37
Diluted, as reported	$ 0.25	$ 0.21	$ 0.38	$ 0.42
Diluted, pro forma	0.22	0.19	0.33	0.37

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 six months of 2004 and 2003 was $13.19 and $9.20, respectively. The key input variables used in valuing the options granted in 2004 and 2003 were: risk-free interest rate of 2.7% in 2004 and 2.6% in 2003; dividend yield of zero in each year; stock price volatility of 51% in 2004 and 48% in 2003, and expected option lives of five years for each year presented.

3. INVENTORIES

Inventories consist of (in thousands):

	June 30, 2004	December 31, 2003
Raw materials and supplies	$ 54,599	$ 45,354
Work in process	115,483	107,747
Finished goods and purchased products	451,657	393,589
Total	$621,739	$546,690

4. COMPREHENSIVE INCOME

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003 (Restated)	2004	2003 (Restated)
Net income	$ 21,387	$ 18,267	$ 32,351	$ 35,608
Currency translation adjustments	24	8,669	(2,114)	400
Interest rate contract	(20)	(30)	(40)	(60)
Comprehensive income	$ 21,391	$ 26,906	$ 30,197	$ 35,948

5. BUSINESS SEGMENTS

Segment information follows (in thousands):

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003 (Restated)	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003 (Restated)
Revenues from unaffiliated customers				
Products and Technology	$ 317,591	$ 286,785	$ 598,230	$ 603,476
Distribution Services	215,964	188,613	431,530	372,498
	533,555	475,398	1,029,760	975,974
Intersegment revenues				
Products and Technology	30,390	24,679	54,518	43,464
Distribution Services	2,405	644	4,947	1,095
	32,795	25,323	59,465	44,559
Operating income				
Products and Technology	34,925	37,591	58,421	78,595
Distribution Services	6,684	3,306	12,164	6,088
Total profit for reportable segments	41,609	40,897	70,585	84,683
Unallocated corporate costs	(3,326)	(2,957)	(6,550)	(6,077)
Operating income	38,283	37,940	64,035	78,606
Net interest expense	(8,870)	(8,791)	(17,537)	(17,936)
Other income (expense)	1,045	(1,180)	(282)	(3,549)
Income before income taxes and minority interest	$ 30,458	$ 27,969	$ 46,216	$ 57,121
Total assets				
Products and Technology	$ 1,811,026	$ 1,724,436		
Distribution Services	370,955	304,171		

6. DEBT

Debt consists of (in thousands):

	June 30, 2004	December 31, 2003
Credit facilities	$ 79,300	$108,890
6.875% senior notes	150,000	150,000
6.50% senior notes	150,000	150,000
5.65% senior notes	200,000	200,000
	579,300	608,890
Less current portion	--	14,910
	$579,300	$593,980

In November 2002, we sold $200 million of 5.65% unsecured senior notes due November 15, 2012. Interest is payable on May 15 and November 15 of each year. In March 2001, we sold $150 million of 6.50% unsecured senior notes due March 15, 2011, with interest payable on March 15 and September 15 of each year. In June 1998, we sold $150 million of 6.875% unsecured senior notes due July 1, 2005, with interest payments due on January 1 and July 1.

At June 30, 2004, we had two committed credit facilities, a North American and a Norwegian facility, totaling $266 million. Both facilities are available for general corporate purposes and acquisitions, including letters of credit and performance bonds.

Our North American facility is an unsecured $175 million revolving credit facility that expires July 31, 2005 with availability up to $50 million for issuance of letters of credit. At June 30, 2004, borrowings against this facility totaled $77 million and there were $24 million in outstanding letters of credit. Interest (1.9% @ June 30, 2004) is based upon prime or Libor plus 0.5% subject to a ratings based grid.

