

NOW Inc.
Form 10-K
February 23, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE YEAR ENDED DECEMBER 31, 2015

OR

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

Commission file number 001-36325

NOW INC.

(Exact name of registrant as specified in its charter)

Delaware 46-4191184
(State of Incorporation) (IRS Identification No.)

7402 North Eldridge Parkway, Houston, Texas 77041

(Address of principal executive offices)

(281) 823-4700

(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 (Title of Class)	New York Stock Exchange (Exchange on which registered)
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2015 was \$2.1 billion. As of February 16, 2016, there were 107,295,275 shares of the Company's common stock (excluding 2,055,189 unvested restricted shares) outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement in connection with the 2016 Annual Meeting of Stockholders are incorporated in Part III of this report.

NOW INC.

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Note About Forward-Looking Statements

This report includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: “Business,” “Management’s Discussion and Analysis,” and “Risk Factors.” These forward-looking statements generally are identified by the words “may,” “believe,” “anticipate,” “expect,” “plan,” “predict,” “estimate,” “will be” or other similar words and phrases. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in “Risk Factors” (Part I, Item 1A of this Form 10-K), “Quantitative and Qualitative Disclosures about Market Risk” (Part II, Item 7A), and “Management’s Discussion and Analysis” (Part II, Item 7). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, except to the extent required by applicable law.

PART I

ITEM 1. BUSINESS

Corporate Structure

NOW Inc. (“NOW” or the “Company”), headquartered in Houston, Texas, was incorporated in Delaware on November 22, 2013. On May 30, 2014, the spin-off from National Oilwell Varco, Inc. (“NOV”) was completed and NOW became an independent, publicly traded company (the “Spin-Off” or “Separation”). In accordance with a separation and distribution agreement between NOV and NOW, the two companies were separated by NOV distributing to its stockholders 107,053,031 shares of common stock of NOW Inc. with each NOV stockholder receiving one share of NOW common stock for every four shares of NOV common stock held at the close of business on the record date of May 22, 2014 and not sold prior to close of business on May 30, 2014. We filed a registration statement on Form 10, as amended through the time of its effectiveness, describing the Spin-Off, which was declared effective by the U.S. Securities and Exchange Commission (“SEC”) on May 13, 2014. On June 2, 2014, NOW stock began trading “regular-way” on the New York Stock Exchange under the ticker symbol “DNOW”.

Overview

We are a global distributor to energy and industrial markets with a legacy of over one-hundred and fifty years. We operate primarily under the DistributionNOW and Wilson Export brands. Through our network of over 300 locations and approximately 5,000 employees worldwide, we stock and sell a comprehensive offering of energy products as well as an extensive selection of products for industrial applications. Our energy product offering is consumed throughout all sectors of the oil and gas industry – from upstream drilling and completion, exploration and production (“E&P”), midstream infrastructure development to downstream petroleum refining – as well as in other industries, such as chemical processing, utilities and industrial manufacturing operations. The industrial distribution portion of our business targets a diverse range of end markets, including manufacturing, engineering and construction and refineries. We also provide supply chain management to drilling contractors, E&P operators, midstream operators and downstream energy and industrial manufacturing companies around the world.

Our global product offering includes consumable maintenance, repair and operating (“MRO”) supplies, pipe, valves, fittings, flanges, electrical, artificial lift solutions, pumps, mill tools, safety supplies and spare parts to support customers’ operations. We provide a one-stop shop value proposition within the energy market and particularly in

targeted areas of artificial lift, pumping solutions, measurement and controls and valve actuation. We also offer warehouse and inventory management solutions as part of a comprehensive supply chain and materials management offering. Through focused effort, we have developed expertise in providing application systems and parts integration, optimization solutions and after-sales support.

Our supply chain solutions include outsourcing the functions of procurement, inventory and warehouse management, logistics, point of issue technology, project management, business process and performance metrics reporting. This solution allows us to leverage the infrastructure of our SAPTM Enterprise Resource Planning (“ERP”) system and others to streamline our customers’ purchasing process, from requisition to procurement to payment, by digitally managing workflow, improving approval routing and providing robust reporting functionality.

We support land and offshore operations for all the major oil and gas producing regions around the world through our comprehensive network of energy branch locations. Our key markets, beyond North America, include Latin America, the North Sea, the Middle East,

Asia Pacific and the Former Soviet Union (“FSU”). Products sold through our energy branch locations support greenfield and expansion upstream capital projects, midstream infrastructure and MRO and manufacturing consumables used in day-to-day production. We provide downstream energy and industrial products for petroleum refining, chemical processing, power generation and industrial manufacturing operations through Supply Chain and customer on-site locations.

We stock or sell more than 300,000 stock keeping units (“SKUs”) through our branch network. Our supplier network consists of thousands of vendors in approximately 40 countries. From our operations in over 20 countries we sell to customers operating in over 90 countries. The supplies and equipment stocked by each of our branches is customized to meet varied and changing local customer demands. The breadth and scale of our offering enhances our value proposition to vendors, customers and shareholders.

We employ advanced information technologies, including a common ERP platform across substantially all of our business, to provide complete procurement, materials management and logistics coordination to our customers around the globe. Having a common ERP platform allows immediate visibility into the financials and operations of our branches worldwide, enhancing decision-making and efficiency.

Global Operations

Demand for our products is driven primarily by the level of oil and gas drilling, servicing and production, transmission, refining and petrochemical activities. It is also influenced by the global economy in general and by government policies. Several factors drive spending, such as investment in energy infrastructure, the North American shale plays and market expectations of future developments in the oil, natural gas, liquids, refined products, petrochemical, plant maintenance and other industrial, manufacturing and energy sectors. Approximately half of our revenue is historically attributable to multi-year MRO arrangements. These arrangements are generally repetitive activities that address recurring maintenance, repair, operational work, well hookups and drilling activities. Project activities, including facility maintenance (turnarounds), expansions, exploration and new construction projects, are usually associated with customers’ capital expenditure budgets, sometimes in association with their construction partners. We mitigate our exposure to price volatility by limiting the length of price protection on such projects which allows us to adjust pricing depending on factors that influence our supply chain.

