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FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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(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, 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 [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 August 12, 2003, 84,950,930 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, 2003 (Unaudited) | December 31, 2002 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 62,153 | $ 118,338 |
| Receivables, net | 481,007 | 428,116 |
| Inventories | 505,156 | 470,088 |
| Costs in excess of billings | 51,983 | 53,805 |
| Deferred income taxes | 28,049 | 26,783 |
| Prepaid and other current assets | 38,646 | 17,938 |
| Total current assets | 1,166,994 | 1,115,068 |
| Property, plant and equipment, net | 236,464 | 208,420 |
| Deferred income taxes | 34,104 | 36,864 |
| Goodwill, net | 638,490 | 581,576 |
| Property held for sale | 7,389 | 7,389 |
| Other assets | 30,778 | 19,345 |
| | $ 2,114,219 | $ 1,968,662 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | 13,800 | -- |
| Accounts payable | 210,957 | 168,548 |
| Customer prepayments | 10,147 | 9,533 |
| Accrued compensation | 9,502 | 5,087 |
| Billings in excess of costs | 21,173 | 61,738 |
| Other accrued liabilities | 106,763 | 101,310 |
| Total current liabilities | 372,342 | 346,216 |
| Long-term debt | 593,265 | 594,637 |
| Deferred income taxes | 53,777 | 54,612 |
| Other liabilities | 31,198 | 30,229 |
| Total liabilities | 1,050,582 | 1,025,694 |
| Commitments and contingencies | | |
| Minority interest | 12,641 | 9,604 |
| Stockholders' equity: | | |
| Common stock - par value $.01; 84,947,534 and 81,014,713 shares issued and outstanding at June 30, 2003 and December 31, 2002 | 849 | 810 |
| Additional paid-in capital | 672,606 | 594,849 |
| Accumulated other comprehensive loss | (44,151) | (44,461) |
| Retained earnings | 421,692 | 382,166 |
| | 1,050,996 | 933,364 |
| | $ 2,114,219 | $ 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues | $ 475,398 | $ 372,390 | $ 975,974 | $ 761,376 |
| Cost of revenues | 366,281 | 284,986 | 746,412 | 580,927 |
| Gross profit | 109,117 | 87,404 | 229,562 | 180,449 |
| Selling, general, and administrative | 68,156 | 55,167 | 145,173 | 110,496 |
| Operating income | 40,961 | 32,237 | 84,389 | 69,953 |
| Interest and financial costs | (9,308) | (6,112) | (19,562) | (12,175) |
| Interest income | 517 | 233 | 1,626 | 470 |
| Other income (expense), net | (1,180) | 143 | (3,549) | 1,355 |
| Income before income taxes and minority interest | 30,990 | 26,501 | 62,904 | 59,603 |
| Provision for income taxes | 9,518 | 9,540 | 20,340 | 21,457 |
| Income before minority interest | 21,472 | 16,961 | 42,564 | 38,146 |
| Minority interest in income of consolidated subsidiaries | (1,112) | -- | (3,038) | -- |
| Net income | $ 20,360 | $ 16,961 | $ 39,526 | $ 38,146 |
| Net income per share: | | | | |
| Basic | $ 0.24 | $ 0.21 | $ 0.47 | $ 0.47 |
| Diluted | $ 0.24 | $ 0.21 | $ 0.47 | $ 0.47 |
| Weighted average shares outstanding: | | | | |
| Basic | 84,440 | 80,980 | 84,072 | 80,950 |
| Diluted | 84,990 | 81,985 | 84,733 | 81,785 |