Our Norwegian facility, which expires in 2006, has revolving credit facilities totaling $91 million, with $36 million available for letter of credit purposes. At June 30, 2004, there were $19 million in outstanding letters of credit and no borrowings against this facility. Interest is based upon a pre-agreed percentage point spread from either the prime interest rate, NIBOR or EURIBOR.

We also have additional uncommitted credit facilities totaling $131 million that are used primarily for letters of credit, bid bonds and performance bonds. At June 30, 2004, borrowings against these additional credit facilities totaled $2 million and there were $34 million in outstanding letters of credit and performance bonds.

The senior notes contain reporting covenants and the credit facilities contain financial covenants and ratios regarding maximum debt to capital and minimum interest coverage. We were in compliance with all covenants governing these facilities at June 30, 2004.

7. EMPLOYEE BENEFIT PLANS

Total net benefit expense associated with the Company's defined benefit pension and postretirement benefit plans consisted of the following (in thousands):

Pension Benefits	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Service cost	$ 754	$ 748	$ 1,508	$ 1,496
Interest cost	1,917	1,868	3,834	3,736
Expected return on plan assets	(1,985)	(1,871)	(3,970)	(3,742)
Net amortization and deferral	326	353	652	706
Total net benefit expense	$ 1,012	$ 1,098	$ 2,024	$ 2,196
Postretirement Benefits				
Service cost	$ 8	$ 10	$ 16	$ 20
Interest cost	127	124	254	248
Net amortization and deferral	53	53	106	106
Total net benefit expense	$ 188	$ 187	$ 376	$ 374

8. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 , which supercedes FSP 106-1 of the same title issued in January 2004. FSP 106-2 becomes effective for the first interim or annual period beginning after June 15, 2004. FSP 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") for employers that sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. We do not expect adoption of FSP No. 106-2 to have a material effect on our financial condition or results of operations.

During March 2004, the FASB issued an exposure draft of a new standard entitled Share Based Payment , which would amend SFAS No. 123, Accounting for Stock-based Compensation , and SFAS No. 95, Statement of Cash Flows . Among other items, the new standard would require the expensing of stock options issued by the company in the financial statements. The new standard, as proposed, would be effective January 1, 2005, for calendar year companies. See Note 2 for pro forma disclosures regarding the effect on income from continuing operations and earnings per share if we had applied the fair value recognition provisions of the exposure draft and SFAS No. 123. Depending on the model used to calculate stock-based compensation expense in the future, the pro forma disclosure in Note 2 may not be indicative of the stock-based compensation expense to be recognized in future financial statements.

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. This is a cyclical industry and, unlike most prior cycles, sustained, relatively high oil and gas prices have not driven a corresponding level of increased spending by our customers.

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. We have made strategic acquisitions during the past several years in an effort to expand our product offering and our global manufacturing capabilities, including new operations in Norway, the United Kingdom and China. Product and Technology revenues are directly dependent on the levels of worldwide drilling activity.

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. Products are purchased from numerous manufacturers and vendors, including our Products and Technology segment. We have expanded this business to locations outside North America, including Europe, the Middle East, Southeast Asia, and South America. We have made significant investments in systems, staffing and inventory in the international market and, using our information technology platforms and processes, we can provide complete procurement, inventory management, and logistics services to our customers. Approximately half of Distribution Services revenues are tied to worldwide drilling activity, and the balance relates to the production of oil and gas reserves.

