FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 1997 OR

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

Commission file number 333-11051

NATIONAL-OILWELL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	76-0475815
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5555 SAN FELIPE
HOUSTON, TEXAS
77056
(Address of principal executive offices)

(713) 960-5100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

As of May 9, 1997, 17,874,128 common shares were outstanding.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,349	$ 4,315
Receivables, less allowance of $2,688 and $2,760	98,345	102,858
Inventories	121,001	115,479
Deferred taxes	3,938	4,028
Prepaids and other current assets	6,849	6,710
Total current assets	235,482	233,390
Property, plant and equipment, net	18,243	18,680
Deferred taxes	6,296	6,847
Goodwill	6,286	6,327
Deferred financing costs	1,105	1,166
Other assets	194	333
	$267,606	$266,743
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	$ 70,077	$ 77,935
Customer prepayments	2,524	5,126
Accrued compensation	4,878	7,839
Other accrued liabilities	16,051	12,420
Total current liabilities	93,530	103,320
Long-term debt	42,007	36,392
Insurance reserves	6,378	6,599
Other liabilities	10,985	11,352
Total liabilities	152,900	157,663
Commitments and contingencies		
Owners' equity:		
Common stock - par value $.01; 17,874,128 shares issued and outstanding	179	179
Additional paid-in capital	107,497	107,497
Cumulative translation adjustment	744	1,159
Retained earnings	6,286	245
	114,706	109,080
	$267,606	$266,743

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31, 1997	1996
Revenues	$ 176,154	$ 141,144
Cost of revenues	149,894	122,850
Gross profit	26,260	18,294
Selling, general and administrative	14,976	13,021
Operating income	11,284	5,273
Interest and financial costs	(1,255)	(3,078)
Interest income	81	16
Other income (expense)	(173)	(130)
Income before income taxes	9,937	2,081
Provision for income taxes	3,896	647
Net income	$ 6,041	$ 1,434
Weighted average shares outstanding	18,190	13,590
Net income per share	$ 0.33	$ 0.10

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31, 1997	1996
Cash flow from operating activities:		
Net income	$ 6,041	$ 1,434
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	929	946
Provision for losses on receivables	25	304
Provision for deferred income taxes	961	647
Gain on sale of assets	(39)	16
Foreign currency transaction (gain) loss	190	107
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	4,642	(5,986)
Decrease (increase) in inventories	(5,718)	(3,013)
Decrease (increase) in prepaids and other current assets	(139)	(2,883)
Increase (decrease) in accounts payable	(7,710)	(12,294)
Increase (decrease) in other assets/liabilities, net	(3,439)	(4,101)
Net cash provided (used) by operating activities	(4,257)	(24,823)
Cash flow from investing activities:		
Purchases of property, plant and equipment	(482)	(395)
Proceeds from sale of assets	115	16
Acquisition of predecessor company, net of cash acquired	--	(106,248)
Other	--	(350)
Net cash provided (used) by investing activities	(367)	(106,977)
Cash flow from financing activities:		
Proceeds from revolving lines of credit, net	5,709	11,477
Payments on long-term debt	--	(9,128)
Proceeds from issuance of common stock	--	30,179
Acquisition debt proceeds	--	103,378
Net cash provided (used) by financing activities	5,709	135,906
Effect of exchange rate losses on cash	(51)	(20)
Increase in cash and equivalents	1,034	4,086
Cash and cash equivalents, beginning of period	4,315	--
Cash and cash equivalents, end of period	$ 5,349	$ 4,086

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Effective January 1, 1996, National-Oilwell, Inc. acquired National-Oilwell, a general partnership between National Supply Company, Inc., a subsidiary of Armco Inc., and Oilwell, Inc., a subsidiary of USX Corporation, and subsidiaries (the "Acquisition").

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with generally accepted accounting principles. In the opinion of management, the information furnished reflects all adjustments, all of which are of a normal, recurring nature, necessary for a fair presentation of the results of the interim periods. It is recommended that these statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1996. No significant accounting changes have occurred during the three months ended March 31, 1997.

2. INVENTORIES

Inventories consist of (in thousands):

	March 31, 1997	December 31, 1996
Raw Materials	$ 9,855	9,510
Work in process	7,039	6,141
Finished goods	104,107	99,828
	$121,001	115,479

3. STATEMENTS OF CASH FLOWS

The following information is provided to supplement the Statements of Cash Flows (in thousands):

	Three Months Ended March 31,	
	1997	1996
Cash paid during the period for:		
Interest	$456	$1,979
Income taxes	197	48

4. ACQUISITIONS

On April 25, 1997, the Company purchased the drilling business of Ross Hill Controls and its affiliate, Hill Graham Controls Limited. This business involves the manufacture, sale and service of innovative electrical control systems used in conjunction with drilling operations. Borrowings available under the revolving credit facility were used to finance the $19 million purchase price and the transaction will be accounted for under the purchase method of accounting.

On April 11, 1997, the Company signed a letter of intent, subject to a definitive agreement, to purchase 100% of the common stock of PEP, Inc., a manufacturer of petroleum expendable products. Issuance of Company stock is anticipated to fund the transaction which is expected to be recorded in accordance with the pooling of interests method of accounting. The transaction is not expected to have a material impact on the Company's current financial statements.