We have benefited from several strategic acquisitions during the past several years, including Wilson International, Inc. (“Wilson”) and CE Franklin Ltd. (“CE Franklin”), both of which were completed in 2012. We have also expanded globally, through acquisitions and organic investments, into Australia, Azerbaijan, Brazil, Canada, Colombia, England, Kazakhstan, Mexico, Netherlands, Norway, Philippines, Russia, Scotland, Singapore, United Arab Emirates and the United States.

Summary of Reportable Segments

We operate through three reportable segments: United States (“U.S.”), Canada and International. The segment data included in our Management’s Discussion and Analysis (“MD&A”) are presented on a basis consistent with our internal management reporting. Segment information appearing in Note 15 “Business Segments” of the Notes to Financial Statements (Part IV, Item 15 of this Form 10-K) is also presented on this basis.

The following table sets forth the contribution to our total revenues of our three reporting segments (in millions):

	Year Ended December 31,		
	2015	2014	2013
Revenue:			
United States	\$2,027	\$2,793	\$2,863
Canada	378	669	773
International	605	643	660
Total Revenue	\$3,010	\$4,105	\$4,296

United States

We have more than 200 locations in the U.S., which are geographically positioned to best serve the upstream, midstream and downstream energy and industrial markets.

We also have extensive one-stop shop specialty operations in the U.S. that provide our customers a unique opportunity to purchase artificial lift, pumps, valves and valve actuation, measurement and controls and fluid transfer products which enables them to better focus on their core business. In these businesses, we provide additional value to our customers through the design, assembly, fabrication and optimization of products and equipment essential to the safe and efficient production of oil and gas and industrial manufacturing processes.

In 2015, we grew our footprint in the U.S. energy and industrial markets with the acquisitions of Challenger Industries, Inc., Machine Tools Supply (“MTS”) and Odessa Pumps and Equipment, Inc. that expanded our tool supply and pumping solutions businesses.

Canada

We have a network of approximately 60 locations in the Canadian oilfield, predominantly in the oil rich provinces of Alberta and Saskatchewan in Western Canada. Our Canada segment primarily serves the energy exploration, production and drilling business, offering customers the same products and value-added solutions that we perform in the U.S. In Canada, we also provide training for and supervise the installation of fiberglass pipe, supported by substantial inventory and product expertise to serve our customers.

International

We operate in over 20 countries and serve the needs of our international customers from approximately 40 locations outside of the U.S. and Canada, all of which are strategically located in major oil and gas development areas. Our approach in these markets is similar to our approach in the U.S., as our customers turn to us to provide inventory and

support closer to their drilling and exploration activities. Our long legacy of operating in many international regions, combined with significant expansion into several new key markets, provides a competitive advantage as few of our competitors have a presence in the U.S., Canada and international markets.

In 2015, we grew our international presence in the United Kingdom and Norway with the acquisitions of John MacLean & Sons Electrical, North Sea Cables and Oasis Group that expanded our electrical and mill, tool and safety businesses.

Distribution Industry Overview

The distribution industry is highly fragmented, comprised of large companies with global reach and numerous small, local and regional competitors that present substantial opportunities for consolidation and product extensions.

Distribution companies act both as supply stores and supply chain management providers for their customers. Distributors deliver value to their customers by serving as a supply chain partner by managing vendor networks and aggregating, carrying and distributing a wide range of product inventory from numerous vendors in locations close to the end user.

Our Distribution Channels

We offer a diverse range of products across the energy and industrial markets in the U.S., Canada and internationally. There are thousands of manufacturers of the products used in the markets in which we operate and customers demand a high level of service, responsiveness and availability across a broad set of products and vendors. These market dynamics make the distributor an essential element in the value chain. Our product offering is aligned to meet the needs of our customer base.

Energy Branches

Our energy branches are the legacy brick and mortar supply store operations that provide products to multiple upstream and midstream customers from a single location. These branches serve repeat account and walk-in retail customers, across a variety of pricing models. Products are inventoried in our branch warehouses based on local market needs and are delivered or available for pick-up as needed. The branches serve a geographical radius providing delivery of products and solutions.

Our energy branches primarily serve the upstream and midstream sectors of the energy industry with locations in major land and offshore areas. Within our branch network, we have a team of sales and operations professionals trained in the products, applications and customer service required to support our customers as they drill, explore, produce, transport and refine oil and gas products. Our locations offer a comprehensive line of products, including line pipe, valves, fittings and flanges, pumps, original equipment manufacturer (“OEM”) spare parts, mill supplies, tools, safety supplies, personal protective equipment and miscellaneous expendable items. We also have a team of technical professionals who provide expertise in applied products and applications, such as artificial lift systems, coatings, pumps, electrical products, gas meter runs and valve actuation.

Supply Chain

Our Supply Chain group targets the upstream and downstream energy, industrial and manufacturing end markets, in which our customers are generally contractually incentivized through mutually beneficial financial incentives to source from us under a single business model that includes a fixed pricing structure. We reach a broader customer segment to include downstream, industrial and manufacturing; are typically integrated into our customers’ facilities; have on-site NOW branches and inventory committed to a specific customer; perform duties otherwise managed by our customers; manage third party materials on behalf of our customers; employ vending machines and/or tool cribs to store and dispense materials on-demand; and have technology to enable efficiencies and key performance indicators to be measured and reported specifically to each customer.