RESULTS OF OPERATIONS

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

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Revenues:				
Revenues from backlog	$ 155,502	$ 154,834	$ 283,912	$ 324,684
Noncapital equipment	192,479	156,630	368,836	322,256
Products and Technology	347,981	311,464	652,748	646,940
Distribution Services	218,369	189,257	436,477	373,593
Eliminations	(32,795)	(25,323)	(59,465)	(44,559)
Total	$ 533,555	$ 475,398	$1,029,760	$ 975,974
Operating Income				
Products and Technology	$ 34,925	$ 37,591 (1)	$ 58,421	$ 78,595 (1)
Distribution Services	6,684	3,306 (1)	12,164	6,088 (1)
Corporate	(3,326)	(2,957)	(6,550)	(6,077)
Total	$ 38,283	$ 37,940 (1)	$ 64,035	$ 78,606 (1)
Capital equipment backlog:				
Beginning of quarter	$ 411,790	$ 368,150	$ 338,900	$ 363,600
Add: Orders, net	185,000	153,065	386,300	327,465
Less: Revenues	155,502	154,834	283,912	324,684
End of quarter	$ 441,288	$ 366,381	$ 441,288	$ 366,381

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(1) Restated -See Note 1 to consolidated financial statements.

Products and Technology

Q2 2004 versus Q2 2003

Revenues for the Products and Technology segment increased $37 million, or 12%, during the second quarter of 2004 as compared to the same quarter in 2003. Capital equipment revenues were essentially flat but the higher North American rig count generated growth in our parts, service and rental tools businesses. Sales of spare parts for drilling equipment increased approximately $15 million, pumps and related expendable parts were up $10 million and downhole tools and rentals recorded increases of approximately $5 million.

Despite the higher revenues, operating income declined by $3 million in the second quarter of 2004 compared to the same quarter in 2003. Margin gains due to the higher volume was offset by lower margin on certain capital equipment orders, in part due to higher steel prices, and product mix, resulting in a gross margin % reduction of 1.3 points. Higher selling and administrative costs, increased property taxes and insurance coverage costs and depreciation contributed to the reduced operating income.

Backlog of the Products and Technology capital products was $441 million at June 30, 2004, reflecting an increase of $29 million from the March 31, 2004 level. Backlog at June 30, 2003 was $366 million. Product in current backlog will be delivered by the end of 2005.

1st Six Month of 2004 versus 1st Six Months of 2003

Products and Technology segment revenues increased $6 million in the first six months of 2004 as compared to the same period in 2003. We recorded a $41 million decline in capital equipment revenues, primarily due to reduced shipments in the first quarter of 2004. As expected, we experienced an increase in second quarter 2004 capital equipment revenues and given the current backlog, we anticipate this higher level of activity to continue in the near term. Sales of drilling spare parts, expendable pump parts and downhole tools and rentals increased approximately $24 million, $10 million and $11 million, respectively, as expected with the increase in the North American rotary rig count.

Operating income decreased $20 million in the first half of 2004 compared to the same period in 2003 primarily due to a 3% reduction in gross margins. Unusually high costs on several capital equipment orders resulted in the lower overall margins. Selling and administrative expenses were flat during the first six months of 2004 as compared to 2003 while property taxes, insurance coverage costs and depreciation increased approximately $3 million.

Distribution Services

Q2 2004 versus Q2 2003

Distribution Services revenues increased $29 million, or approximately 15%, during the second quarter of 2004 over the comparable 2003 period as all geographic regions showed improvement. North American revenues were especially strong due to the increase in 2004 in the number of active rigs running in the U.S. and Canada. The fourth quarter 2003 acquisition of Corlac Equipment Ltd. contributed approximately $9 million to our Canadian revenues in the second quarter. From a product perspective, maintenance, repair and operating supplies ("MRO") revenues increased approximately $23 million and the sale of parts manufactured by the Products and Technology segment increased approximately $5 million.

Operating income of $6.7 million in the second quarter of 2004 doubles the prior year results due to the increased revenue as well as a margin % improvement resulting from recent price increases on certain products. Operating increases to run our expanded network amounted to $3 million, and selling and administrative expenses increased approximately $2 million. The addition of Corlac contributed $1 million to the second quarter 2004 operating income.