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, 2003 | 2002 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income | $ 39,526 | $ 38,146 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation and amortization | 17,634 | 12,701 |
| Provision for losses on receivables | 2,221 | 1,759 |
| Provision for deferred income taxes | 1,681 | 366 |
| Gain on sale of assets | (2,154) | (2,108) |
| Foreign currency transaction loss | 3,331 | 261 |
| Interest rate contract | (60) | -- |
| Tax benefit from exercise of nonqualified stock options | 3,301 | -- |
| Changes in assets and liabilities, net of acquisitions: | | |
| Receivables | (40,117) | 40,924 |
| Inventories | (23,708) | (1,084) |
| Prepaid and other current assets | (19,783) | (6,904) |
| Accounts payable | 36,266 | (32,942) |
| Other assets/liabilities, net | (36,992) | (36,765) |
| Net cash provided (used) by operating activities | (18,854) | 14,354 |
| Cash flow from investing activities: | | |
| Purchases of property, plant and equipment | (15,641) | (8,935) |
| Proceeds from sale of assets | 3,922 | 5,550 |
| Businesses acquired, net of cash | (47,113) | (15,432) |
| Net cash used by investing activities | (58,832) | (18,817) |
| Cash flow from financing activities: | | |
| Borrowings against lines of credit | 201,484 | 107,921 |
| Payments against lines of credit | (188,145) | (113,695) |
| Proceeds from stock options exercised | 7,935 | 932 |
| Net cash provided (used) by financing activities | 21,274 | (4,842) |
| Effect of exchange rate gain on cash | 227 | 635 |
| Decrease in cash and equivalents | (56,185) | (8,670) |
| Cash and cash equivalents, beginning of period | 118,338 | 43,220 |
| Cash and cash equivalents, end of period | $ 62,153 | $ 34,550 |
| Supplemental disclosures of cash flow information: | | |
| Cash payments during the period for: | | |
| Interest | $ 18,007 | $ 11,150 |
| Income taxes | $ 24,007 | $ 29,837 |

The accompanying notes are an integral part of these statements.

## 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 and six months ended June 30, 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 $51 million in goodwill and adds 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 $7 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 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.

## 3. INVENTORIES

Inventories consist of (in thousands):

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Raw materials and supplies | $ 50,380 | $ 60,699 |
| Work in process | 96,304 | 109,924 |
| Finished goods and purchased products | 358,472 | 299,465 |
| Total | $ 505,156 | $ 470,088 |

4. COMPREHENSIVE INCOME

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income | $ 20,360 | $ 16,961 | $ 39,526 | $ 38,146 |
| Currency translation adjustments | 8,669 | 3,357 | 400 | 907 |
| Interest rate contract | (30) | -- | (60) | -- |
| Comprehensive income | $ 28,999 | $ 20,318 | $ 39,866 | $ 39,053 |

5. BUSINESS SEGMENTS

Segment information (unaudited) follows (in thousands):

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues from unaffiliated customers | | | | |
| Products and Technology | $ 286,785 | $ 203,688 | $ 603,476 | $ 425,707 |
| Distribution Services | 188,613 | 168,702 | 372,498 | 335,669 |
| | 475,398 | 372,390 | 975,974 | 761,376 |
| Intersegment revenues | | | | |
| Products and Technology | 24,679 | 21,135 | 43,464 | 40,388 |
| Distribution Services | 644 | 133 | 1,095 | 695 |
| | 25,323 | 21,268 | 44,559 | 41,083 |
| Operating income | | | | |
| Products and Technology | 38,419 | 30,067 | 80,251 | 65,517 |
| Distribution Services | 5,499 | 4,714 | 10,215 | 9,282 |
| Total profit for reportable segments | 43,918 | 34,781 | 90,466 | 74,799 |
| Unallocated corporate costs | (2,957) | (2,544) | (6,077) | (4,846) |
| Operating income | 40,961 | 32,237 | 84,389 | 69,953 |
| Net interest expense | (8,791) | (5,879) | (17,936) | (11,705) |
| Other income (expense) | (1,180) | 143 | (3,549) | 1,355 |
| Income before income taxes and minority interest | $ 30,990 | $ 26,501 | $ 62,904 | $ 59,603 |
| Total assets | | | | |
| Products and Technology | $1,724,436 | $1,156,156 | | |
| Distribution Services | 304,171 | 270,042 | | |

6. DEBT

Debt consists of (in thousands):

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Credit facilities | $ 107,065 | $ 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 |
| | 607,065 | 594,637 |
| Less current portion | 13,800 | -- |
| | $ 593,265 | $ 594,637 |

At June 30, 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 June 30, 2003 totaled $41 million. This facility is available for acquisitions and general corporate purposes and provides up to $50 million for letters of credit, of which $12 million were outstanding at June 30, 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 June 30, 2003, borrowings totaled $62 million and there were $25 million of outstanding letters of credit and guarantees.