Our Supply Chain locations serve the upstream and downstream energy, industrial and manufacturing end markets at our customers’ on-site locations. Through our network of downstream and industrial facilities staffed by skilled personnel, we provide products primarily to refineries, chemical companies, utilities, manufacturers and engineering and construction companies in the areas of the country where these markets are situated. Our primary product offering for the downstream, industrial and manufacturing markets includes various grades of pipe, valves, fittings, mill supplies, machine and cutting tools, power and hand tools and safety supplies. Additionally, our downstream and industrial focused locations offer safety equipment, including repair and maintenance, and also provide planning, sourcing and expediting of orders throughout the lifecycle of large capital projects. Our Supply Chain locations serve many oil and gas operators, drilling contractors and industrial manufacturers. Supply Chain customers outsource procurement functions to us, which brings our sizeable vendor network to their doorstep and enables them to benefit from on-site management of their warehouses, inventory, materials, projects, logistics and manufacturing tool cribs. Customers engage our Supply Chain solutions to improve their bottom lines and accelerate their time to market through the identification and implementation of measurable operational efficiencies. To achieve this, we partner with

our customers to evaluate their current operations, which allows us to make informed recommendations regarding the restructuring of processes and inventories. Our Supply Chain solutions are customized to each customer's requirements and guided by a strategic framework.

Customers

Our primary customers are companies active in the upstream, midstream and downstream sectors of the energy industry, including drilling contractors, well servicing companies, independent and national oil and gas companies, midstream operators, refineries, petrochemical, chemical, utilities and other downstream energy processors. We also serve a diverse range of industrial and manufacturing companies across a broad spectrum of industries and end markets. We partner with our customers to continually meet or exceed their expectations and add value as a supply chain partner in the locations where they operate. Our products are typically critical to our customers' operations, yet represent only a small fraction of the total project or facility cost. As a result, our customers seek suppliers with established qualifications and an operational history to deliver high quality and reliable products that meet their requirements in a timely manner.

As customers, particularly in the energy industry, increasingly aggregate purchases to improve efficiency and reduce costs, they partner with large distributors who can meet their needs for products in multiple locations around the world. We believe we could benefit from consolidation among the energy companies we serve, as the larger resulting companies look to large distributors as their source for products and related solutions.

No single customer represents more than 10% of our revenue. Our top 20 customers in aggregate represent approximately one-third of our revenue.

Competition

The distribution companies serving the energy and industrial end markets are both numerous and competitive. This industry is highly fragmented, comprised of large distributors, each with many locations, who aggregate and distribute several product lines, or the distributor could be a product line specialist, as well as numerous smaller regional and local companies, many of which operate from a single location and either aggregate and distribute several product lines or focus on a single product line. While some large distributors compete in both markets, most companies focus on either the energy or industrial end market. In the energy market, some of the larger companies against whom we compete include Ferguson Enterprises, Inc. (a subsidiary of Wolseley, plc), MRC Global, Inc., Russell Metals, Inc., DXP Enterprises, Inc. and Shale-Inland Holdings LLC. In the industrial market, some of the larger companies against whom we compete include Ferguson Enterprises, Inc. (a subsidiary of Wolseley, plc), W.W. Grainger, Inc., HD Supply, Inc., MSC Industrial Direct Co., Inc., Applied Industrial Technologies, Inc., DXP Enterprises, Inc. and Fastenal Company.

Seasonal Nature of the Company's Business

Historically, a portion of our business has experienced seasonal trends, to some degree, which have varied by geographic region. In the U.S., activity has historically been higher during the summer and fall months. In Canada, certain E&P activities have declined in the spring due to seasonal thaws and regulatory restrictions limiting the ability of drilling rigs and transportation to operate effectively and safely during these periods. However, these activities have typically rebounded during the third and fourth quarters.

Employees

At December 31, 2015 we had approximately 5,000 employees, of which approximately 300 were temporary employees. Some of our employees in various foreign locations are subject to collective bargaining agreements. Less than one percent of our employees in the U.S. are subject to collective bargaining agreements. We offer market competitive benefits for employees and opportunities for growth and advancement. We believe our relationship with our employees is good.

Environmental Matters

We are subject to a variety of federal, state, local, foreign and provincial environmental, health and safety laws, regulations and permitting requirements, including those governing the discharge of pollutants or hazardous substances into the air, soil or water, the generation, handling, use, management, storage and disposal of, or exposure to, hazardous substances and wastes, the responsibility to investigate, remediate, monitor and clean up contamination and occupational health and safety. Fines and penalties may be imposed for non-compliance with applicable environmental, health and safety requirements and the failure to have or to comply with the terms and conditions of required permits. Historically, the costs to comply with environmental and health and safety requirements have not been material to our financial position, results of operations or cash flows. We are not aware of any pending environmental compliance or remediation matters that, in the opinion of management, are reasonably likely to have a

material effect on our business, financial position or results of operations or cash flows.

Available Information

Our website address is www.distributionnow.com. The information found on our website is not part of this or any other report we file with, or furnish to, the SEC and is expressly not incorporated by reference into this document. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website, free of charge, as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. Alternatively, you may access these reports at the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS

You should carefully consider each of the following risks in addition to all other information contained or incorporated herein. Some of these risks relate principally to the Spin-Off, while others relate principally to our business and the industry in which we operate or

to the securities markets generally and ownership of our common stock. Our business, prospects, financial condition, results of operations or cash flows could be materially and adversely affected by any of these risks, and, as a result, the trading price of our common stock could decline. This information should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 7A, Quantitative and Qualitative Disclosures about Market Risks and the consolidated financial statements and related notes included in this Form 10-K.

Risks Relating to Our Business

Decreased capital and other expenditures in the energy industry, which can result from decreased oil and natural gas prices, among other things, can adversely impact our customers' demand for our products and our revenue.

