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, 1999 OR

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

Commission file number 1-12317

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

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

10000 RICHMOND AVENUE
4TH FLOOR
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 [ ]

As of May 12, 1999, 56,326,602 common shares were outstanding, assuming the exchange on a one-for-one basis of all Exchangeable Shares of Dreco Energy Services Ltd. into shares of National-Oilwell, Inc. common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 1999 (Unaudited)	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,790	$ 11,440
Receivables, less allowance of $5,213 and $4,718	212,546	281,312
Inventories	225,700	241,987
Deferred income taxes	7,205	16,489
Prepaids and other current assets	7,581	6,533
	465,822	557,761
Property, plant and equipment, net	91,840	91,756
Deferred income taxes	14,147	6,757
Goodwill	144,968	145,696
Property held for sale	9,981	9,981
Other assets	5,790	6,042
	$ 732,548	$ 817,993
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 3,949	$ 7,447
Accounts payable	90,883	118,579
Customer prepayments	10,375	25,392
Accrued compensation	4,059	7,237
Other accrued liabilities	44,991	52,696
	154,257	211,351
Long-term debt	178,204	205,637
Deferred income taxes	2,539	4,097
Other liabilities	10,651	10,105
	345,651	431,190
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value $.01; 56,315,979 shares and 55,996,785 shares issued and outstanding at March 31, 1999 and December 31, 1998	563	561
Additional paid-in capital	246,676	248,198
Accumulated other comprehensive income	(15,925)	(13,827)
Retained earnings	155,583	151,871
	386,897	386,803
	$ 732,548	$ 817,993

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,	
	1999	1998
Revenues	$ 185,241	$ 301,852
Cost of revenues	145,129	237,060
Gross profit	40,112	64,792
Selling, general and administrative	29,825	29,493
Operating income	10,287	35,299
Other income (expense):		
Interest and financial costs	(3,874)	(1,248)
Interest income	166	221
Other	(583)	(726)
Income before income taxes	5,996	33,546
Provision for income taxes	2,284	12,409
Net income	$ 3,712	$ 21,137
Net income per share:		
Basic	$ 0.07	$ 0.41
Diluted	$ 0.07	$ 0.40
Weighted average shares outstanding:		
Basic	56,313	51,982
Diluted	56,382	52,257

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, 1999	Three Months Ended March 31, 1998
Cash flow from operating activities:		
Net income	$ 3,712	$ 21,137
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	5,414	4,258
Provision for losses on receivables	547	212
Provision (benefit) for deferred income taxes	228	(404)
Gain on sale of assets	(341)	(647)
Foreign currency transaction loss	558	635
Changes in assets and liabilities, net of acquisitions:		
Receivables	68,181	1,065
Inventories	17,407	(22,309)
Prepaid and other current assets	(1,027)	1,458
Accounts payable	(27,267)	(10,071)
Other assets/liabilities, net	(31,903)	10,963
Net cash provided by operating activities	35,509	6,297
Cash flow from investing activities:		
Purchases of property, plant and equipment	(4,084)	(4,925)
Proceeds from sale of assets	880	1,103
Net cash used by investing activities	(3,204)	(3,822)
Cash flow from financing activities:		
Payments on line of credit	(30,931)	(4,393)
Proceeds from stock options exercised	--	388
Net cash used by financing activities	(30,931)	(4,005)
Effect of exchange rate (gain) loss on cash	(24)	2,958
Increase in cash and equivalents	1,350	1,428
Cash and cash equivalents, beginning of period	11,440	19,824
Cash and cash equivalents, end of period	$ 12,790	$ 21,252
Supplemental disclosures of cash flow information: Cash payments during the period for:		
Interest	$ 6,351	$ 1,363
Income taxes	6,253	10,156

The accompanying notes are an integral part of these statements.

NATIONAL-OILWELL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Information concerning common stock and per share data has been restated on an equivalent share basis and assumes the exchange of all Exchangeable Shares issued in connection with the combination with Dreco Energy Services Ltd. The preparation of financial statements in conformity with generally accepted accounting principles 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. 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, 1998. No significant accounting changes have occurred during the three months ended March 31, 1999.

2. INVENTORIES

Inventories consist of (in thousands):

	March 31, 1999	December 31, 1998
Raw materials and supplies	$ 22,757	$ 24,304
Work in process	33,205	39,991
Finished goods and purchased products	169,738	177,692
Total	$ 225,700	$ 241,987

3. SPECIAL CHARGES

During the fourth quarter of 1998, the Company recorded a special charge of $16.4 million related to operational changes resulting from the depressed market for the oil and gas industry. This charge was comprised of $11.0 million in estimated cash expenditures related to employee severance and facility exit costs and $5.4 million in the write-down of certain assets. As of March 31, 1999, approximately $10.6 million has been spent or formally committed.

4. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires the recognition of all derivatives on the balance sheet at fair value. The Company will adopt the new Statement effective January 1, 2000 and anticipates it will have no significant effect on its results of operations or financial position.

5. COMPREHENSIVE INCOME

During the first quarter of 1999 and 1998, total comprehensive income was $1,614 and $24,314.

6. BUSINESS SEGMENTS

Effective January 1, 1999 the Company changed the structure of its internal organization and now includes the former Downhole Products segment as a component of the Products and Technology segment. Prior year segment information has been restated to reflect this change.

Segment information (unaudited) follows (in thousands):

	Quarter Ended March 31,	
	1999	1998
Revenues from unaffiliated customers		
Products and Technology	$ 99,163	$ 145,663
Distribution Services	86,170	156,189
Intersegment revenues		
Products and Technology	8,516	20,181
Distribution Services	--	--
Operating income (loss)		
Products and Technology	13,542	31,391
Distribution Services	(2,110)	5,238
Total profit for reportable segments	11,432	36,629
Unallocated corporate costs	(1,145)	(1,330)
Net interest expense	(3,708)	(1,027)
Other expense	(583)	(726)
Income before income taxes	$ 5,996	$ 33,546

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

INTRODUCTION

National-Oilwell 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. National-Oilwell's revenues are directly related to the level of worldwide oil and gas drilling and production activities and the profitability and cash flow of oil and gas companies and drilling contractors, which in turn are affected by current and anticipated prices of oil and gas. Beginning in late 1997, oil prices declined due to concerns about excess production, less demand from Asia due to an economic slowdown and warmer than average weather in many parts of the United States. The resulting lower demand for products and services is expected to have a negative impact on National-Oilwell's 1999 operating results. Beginning in March 1999, oil prices have recovered to approximately $18 per barrel. National-Oilwell expects its revenues to increase if its customers gain confidence in sustained commodity prices at this level.

RESULTS OF OPERATIONS

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

	Quarter Ended March 31, 1999	1998
Revenues		
Products and Technology	$ 107,679	$ 165,844
Distribution Services	86,170	156,189
Eliminations	(8,608)	(20,181)
Total	$ 185,241	$ 301,852
Operating Income		
Products and Technology	13,542	31,391
Distribution Services	(2,110)	5,238
Corporate	(1,145)	(1,330)
Total	$ 10,287	$ 35,299

Products and Technology

Effective January 1, 1999 the Company changed the structure of its internal organization and now includes the former Downhole Products segment as a component of the Products and Technology segment. Prior year segment information has been restated to reflect this change.

The Products and Technology segment designs and manufactures a large line of proprietary products, including drawworks, mud pumps, power swivels, electrical control systems and downhole motors and tools, as well as complete land drilling and well servicing rigs and structural components such as cranes, masts, derricks and substructures for offshore rigs. A substantial installed base of these products result in a recurring replacement parts and maintenance business. Sales of new capital equipment can result in large fluctuations in volume between periods depending on the size and timing of the shipment of orders. This segment also provides drilling pump expendable products for maintenance of National-Oilwell's and other manufacturers' equipment.

Revenues for the Products and Technology segment decreased by $58.2 million (35%) in the first quarter of 1999 as compared to the same quarter in 1998 due primarily to a decline of $46 million in the sale of major capital equipment and rig packages and reduced volume in the rental and sale of downhole motors, expendable pumps and related parts. Capital equipment sales were significantly lower in the derricks and masts, cranes and power swivel product categories. Operating income decreased by $17.8 million (57%) in the first quarter compared to the same quarter in 1998 resulting primarily from the lower revenue volume. Higher fixed costs resulting from acquisitions completed during 1998 also had an unfavorable impact, as operating income as a percentage of revenue fell from 19% to 13%.

Backlog of the Products and Technology group declined $27 million during the first quarter of 1999 and was $50 million at March 31, 1999, as receipt of new orders have slowed substantially. At March 31, 1998, backlog stood at $273 million. Substantially all of the current backlog will be shipped by the end of 1999.

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.

Distribution Services revenues during the first quarter of 1999 were below the comparable 1998 period by $70 million. This 45% decline is a direct result of reduced spending by customers due to low oil prices. Tubular revenues accounted for $45 million of this decline while the sale of MRO products in the United States was responsible for the rest of the decline. Operating income in the first quarter of 1999 was $7.3 million lower than the first quarter of 1998 due primarily to the reduced sales volume. Selling, general and administrative spending was $1.2 million lower than the first quarter of the prior year due to initiatives completed in 1998 to adjust to current market activity levels.