We also have additional uncommitted credit facilities totaling $129 million that are used primarily for acquisitions, general corporate purposes and letters of credit. Borrowings against these additional credit facilities totaled $4 million at June 30, 2003 and an additional $23 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income, as reported | $ 20,360 | $ 16,961 | $ 39,526 | $ 38,146 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (2,158) | (2,274) | (4,400) | (4,659) |
| Pro forma net income | $ 18,202 | $ 14,687 | $ 35,126 | $ 33,487 |
| Net income per common share: | | | | |
| Basic, as reported | $ 0.24 | $ 0.21 | $ 0.47 | $ 0.47 |
| Basic, pro forma | 0.22 | 0.18 | 0.42 | 0.41 |
| Diluted, as reported | $ 0.24 | $ 0.21 | $ 0.47 | $ 0.47 |
| Diluted, pro forma | 0.21 | 0.18 | 0.41 | 0.41 |

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 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 disclosure provisions of SFAS No. 148 were adopted on January 1, 2003 (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 do not believe we have any material interests in VIEs that will require disclosure or consolidation under FIN 46 but are continuing our evaluation.

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.

RESULTS OF OPERATIONS

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues | | | | |
| Products and Technology | $ 311,464 | $ 224,823 | $ 646,940 | $ 466,095 |
| Distribution Services | 189,257 | 168,835 | 373,593 | 336,364 |
| Eliminations | (25,323) | (21,268) | (44,559) | (41,083) |
| Total | $ 475,398 | $ 372,390 | $ 975,974 | $ 761,376 |
| Operating Income | | | | |
| Products and Technology | $ 38,419 | $ 30,067 | $ 80,251 | $ 65,517 |
| Distribution Services | 5,499 | 4,714 | 10,215 | 9,282 |
| Corporate | (2,957) | (2,544) | (6,077) | (4,846) |
| Total | $ 40,961 | $ 32,237 | $ 84,389 | $ 69,953 |

Products and Technology

Q2 2003 versus Q2 2002

Revenues for the Products and Technology segment increased $87 million during the second quarter of 2003 as compared to the same quarter in 2002. The Hydralift ASA and Mono acquisitions accounted for all of this increase as revenues for the remaining operations in this segment were down approximately $15 million. Despite an overall increase in the number of drilling rigs operating in the United States, sluggish drilling activity in the Gulf of Mexico and an ongoing cautious approach to capital spending by many operators and drilling contractors has negatively impacted our revenues in this segment.

Operating income increased by $8 million in the second quarter of 2003 compared to the same quarter in 2002 due to operating profit generated by the Hydralift ASA and Mono operations. Lower gross margins of 1.4% and increases in insurance, advertising and sales and general administrative costs offset the benefits derived from those acquisitions.

Backlog of the Products and Technology capital products was $366 million at June 30, 2003, relatively unchanged from the March 31, 2003 and the December 31, 2002 balances of $368 million and $364 million, respectively. Backlog at June 30, 2002, which excluded any Hydralift ASA capital products, was $278 million. Approximately 2/3 of the product in current backlog will be delivered during 2003 with the remaining shipments to occur in 2004.

1st six months 2003 versus 1st six months 2002

Products and Technology segment revenues increased $181 million in the first six months of 2003 as compared to the same period in 2002. This 39% increase was directly attributable to the Hydralift ASA and Mono acquisitions. Excluding these acquisitions, revenues were lower by $22 million and all product lines reported a decline during the first half of 2003 when compared to 2002.

The Hydralift ASA and Mono acquisitions were the primary contributors to the generation of a $15 million operating income improvement in the first six months of 2003 compared to 2002. Excluding these acquisitions, reduced margins due to the lower revenue volume and higher selling and administrative expenses negatively impacted the operating income for the first six months of 2003 when compared to the prior year.

Distribution Services

Q2 2003 versus Q2 2002

Distribution Services revenues increased $20 million, or approximately 12%, during the second quarter of 2003 over the comparable 2002 period. All geographic regions showed improvement but the North American revenues were the principal contributor to this increase due to the increase in the number of active rigs running in the U.S. and Canada during 2003. The international sector experienced strong revenue gains in Asia but was adversely impacted by the Venezuelan political instability and the Iraqi war impact in the Middle East. Maintenance, repair and operating supplies revenues accounted for all of the revenue increase.

Operating income in the second quarter of 2003 reflects an increase of $0.8 million over the prior year results due to the margin on the revenue increase offset partially by an increase in expenses. North American expenses have been managed to retain our geographic coverage, employee retention and overall customer service while international expenses include startup and systems installation costs in Singapore, Brazil and Mexico.