A large portion of our revenue depends upon the level of capital and operating expenditures in the oil and natural gas industry, including capital and other expenditures in connection with exploration, drilling, production, gathering, transportation, refining and processing operations. Demand for the products we distribute is particularly sensitive to the level of exploration, development and production activity of, and the corresponding capital and other expenditures by, oil and natural gas companies. Oil and natural gas prices have been extremely volatile since 2014. Continued volatility and weakness in oil or natural gas prices could depress levels of exploration, development and production activity and, therefore, could lead to a decrease in our customers' capital and other expenditures.

The willingness of oil and gas operators to make capital and operating expenditures to explore for and produce oil and natural gas and the willingness of oilfield service companies to invest in capital and operating equipment will continue to be influenced by numerous factors over which we have no control, including:

- the ability of the members of the Organization of Petroleum Exporting Countries ("OPEC") to maintain price stability through voluntary production limits, the level of production by non-OPEC countries and worldwide demand for oil and gas;
- the level of production from known reserves;
- the cost of exploring for and producing oil and gas;
- the level of drilling activity and drilling rig day rates;
- worldwide economic activity;
- national government political requirements;
- the development of alternate energy sources; and
- environmental regulations.

If there is a significant reduction in demand for drilling services, in cash flows of drilling contractors, well servicing companies or production companies, or in drilling or well servicing rig utilization rates, then demand for our products will decline.

Volatile oil and gas prices affect demand for our products.

Demand for our products is largely determined by current and anticipated oil and natural gas prices, and the related spending and level of activity by our customers, including spending on production and level of drilling activities. Volatility or weakness in oil or natural gas prices (or the perception that oil or natural gas prices will decrease) affects the spending pattern of our customers, and may result in the drilling of fewer new wells or lower production spending on existing wells. This, in turn, could result in lower demand for our products. Any sustained decrease in capital expenditures in the oil and natural gas industry could have a material adverse effect on us.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of other factors that are beyond our control.

Crude oil prices have declined significantly since 2014, with West Texas Intermediate (WTI) oil spot prices declining from a high of \$108 per barrel in June 2014 to a low of approximately \$27 per barrel in January 2016. We believe 2016 will be another challenging and volatile year for crude oil prices, which we anticipate will result in customers continuing to make downward revisions to their operating budgets. Any such reduction in operating budgets, reduction in activity and/or pricing pressures, would adversely affect our revenue and operating performance.

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Many factors affect the supply of and demand for energy and, therefore, influence oil and natural gas prices, including:

- the level of domestic and worldwide oil and natural gas production and inventories;
- the level of drilling activity and the availability of attractive oil and natural gas field prospects, which governmental actions may affect, such as regulatory actions or legislation, or other restrictions on drilling, including those related to environmental concerns (e.g., a temporary moratorium on deepwater drilling in the Gulf of Mexico following a rig accident or oil spill);
- the discovery rate of new oil and natural gas reserves and the expected cost of developing new reserves;
- the actual cost of finding and producing oil and natural gas;
- depletion rates;
- domestic and worldwide refinery overcapacity or under capacity and utilization rates;
- the availability of transportation infrastructure and refining capacity;
- increases in the cost of products that the oil and gas industry uses, such as those that we provide, which may result from increases in the cost of raw materials such as steel;
- shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- the economic or political attractiveness of alternative fuels, such as coal, hydrocarbon, wind, solar energy and biomass-based fuels;
- increases in oil and natural gas prices or historically high oil and natural gas prices, which could lower demand for oil and natural gas products;
- worldwide economic activity including growth in non-Organization for Economic Co-operation and Development (“OECD”) countries, including China and India;
- interest rates and the cost of capital;
- national government policies, including government policies that could nationalize or expropriate oil and natural gas E&P, refining or transportation assets;
- the ability of OPEC to set and maintain production levels and prices for oil;
- the impact of armed hostilities, or the threat or perception of armed hostilities;
- environmental regulation;
- technological advances;
- global weather conditions and natural disasters;
- currency fluctuations; and
- tax policies.

Oil and natural gas prices have been and are expected to remain volatile. U.S. rig count at February 12, 2016 was 541 rigs, down approximately 45% compared to the 2015 average of 977 rigs. The price for WTI crude was \$29.71 per barrel at February 8, 2016, down approximately 39% from the 2015 average. Crude oil prices are not currently forecasted to improve significantly in 2016. This type of volatility has historically caused oil and natural gas companies to change their strategies and expenditure levels from year to year. We have experienced in the past, and we will likely experience in the future, significant fluctuations in operating results based on these changes.

General economic conditions may adversely affect our business.

U.S. and global general economic conditions affect many aspects of our business, including demand for the products we distribute and the pricing and availability of supplies. General economic conditions and predictions regarding future economic conditions also affect our forecasts. A decrease in demand for the products we distribute or other adverse effects resulting from an economic downturn may cause us to fail to achieve our anticipated financial results. General economic factors beyond our control that affect our business and customers include interest rates, recession, inflation, deflation, customer credit availability, consumer credit availability, consumer debt levels, performance of housing markets, energy costs, tax rates and policy, unemployment rates, commencement or escalation of war or hostilities, the threat or possibility of war, terrorism or other global or national unrest, political or financial instability,

and other

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matters that influence our customers' spending. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency or increase in magnitude. In addition, worldwide economic conditions could have an adverse effect on our business, prospects, operating results, financial condition and cash flows.

We may be unable to compete successfully with other companies in our industry.

We sell products in very competitive markets. In some cases, we compete with large companies with substantial resources. In other cases, we compete with smaller regional companies that may increasingly be willing to provide similar products at lower prices. Certain of these competitors may have greater financial, technical and marketing resources than us, and may be in a better competitive position. The following competitive actions can each adversely affect our revenues and earnings:

- price changes;
 - vendors with better terms;
- consolidation in the industry;
- investments in technology and fulfillment; and
- improvements in availability and delivery.