1st Six Month of 2004 versus 1st Six Months of 2003

Revenues for the Distribution Services segment increased $63 million in the first half of 2004 when compared to the prior year. Revenue in the international market was up 17%, Canada increased 32% and the U.S. operations reflected an 11% improvement. The Canadian results include revenues from the Corlac acquisition of $16 million (representing 60% of the increase). Revenues from the sale of parts manufactured by the Products & Technology segment increased $9 million (20%) while the maintenance, repair and operating supplies revenues reflected a 15% improvement from the first six months of 2003. Tubular revenues were higher by approximately $5 million.

Operating income in the first half of 2004 of $12 million doubled the comparable period in 2003. Gross margin improvement resulting from the revenue volume increase and price increases on certain products was offset by higher administrative expenses to support the global market expansion, and higher taxes, insurance and bad debt costs. Corlac operating profit for the first six months of 2004 totaled approximately $1.4 million.

Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. These costs have been slightly above the $3 million level since our last major acquisition in the fourth quarter of 2002 and we expect spending to approximate this level in the near term.

Interest Expense

Interest expense for the three months and six months ended June 30, 2004 was essentially flat, as slightly lower interest rates offset slightly higher average debt outstanding.

Income Taxes

The effective tax rate for the six months ended June 30, 2004 was 29% compared to 32% for the same period in 2003, reflecting a higher percentage of earnings in foreign jurisdictions with lower tax rates and the benefit associated with export sales, which is currently the subject of legislation to repeal these benefits. If repealed and not replaced with similar benefits, we expect our effective tax rate to increase to 32%.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004 we had working capital of $839 million, an increase of $45 million from December 31, 2003. Reduction in the current portion of long-term debt accounted for $15 million of this increase, as we repaid all of the Norwegian term loans, and inventory increased $75 million as we position ourselves for the market upturn and related capital projects. A reduction of $19 million in accounts receivable was offset by a similar reduction in accounts payable. Cash decreased approximately $12 million during the first six months ended June 30, 2004.

Total capital expenditures were $14 million during the first six months of 2004 compared to $16 million in the same period 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 expect our capital expenditures in 2004 to total approximately $30 million. We believe we have sufficient existing manufacturing capacity to meet currently anticipated demand for our products and services.

In November 2002, we sold $200 million of 5.65% unsecured senior notes due November 15, 2012. Interest is payable on May 15 and November 15 of each year. In March 2001, we sold $150 million of 6.50% unsecured senior notes due March 15, 2011, with interest payable on March 15 and September 15 of each year. In June 1998, we sold $150 million of 6.875% unsecured senior notes due July 1, 2005, with interest payments due on January 1 and July 1.

At June 30, 2004, we had two committed credit facilities, a North American and a Norwegian facility, totaling $266 million. Both facilities are available for general corporate purposes and acquisitions, including letters of credit and performance bonds.

Our North American facility is an unsecured $175 million revolving credit facility that expires July 31, 2005 with availability up to $50 million for issuance of letters of credit. At June 30, 2004, borrowings against this facility totaled $77 million and there were $24 million in outstanding letters of credit. Interest (1.9% @ June 30, 2004) is based upon prime or Libor plus 0.5% subject to a ratings based grid.

Our Norwegian facility, which expires in 2006, has revolving credit facilities totaling $91 million, with $36 million available for letter of credit purposes. At June 30, 2004, there were $19 million in outstanding letters of credit and no borrowings against this facility. Interest is based upon a pre-agreed percentage point spread from either the prime interest rate, NIBOR or EURIBOR.

We also have additional uncommitted credit facilities totaling $131 million that are used primarily for letters of credit, bid bonds and performance bonds. At June 30, 2004, borrowings against these additional credit facilities totaled $2 million and there were $34 million in outstanding letters of credit and performance bonds.

The senior notes contain reporting covenants and the credit facilities contain financial covenants and ratios regarding maximum debt to capital and minimum interest coverage. We were in compliance with all covenants governing these facilities at June 30, 2004.

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 six months ended June 30, 2004, 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 for the year ending December 31, 2003.