Corporate

Corporate costs during the first quarter of 1999 were comparable to the same period in the prior year.

Special Charges

During the fourth quarter of 1998, the Company recorded a special charge of $16.4 million related to operational changes resulting from the depressed market for the oil and gas industry. This charge was comprised of $11.0 million in estimated cash expenditures related to employee severance and facility exit costs and $5.4 million in the write-down of certain assets. As of March 31, 1999, approximately $10.6 million has been spent or formally committed.

Interest Expense

Interest expense increased during the three months ended March 31, 1999 when compared to the prior year due to the incurrence of debt to finance the May 1998 acquisition of Phoenix Energy Products Holdings, Inc.

LIQUIDITY AND CAPITAL RESOURCES
At March 31, 1999, the Company had working capital of $312 million, a $35 million decrease from December 31, 1998. Most of the cash generated from the working capital reduction has been used to repay outstanding debt under the Company's revolving credit facility. Additional decreases in debt are expected in the second quarter from further reductions in working capital.

Total capital expenditures were $4.1 million during the first three months of 1999. Enhancements to information and inventory control systems represent a large portion of these capital expenditures. The Company believes it has sufficient existing manufacturing capacity to meet currently anticipated demand through 1999 for its products and services.

The Company has a five-year unsecured $125 million revolving credit facility that is available for acquisitions and general corporate purposes. The credit facility provides for interest at prime or LIBOR plus 0.625% (7.75% and 5.625% at March 31,1999), subject to adjustment based on the Company's Capitalization Ratio, as defined therein. The credit facility contains financial covenants and ratios regarding minimum tangible net worth, maximum debt to capital and minimum interest coverage.

The Company believes that cash generated from operations and amounts available under the credit facility will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations.

The Company intends to pursue acquisition candidates, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. The Company expects to fund future 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 the Company.

YEAR 2000

The year 2000 issue is the result of computer programs having been written using two digits rather than four to define the applicable year. Any computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The new system installation for the Company's Distribution Services segment remains on target for completion in the third quarter of 1999 and will be Year 2000 compliant. In addition, the Company continues to implement modifications to its other business systems in order to achieve year 2000 date conversion compliance. The total cost of the year 2000 readiness is estimated at $1.0 million, of which approximately half has been spent. The Year 2000 review covers internal computer systems and process control systems, as well as embedded systems in products delivered. In addition, the Company continues to communicate with its significant suppliers, customers and business partners to determine the extent to which we are vulnerable to any failure of these third parties' to remedy their own Year 2000 issues. Third party vendors of hardware and packaged software have also been contacted about their products' compliance status. While the ability of third parties with whom the Company transacts business to address adequately their year 2000 issue is outside its control, the Company will evaluate the need to change sources as necessary.

Management believes that with installation of new systems, conversion to new software and modifications to existing software, the year 2000 issue will pose no significant operational problems for National-Oilwell. Completion of all new installations, conversions and necessary systems modifications and conversions is expected by September 30, 1999. Accordingly, the Company does not have a contingency plan with respect to the year 2000 issue. There can be no assurance, however, that the Company will be able to install and maintain year 2000 compliant software and should this occur, operational difficulties could result. In such circumstances, delays in financial processes could occur, but neither these nor any product-related problems are expected to have an adverse effect on the Company's financial position.

The costs of the project and the dates on which the Company believes it will complete its Year 2000 project are based on management's best estimates. These estimates were derived using numerous assumptions of future events, including continued availability of resources, third party's Year 2000 status and plans and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include the availability and cost of personnel, the ability to identify and correct all Year 2000 impacted areas, timely and effective action by third parties, the ability to implement interfaces between Year 2000-ready systems and those systems not being replaced, and other similar uncertainties.

FORWARD-LOOKING STATEMENTS

This document, other than historical financial information, contains forward-looking statements that involve risks and uncertainties. Such statements relate to the Company's revenues, sales of capital equipment, backlog, capacity, liquidity and capital resources and plans for acquisitions and any related financings. Readers are referred to documents filed by the Company with the Securities and Exchange Commission which identify significant risk factors which could cause actual results to differ from those contained in the forward-looking statements, including "Risk Factors" at Item 1 of the Annual Report on Form 10-K. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. The Company disclaims any obligation or intent to update any such factors or forward-looking statements to reflect future events or developments.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

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 12, 1999

/s/ Steven W. Krablin

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

INDEX TO EXHIBITS

Exhibit No.	Description
27.1	Financial Data Schedule

5
1,000

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
12,790
0
217,759
5,213
225,700
465,822
148,619
56,779
732,548
154,257
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185,241
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3,712
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