We could experience a material adverse effect to the extent that our competitors are successful in reducing our customers' purchases of products from us. Competition could also cause us to lower our prices, which could reduce our margins and profitability. Furthermore, consolidation in our industry could heighten the impacts of the competition on our business and results of operations discussed above, particularly if consolidation results in competitors with stronger financial and strategic resources, and could also result in increases to the prices we are required to pay for acquisitions we may make in the future. In addition, certain foreign jurisdictions and government-owned petroleum companies located in some of the countries in which we operate have adopted policies or regulations which may give local nationals in these countries competitive advantages. Competition in our industry could lead to lower revenues and earnings.

Demand for the products we distribute could decrease if the manufacturers of those products were to sell a substantial amount of goods directly to end users in the sectors we serve.

Historically, users of pipes, valves and fittings and related products have purchased certain amounts of these products through distributors and not directly from manufacturers. If customers were to purchase the products that we sell directly from manufacturers, or if manufacturers sought to increase their efforts to sell directly to end users, we could experience a significant decrease in profitability. These or other developments that remove us from, or limit our role in, the distribution chain, may harm our competitive position in the marketplace and reduce our sales and earnings and adversely affect our business.

We may need additional capital in the future, and it may not be available on acceptable terms, or at all.

We may require more capital in the future to:

- fund our operations;
- finance investments in equipment and infrastructure needed to maintain and expand our distribution capabilities;
- enhance and expand the range of products we offer; and
- respond to potential strategic opportunities, such as investments, acquisitions and international expansion.

We can give no assurance that additional financing will be available on terms favorable to us, or at all. The terms of available financing may place limits on our financial and operating flexibility. If adequate funds are not available on acceptable terms, we may be forced to reduce our operations or delay, limit or abandon expansion opportunities.

Moreover, even if we are able to continue our operations, the failure to obtain additional financing could reduce our competitiveness.

We may experience unexpected supply shortages.

We distribute products from a wide variety of manufacturers and suppliers. Nevertheless, in the future we may have difficulty obtaining the products we need from suppliers and manufacturers as a result of unexpected demand or production difficulties that might extend lead times. Also, products may not be available to us in quantities sufficient to meet our customer demand. Our inability to obtain products from suppliers and manufacturers in sufficient quantities, or at all, could adversely affect our product offerings and our business.

We may experience cost increases from suppliers, which we may be unable to pass on to our customers.

In the future, we may face supply cost increases due to, among other things, unexpected increases in demand for supplies, decreases in production of supplies or increases in the cost of raw materials or transportation. Any inability to pass supply price increases on to our customers could have a material adverse effect on us. In addition, if supply costs increase, our customers may elect to purchase smaller amounts of products or may purchase products from other distributors. While we may be able to work with our customers to reduce the effects of unforeseen price increases because of our relationships with them, we may not be able to reduce the effects of the cost increases. In addition, to the extent that competition leads to reduced purchases of products from us or a reduction of our prices, and these reductions occur concurrently with increases in the prices for selected commodities which we use in our operations, the adverse effects described above would likely be exacerbated and could result in a prolonged downturn in profitability.

We do not have contracts with most of our suppliers. The loss of a significant supplier would require us to rely more heavily on our other existing suppliers or to develop relationships with new suppliers. Such a loss may have an adverse effect on our product offerings and our business.

Given the nature of our business, and consistent with industry practice, we do not have contracts with most of our suppliers. We generally make our purchases through purchase orders. Therefore, most of our suppliers have the ability to terminate their relationships with us at any time. Although we believe there are numerous manufacturers with the capacity to supply the products we distribute, the loss of one or more of our major suppliers could have an adverse effect on our product offerings and our business. Such a loss would require us to rely more heavily on our other existing suppliers or develop relationships with new suppliers, which may cause us to pay higher prices for products due to, among other things, a loss of volume discount benefits currently obtained from our major suppliers.

Price reductions by suppliers of products that we sell could cause the value of our inventory to decline. Also, these price reductions could cause our customers to demand lower sales prices for these products, possibly decreasing our margins and profitability on sales to the extent that we purchased our inventory of these products at the higher prices prior to supplier price reductions.

The value of our inventory could decline as a result of manufacturer price reductions with respect to products that we sell. There is no assurance that a substantial decline in product prices would not result in a write-down of our inventory value. Such a write-down could have an adverse effect on our financial condition. Also, decreases in the market prices of products that we sell could cause customers to demand lower sales prices from us. These price reductions could reduce our margins and profitability on sales with respect to the lower-priced products. Reductions in our margins and profitability on sales could have a material adverse effect on us.

A substantial decrease in the price of steel could significantly lower our product margin or cash flow.

We distribute many products manufactured from steel. As a result, the price and supply of steel can affect our business and, in particular, our tubular product category. When steel prices are lower, the prices that we charge customers for

products may decline, which affects our product margin and cash flow. At times pricing and availability of steel can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, sales levels, competition, consolidation of steel producers, fluctuations in and the costs of raw materials necessary to produce steel, steel manufacturers' plant utilization levels and capacities, import duties and tariffs and currency exchange rates. Increases in manufacturing capacity for the tubular products could put pressure on the prices we receive for our tubular products. When steel prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sales prices and, consequently, lower product margin and cash flow.

If steel prices rise, we may be unable to pass along the cost increases to our customers.

We maintain inventories of steel products to accommodate the lead time requirements of our customers. Accordingly, we purchase steel products in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon historic buying practices, contracts with customers and market conditions. Our commitments to purchase steel products are generally at prevailing market prices in effect at the time we place our orders. If steel prices increase between the time we

order steel products and the time of delivery of the products to us, our suppliers may impose surcharges that require us to pay for increases in steel prices during the period. Demand for the products we distribute, the actions of our competitors and other factors will influence whether we will be able to pass on steel cost increases and surcharges to our customers, and we may be unsuccessful in doing so.