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

INTRODUCTION

The Company is a worldwide leader in the design, manufacture and sale of machinery and equipment and in the distribution of maintenance, repair and operating products used in oil and gas drilling and production. The Company's revenues are directly related to the level of worldwide oil and gas drilling and production activities and the profitability and cash flow of oil and gas companies and drilling contractors, which in turn are affected by current and anticipated prices of oil and gas.

During 1996, the Company completed two significant capital transactions. First, in January 1996, the Company acquired the operations of National-Oilwell, resulting in the incurrence of significant amounts of debt and related interest expense. Second, on October 29, 1996, the Company sold 4.6 million shares of its common stock through an initial public offering (the "IPO"). Net proceeds from the IPO of approximately $72 million were used to repay debt incurred in connection with the Acquisition. At that same time, the Company entered into a new $120 million five-year senior secured revolving credit facility.

RESULTS OF OPERATIONS

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

	Quarter Ended March 31,	
	1997	1996
Revenues		
Products and Technology	$ 50,527	$ 38,680
Distribution Services	139,558	114,149
Eliminations	(13,931)	(11,685)
Total	$ 176,154	$ 141,144
Operating Income		
Products and Technology	$ 7,461	$ 2,933
Distribution Services	4,830	3,310
Corporate	(1,007)	(970)
Total	$ 11,284	$ 5,273

Products and Technology

The Products and Technology segment designs and manufactures a large line of proprietary products, including drawworks, mud pumps, power swivels and reciprocating pumps. A substantial installed base of these products results in a recurring replacement parts and maintenance business. Drilling pump expendable products are sold for maintenance of the Company's and other manufacturers' equipment. Sales of new capital equipment can result in large fluctuations in volume between periods depending on the size and timing of the shipment of orders.

Products and Technology revenues increased $11.8 million (31%) in the first quarter of 1997 as compared to 1996 due primarily to an increase in demand for drilling capital equipment, fluid end expendable parts, and reciprocating pumps and associated parts. Operating income for the Products and Technology segment increased $4.5 million in the first quarter of 1997 as compared to the prior year, representing 38% of the revenue increase.

Distribution Services

Distribution Services revenues result primarily from the sale of maintenance, repair and operating supplies ("MRO") from the Company's network of distribution service centers and from the sale of well casing and production tubing. These products are purchased from numerous manufacturers and vendors, including the Company's Products and Technology segment. While the Company has increased revenues and improved its operating income by entering into alliances and outsourcing arrangements, improvements in operating results remain primarily dependent on attaining increased volumes of activity through its distribution service centers while controlling the fixed costs associated with numerous points of sale.

Revenues during the first quarter of 1997 increased $25.4 million (22%) over the comparable 1996 period as MRO products and tubular products sales reflected gains of $11 million and $7 million, respectively. Business with alliance customers caused a substantial portion of this growth during the quarter. Operating income increased $1.5 million during the first quarter of 1997 compared to the same period in 1996. A portion of the increased margin from the higher revenue levels was offset by higher operating costs associated with the addition in the second half of 1996 of operating and administrative personnel in order to better manage assets and in anticipation of future revenue growth.

Interest Expense

Interest expense decreased substantially during the first three months of 1997 due to substantially lower levels of debt.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1997, the Company had working capital of $142 million, an increase of $12 million from December 31, 1996. Accounts receivable decreased by $4.5 million during the first three months of 1997 as revenues declined 2.4% from the fourth quarter of 1996. Inventories increased $5.5 million during this period due to specific build programs and in response to increasing demand for oilfield equipment and supplies.

The Company's business has not required large expenditures for capital equipment in recent years. Total capital expenditures were $0.5 million during the first three months of 1997 and have averaged $3.8 million per year over the last three years. Enhancements to information and inventory control systems represent a large portion of these capital expenditures. Total annual capital expenditures of as much as $6 million are anticipated over the next three years to meet the Company's operating needs, including further enhancements to the Company's information systems. The Company believes it has sufficient existing manufacturing capacity to meet current and anticipated demand over the next twelve months for its products and services. Any significantly greater increases in demand for oilfield equipment products, to the extent qualified subcontracting and outsourcing are not available, could result in additional increases in capital expenditures.

The Company believes that cash generated from operations and amounts available under its revolving credit facility will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations. The Company also believes any significant increase in capital expenditures caused by any need to increase manufacturing capacity can be funded from operations or through debt financing.

The Company intends to pursue acquisition candidates, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. The Company expects to fund future acquisitions primarily through cash flow from operations and borrowings, including the unborrowed portion of the revolving credit facility and/or issuances of additional equity. There can be no assurance that additional financing for acquisitions will be available at terms acceptable to the Company.

FORWARD-LOOKING STATEMENTS

This document, other than historical financial information, may contain forward-looking statements that involve risks and uncertainties. These statements may differ materially from actual future events or results. Readers are referred to documents filed by the Company with the Securities and Exchange Commission which identify significant risk factors which could cause actual results to differ from those contained in the forward-looking statements, including "Risk Factors" at Item 1 of the Annual Report on Form 10-K

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

The Company has not filed any report on Form 8-K during the quarter for which this report is filed.

SIGNATURE

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

Date: May 9, 1997

/ s / Steven W. Krablin

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

INDEX TO EXHIBITS

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

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