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, revenue recognition on long term contracts, pension plan accounting, value of goodwill and 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 material to the Critical Accounting Policies and Estimates as disclosed in our Form 10-K for the year ending December 31, 2003.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 , which supercedes FSP 106-1 of the same title issued in January 2004. FSP 106-2 becomes effective for the first interim or annual period beginning after June 15, 2004. FSP 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") for employers that sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. We do not expect adoption of FSP No. 106-2 to have a material effect on our financial condition or results of operations.

During March 2004, the FASB issued an exposure draft of a new standard entitled Share Based Payment , which would amend SFAS No. 123, Accounting for Stock-based Compensation , and SFAS No. 95, Statement of Cash Flows . Among other items, the new standard would require the expensing of stock options issued by the company in the financial statements. The new standard, as proposed, would be effective January 1, 2005, for calendar year companies. See Note 2 for pro forma disclosures regarding the effect on income from continuing operations and earnings per share if we had applied the fair value recognition provisions of the exposure draft and SFAS No. 123. Depending on the model used to calculate stock-based compensation expense in the future, the pro forma disclosure in Note 2 may not be indicative of the stock-based compensation expense to be recognized in future financial statements.

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," as disclosed in our Form 10-K for the year ending December 31, 2003, 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. These operations also have net assets and liabilities not denominated in the local currency, which exposes us to changes in foreign currency exchange rates that do impact income. We recorded foreign exchange gains in our income statement of approximately $1.0 million in the first six months of 2004, compared to $3.3 million in foreign exchange losses in the same period of the prior year. We do not believe that a hypothetical 10% movement in these foreign currencies would have a material impact on our 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.

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 facilities totaling $79 million at June 30, 2004 (weighted average interest rate of 2.2% at June 30, 2004). A portion of the borrowings 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, NIBOR or EURIBOR. Under our credit facilities, we may, at our option, fix the interest rate for certain borrowings based on a spread over LIBOR, NIBOR or EURIBOR for 30 days to 6 months. Based upon our June 30, 2004 borrowings under our variable rate facilities of $79 million, an immediate change of one percent in the interest rate would cause a change in annual interest expense of approximately $0.8 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.

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of stockholders was held on May 19, 2004. Stockholders elected three directors nominated by the board of directors for terms expiring in 2007 by the following votes: Merrill A. Miller, Jr. - 80,028,976 votes for and 1,577,794 votes withheld, Frederick W. Pheasey - 80,029,976 votes for and 1,576,794 votes withheld, and Roger L. Jarvis - 80,029,986 votes for and 1,576,784 votes withheld. There were no nominees to office other than the directors elected.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended

31.2 Certification pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 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 April 25, 2004 regarding a press release announcing our financial results for the first three months of 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 9, 2004 / s / Steven W. Krablin

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

INDEX TO EXHIBITS

(a) Exhibits

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32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 31.1

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) [INTENTIONALLY OMITTED PURSUANT TO SEC RELEASE NO. 33-8238];

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

By: /s/ Merrill A. Miller,Jr.

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

EXHIBIT 31.2

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) [INTENTIONALLY OMITTED PURSUANT TO SEC RELEASE NO. 33-8238];

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004 By: /s/ Steven W. Krablin

Steven W. Krablin
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National-Oilwell, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Merrill A. Miller, Jr., Chairman, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The certification is given to the knowledge of the undersigned.

By: /s/ Merrill A. Miller, Jr.

Name: Merrill A. Miller, Jr.
Title: Chairman, President and Chief Executive Officer
Date: August 9, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to National-Oilwell, Inc. and will be retained by National-Oilwell, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National-Oilwell, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Steven W. Krablin, the Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The certification is given to the knowledge of the undersigned.

By: /s/ Steven W. Krablin

Name: Steven W. Krablin
Title: Chief Financial Officer
Date: August 9, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to National-Oilwell, Inc. and will be retained by National-Oilwell, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.