We do not have long-term contracts or agreements with many of our customers. The contracts and agreements that we do have generally do not commit our customers to any minimum purchase volume. The loss of a significant customer may have a material adverse effect on us.

Given the nature of our business, and consistent with industry practice, we do not have long-term contracts with many of our customers. In addition, our contracts, including our MRO contracts, generally do not commit our customers to any minimum purchase volume. Therefore, a significant number of our customers, including our MRO customers, may terminate their relationships with us or reduce their purchasing volume at any time. Furthermore, the long-term customer contracts that we do have are generally terminable without cause on short notice. Our 20 largest customers represented approximately one-third of our revenue for the year ended December 31, 2015. The products that we may sell to any particular customer depend in large part on the size of that customer's capital expenditure budget in a particular year and on the results of competitive bids for major projects. Consequently, a customer that accounts for a significant portion of our sales in one fiscal year may represent an immaterial portion of our sales in subsequent fiscal years. The loss of a significant customer, or a substantial decrease in a significant customer's orders, may have an adverse effect on our sales and revenue.

In addition, we are subject to customer audit clauses in many of our multi-year contracts. If we are not able to provide the proper documentation or support for invoices per the contract terms, we may be subject to negotiated settlements with our major customers.

Changes in our customer and product mix could cause our product margin to fluctuate.

From time to time, we may experience changes in our customer mix or in our product mix. Changes in our customer mix may result from geographic expansion, daily selling activities within current geographic markets and targeted selling activities to new customer segments. Changes in our product mix may result from marketing activities to existing customers and needs communicated to us from existing and prospective customers. If customers begin to require more lower-margin products from us and fewer higher-margin products, our business, results of operations and financial condition may suffer.

Customer credit risks could result in losses.

The concentration of our customers in the energy industry may impact our overall exposure to credit risk as customers may be similarly affected by prolonged changes in economic and industry conditions. Further, laws in some jurisdictions in which we operate could make collection difficult or time consuming. We perform ongoing credit evaluations of our customers and do not generally require collateral in support of our trade receivables. While we maintain reserves for expected credit losses, we cannot assure these reserves will be sufficient to meet write-offs of uncollectible receivables or that our losses from such receivables will be consistent with our expectations.

We may be unable to successfully execute or effectively integrate acquisitions.

One of our key operating strategies is to selectively pursue acquisitions, including large scale acquisitions, to continue to grow and increase profitability. However, acquisitions, particularly of a significant scale, involve numerous risks and uncertainties, including intense competition for suitable acquisition targets, the potential unavailability of financial resources necessary to consummate acquisitions in the future, increased leverage due to additional debt

financing that may be required to complete an acquisition, dilution of our stockholders' net current book value per share if we issue additional equity securities to finance an acquisition, difficulties in identifying suitable acquisition targets or in completing any transactions identified on sufficiently favorable terms, assumption of undisclosed or unknown liabilities and the need to obtain regulatory or other governmental approvals that may be necessary to complete acquisitions. In addition, any future acquisitions may entail significant transaction costs and risks associated with entry into new markets.

Even when acquisitions are completed, integration of acquired entities can involve significant difficulties, such as:

- failure to achieve cost savings or other financial or operating objectives with respect to an acquisition;
- complications and issues resulting from the integration/conversion of ERP systems;
- strain on the operational and managerial controls and procedures of our business, and the need to modify systems or to add management resources;

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- difficulties in the integration and retention of customers or personnel and the integration and effective deployment of operations or technologies;
- amortization of acquired assets, which would reduce future reported earnings;
- possible adverse short-term effects on our cash flows or operating results;
 - diversion of management's attention from the ongoing operations of our business;
- integrating personnel with diverse backgrounds and organizational cultures;
 - coordinating sales and marketing functions;
- failure to obtain and retain key personnel of an acquired business; and
- assumption of known or unknown material liabilities or regulatory non-compliance issues.

Failure to manage these acquisition growth risks could have an adverse effect on us.

We are a holding company and depend upon our subsidiaries for our cash flow.

We are a holding company. Our subsidiaries conduct all of our operations and own substantially all of our assets. Consequently, our cash flow and our ability to meet our obligations or to make other distributions in the future will depend upon the cash flow of our subsidiaries and our subsidiaries' payment of funds to us in the form of dividends, tax sharing payments or otherwise.

The ability of our subsidiaries to make any payments to us will depend on their earnings, the terms of their current and future indebtedness, tax considerations and legal and contractual restrictions on the ability to make distributions.

Our subsidiaries are separate and distinct legal entities. Any right that we have to receive any assets of or distributions from any of our subsidiaries upon the bankruptcy, dissolution, liquidation or reorganization, or to realize proceeds from the sale of their assets, will be junior to the claims of that subsidiary's creditors, including trade creditors and holders of debt that the subsidiary issued.

Changes in our credit profile may affect our relationship with our suppliers, which could have a material adverse effect on our liquidity.

Changes in our credit profile may affect the way our suppliers view our ability to make payments and may induce them to shorten the payment terms of their invoices. Given the large dollar amounts and volume of our purchases from suppliers, a change in payment terms may have a material adverse effect on our liquidity and our ability to make payments to our suppliers and, consequently, may have a material adverse effect on us.

If tariffs and duties on imports into the U.S. of line pipe or certain of the other products that we sell are lifted, we could have too many of these products in inventory competing against less expensive imports.

U.S. law currently imposes tariffs and duties on imports from certain foreign countries of line pipe and, to a lesser extent, on imports of certain other products that we sell. If these tariffs and duties are lifted or reduced or if the level of these imported products otherwise increases, and our U.S. customers accept these imported products, we could be materially and adversely affected to the extent that we would then have higher-cost products in our inventory or increased supplies of these products drive down prices and margins. If prices of these products were to decrease significantly, we might not be able to profitably sell these products, and the value of our inventory would decline. In addition, significant price decreases could result in a significantly longer holding period for some of our inventory.