1st six months 2003 versus 1st six months 2002

Revenues for the Distribution Services segment increased $37 million in the first half of 2003 when compared to the prior year. Revenue in the international market and Canada were both up 9% and the U.S. operations reflected a 13% improvement. A decline in Venezuela and Middle East revenues was offset by improved revenues in Indonesia. Revenues from the sale of parts manufactured by the Products & Technology segment declined $7 million (13%) while the maintenance, repair and operating supplies revenues reflected a 15% improvement from the first six months of 2002. Tubular revenues were higher by approximately $2 million.

Operating income in the first half of 2003 of $10 million was approximately $1 million higher than the comparable period in 2002. Gross margin improvement resulting from the revenue volume increase was offset by higher administrative expenses to support the expansion into the new global markets.

Corporate

Corporate charges represent the unallocated portion of centralized and executive management costs. These costs are approximately $1.2 million higher during the six months ending June 30, 2003 when compared to the same period in the prior year. Corporate-led initiatives, such as marketing, safety and training plus general overhead incurred to support a larger company are the principal reasons for the increase in corporate spending. Corporate expenses are expected to approximate the current level for the remaining quarters of 2003.

Interest Expense

Interest expense increased during the three months and six months ended June 30, 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 $0.5 million during the six months ending June 30, 2003 when compared to the same period of the prior year, reflecting increased activity in our international markets.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2003 we had working capital of $795 million, an increase of $26 million from December 31, 2002 primarily due to increases in accounts receivable and inventories, partially offset by an increase in accounts payable and a reclassification from long-term to short-term debt. Cash decreased $56 million during the first six months ended June 30, 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 $15 million.

Total capital expenditures were $18 million during the first six months of 2003 compared to $13 million in the first six 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 expect our capital expenditures in 2003 to total approximately $35 million. We believe we have sufficient existing manufacturing capacity to meet currently anticipated demand through 2003 for our products and services.

At June 30, 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 June 30, 2003 totaled $41 million. This facility is available for acquisitions and general corporate purposes and provides up to $50 million for letters of credit, of which $12 million were outstanding at June 30, 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 June 30, 2003, borrowings totaled $62 million and there were $25 million of outstanding letters of credit and guarantees.

We also have additional uncommitted credit facilities totaling $129 million that are used primarily for acquisitions, general corporate purposes and letters of credit. Borrowings against these additional credit facilities totaled $4 million at June 30, 2003 and an additional $23 million had been used for letters of credit and guarantees.

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, 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 disclosure provisions of SFAS No. 148 were adopted on January 1, 2003 (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 do not believe we have any material interests in VIEs that will require disclosure or consolidation under FIN 46 but we are continuing our evaluation.

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 two 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 $107.1 million at June 30, 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 June 30, 2003 borrowings under our variable rate facilities of $107.1 million, an immediate change of one percent in the interest rate would cause a change in annual interest expense of approximately $1.1 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 June 25, 2003. Stockholders elected two directors nominated by the board of directors for terms expiring in 2006 by the following votes: Hushang Ansary - 74,182,932 votes for and 1,189,345 votes withheld, and Ben A. Guill - 50,426,944 votes for and 24,945,333 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 of Merrill A. Miller, Jr., Chairman, President and Chief Executive Officer, dated August 14, 2003, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

31.2 Certification of Steven W. Krablin, Chief Financial Officer, dated August 14, 2003, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

32 Statement of Merrill A. Miller, Jr., Chairman, President and Chief Executive Officer, and Steven W. Krablin, Chief Financial Officer, dated August 14, 2003, furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.

(b) Reports on Form 8-K

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.

A report on Form 8 - K was filed on July 25, 2003 regarding a press release announcing our financial results for the three and six months ended June 30, 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: August 14, 2003

/s/ Steven W. Krablin

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

INDEX TO EXHIBITS

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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 14, 2003

By: /s/ Merrill A. Miller, Jr.
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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 14, 2003

By: /s/ Steven W. Krablin
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Steven W. Krablin
Chief Financial Officer

EXHIBIT 32

NATIONAL-OILWELL, INC.

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, 2003 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, and Steven W. Krablin, the Chief Financial Officer of the Company, each of the undersigned 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.
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Name: Merrill A. Miller, Jr.
Title: Chairman, President and Chief Executive Officer
Date: August 14, 2003

By: /s/ Steven W. Krablin
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Name: Steven W. Krablin
Title: Chief Financial Officer
Date: August 14, 2003

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.