We are subject to strict environmental, health and safety laws and regulations that may lead to significant liabilities and negatively impact the demand for our products.

We are subject to a variety of federal, state, local, foreign and provincial environmental, health and safety laws; regulations and permitting requirements, including those governing the discharge of pollutants or hazardous substances into the air, soil or water, the generation, handling, use, management, storage and disposal of, or exposure to, hazardous substances and wastes, the responsibility to investigate and clean up contamination and occupational health and safety. Regulations and courts may impose fines and penalties for non-compliance with applicable environmental, health and safety requirements and the failure to have or to comply with the terms and conditions of required permits. Our failure to comply with applicable environmental, health and safety requirements could result in fines, penalties, enforcement actions, third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Certain laws and regulations, such as the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA” or the “U.S. federal Superfund law”) or its state and foreign equivalents, may impose the obligation to investigate and remediate contamination at a facility on current and former owners or operators or on persons who may have sent waste to that facility for disposal. These laws and regulations may impose liability without regard to fault or to the legality of the activities giving rise to the contamination.

Moreover, we may incur liabilities in connection with environmental conditions currently unknown to us relating to our existing, prior or future owned or leased sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired. We believe that indemnities contained in certain of our acquisition agreements may cover certain environmental conditions existing at the time of the acquisition, subject to certain terms, limitations and conditions. However, if these indemnification provisions terminate or if the indemnifying parties do not fulfill their indemnification obligations, we may be subject to liability with respect to the environmental matters that those indemnification provisions address. In addition, environmental, health and safety laws and regulations applicable to our business and the business of our customers, including laws regulating the energy industry, and the interpretation or enforcement of these laws and regulations, are constantly evolving. It is impossible to predict accurately the effect that changes in these laws and regulations, or their interpretation or enforcement, may have on us.

Should environmental laws and regulations, or their interpretation or enforcement, become more stringent, our costs, or the costs of our customers, could increase, which may have a material adverse effect on us.

We may not have adequate insurance for potential liabilities, including liabilities arising from litigation.

In the ordinary course of business, we have and in the future may become the subject of various claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, the products we distribute, employees and other matters, including potential claims by individuals alleging exposure to hazardous materials as a result of the products we distribute or our operations. Some of these claims may relate to the activities of businesses that we have acquired, even though these activities may have occurred prior to our acquisition of the businesses. The products we distribute are sold primarily for use in the energy industry, which is subject to inherent risks that could result in death, personal injury, property damage, pollution, release of hazardous substances or loss of production. In addition, defects in the products we distribute could result in death, personal injury, property damage, pollution, release of hazardous substances or damage to equipment and facilities. Actual or claimed defects in the products we distribute may give rise to claims against us for losses and expose us to claims for damages.

We maintain insurance to cover certain of our potential losses, and we are subject to various self-retentions, deductibles and caps under our insurance. We face the following risks with respect to our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;
 - we may incur losses from interruption of our business that exceed our insurance coverage;
- we may be faced with types of liabilities that will not be covered by our insurance;
- our insurance carriers may not be able to meet their obligations under the policies; or
- the dollar amount of any liabilities may exceed our policy limits.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on us.

Finally, even in cases where we maintain insurance coverage, our insurers may raise various objections and exceptions to coverage that could make uncertain the timing and amount of any possible insurance recovery.

Due to our position as a distributor, we are subject to personal injury, product liability and environmental claims involving allegedly defective products.

Our customers use certain of the products we distribute in potentially hazardous applications that can result in personal injury, product liability and environmental claims. A catastrophic occurrence at a location where end users use the products we distribute may result in us being named as a defendant in lawsuits asserting potentially large claims, even though we did not manufacture the products. Applicable law may render us liable for damages without regard to negligence or fault. In particular, certain environmental laws provide for joint and several and strict liability for remediation of spills and releases of hazardous substances. Certain of these risks are reduced by the fact that we are a distributor of products that third-party manufacturers produce, and, thus, in certain circumstances, we may have third-party warranty or other claims against the manufacturer of products alleged to have been defective. However, there is no assurance that these claims could fully protect us or that the manufacturer would be able financially to provide protection. There is no assurance that our insurance coverage will be adequate to cover the underlying claims. Our insurance does not provide coverage for all liabilities (including liability for certain events involving pollution or other environmental claims).

If we lose any of our key personnel, we may be unable to effectively manage our business or continue our growth.

Our future performance depends to a significant degree upon the continued contributions of our management team and our ability to attract, hire, train and retain qualified managerial, sales and marketing personnel. In particular, we rely on our sales and marketing teams to create innovative ways to generate demand for the products we distribute. The loss or unavailability to us of any member of our management team or a key sales or marketing employee could have a material adverse effect on us to the extent we are unable to timely find adequate replacements. We face competition for these professionals from our competitors, our customers and other companies operating in our industry. We may be unsuccessful in attracting, hiring, training and retaining qualified personnel.

Interruptions in the proper functioning of our information systems could disrupt operations and cause increases in costs or decreases in revenues.

The proper functioning of our information systems is critical to the successful operation of our business. We depend on our information management systems to process orders, track credit risk, manage inventory and monitor accounts receivable collections. Our information systems also allow us to efficiently purchase products from our vendors and ship products to our customers on a timely basis, maintain cost-effective operations and provide superior service to our customers. However, our information systems could be vulnerable to natural disasters, power losses, telecommunication failures, security breaches and other problems. If critical information systems fail or are otherwise unavailable, our ability to procure products to sell, process and ship customer orders, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay accounts payable and expenses could be adversely affected. Our ability to integrate our systems with our customers' systems would also be significantly affected. We maintain information systems controls designed to protect against, among other things, unauthorized program changes and unauthorized access to data on our information systems. If our information systems controls do not function properly, we face increased risks of unexpected errors and unreliable financial data or theft of proprietary Company information.

The loss of third-party transportation providers upon whom we depend, or conditions negatively affecting the transportation industry, could increase our costs or cause a disruption in our operations.

We depend upon third-party transportation providers for delivery of products to our customers. Strikes, slowdowns, transportation disruptions or other conditions in the transportation industry, including, but not limited to, shortages of truck drivers, disruptions in rail service, increases in fuel prices and adverse weather conditions, could increase our costs and disrupt our operations and our ability to service our customers on a timely basis. We cannot predict whether or to what extent increases or anticipated increases in fuel prices may impact our costs or cause a disruption in our operations going forward.

Adverse weather events or natural disasters could negatively affect local economies and disrupt operations.

Certain areas in which we operate are susceptible to adverse weather conditions or natural disasters, such as hurricanes, tornadoes, floods and earthquakes. These events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Additionally, we may experience communication disruptions with our customers, vendors and employees. These events can cause physical damage to our locations and require us to close locations. Additionally, our sales orders and shipments can experience a temporary decline immediately following these events.

We cannot predict whether or to what extent damage caused by these events will affect our operations or the economies in regions where we operate. These adverse events could result in disruption of our purchasing or distribution capabilities, interruption of our business that exceeds our insurance coverage, our inability to collect from

customers and increased operating costs. Our business or results of operations may be adversely affected by these and other negative effects of these events.

We have a substantial amount of goodwill and other intangible assets recorded on our balance sheets. The amortization of acquired intangible assets may reduce our future reported earnings. Furthermore, if our goodwill or other intangible assets become impaired, we may be required to recognize charges that would reduce our income.

As of December 31, 2015, we had \$205 million of goodwill and \$161 million in other intangibles recorded on our balance sheet. Under generally accepted accounting principles in the U.S. ("GAAP"), goodwill is not amortized but must be reviewed for possible impairment annually, or more often in certain circumstances where events indicate that the asset values are not recoverable. These reviews could result in an earnings charge for impairment, which would reduce our net income even though there would be no impact on our underlying cash flow.

We face risks associated with conducting business in markets outside of the U.S. and Canada.

We currently conduct business in countries outside of the U.S. and Canada. We could be materially and adversely affected by economic, legal, political and regulatory developments in the countries in which we do business in the future or in which we expand our business, particularly those countries which have historically experienced a high degree of political or economic instability. Examples of risks inherent in conducting business in markets outside of the U.S. and Canada include:

- changes in the political and economic conditions in the countries in which we operate, including civil uprisings and terrorist acts;
- unexpected changes in regulatory requirements;
- changes in tariffs;
- the adoption of foreign or domestic laws limiting exports to or imports from certain foreign countries;
 - fluctuations in currency exchange rates and the value of the U.S. dollar;
- restrictions on repatriation of earnings;
- expropriation of property without fair compensation;
- governmental actions that result in the deprivation of contract or proprietary rights; and
- the acceptance of business practices which are not consistent with or are antithetical to prevailing business practices we are accustomed to in North America including export compliance and anti-bribery practices and governmental sanctions.

If we begin doing business in a foreign country in which we do not presently operate, we may also face difficulties in operations and diversion of management time in connection with establishing our business there.

We are subject to U.S. and other anti-corruption laws, trade controls, economic sanctions, and similar laws and regulations, including those in the jurisdictions where we operate. Our failure to comply with these laws and regulations could subject us to civil, criminal and administrative penalties and harm our reputation.

Doing business on a worldwide basis requires us to comply with the laws and regulations of the U.S. government and various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners and investment decisions. In particular, our operations are subject to U.S. and foreign anti-corruption and trade control laws and regulations, such as the Foreign Corrupt Practices Act (“FCPA”), export controls and economic sanctions programs, including those administered by the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”). As a result of doing business in foreign countries and with foreign partners, we are exposed to a heightened risk of violating anti-corruption and trade control laws and sanctions regulations.

The FCPA prohibits us from providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. It also requires us to keep books and records that accurately and fairly reflect the Company’s transactions. As part of our business, we may deal with state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. In addition, the United Kingdom Bribery Act (the “Bribery Act”) has been enacted and came into effect on July 1, 2011. The provisions of the Bribery Act extend beyond bribery of foreign public officials and also apply to transactions with individuals that a government does not employ. The provisions of the Bribery Act are also more onerous than the FCPA in a number of other respects, including jurisdiction, non-exemption of facilitation payments and penalties. Some of the international locations in which we operate lack a developed legal system and have higher than normal levels of corruption. Our continued expansion outside the U.S., including in developing countries, and our development of new partnerships and joint venture relationships worldwide, could increase the risk of FCPA, OFAC or Bribery Act violations in the future.

Economic sanctions programs restrict our business dealings with certain sanctioned countries, persons and entities. In addition, because we act as a distributor, we face the risk that our customers might further distribute our products to a sanctioned person or entity, or an ultimate end-user in a sanctioned country, which might subject us to an investigation concerning compliance with the OFAC or other sanctions regulations.

Violations of anti-corruption and trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have established policies and procedures designed to assist our compliance with applicable U.S. and international anti-corruption and trade control laws and regulations, including the FCPA, the Bribery Act and trade controls and sanctions programs administered by the OFAC, and have trained our employees to comply with these laws and regulations. However, there can be no assurance that all of our employees, consultants, agents or other associated persons will not take

actions in violation of our policies and these laws and regulations, and that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our local, strategic or joint venture partners take inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could have a material adverse effect on our reputation, business, financial condition and results of operations. In addition, various state and municipal governments, universities and other investors maintain prohibitions or restrictions on investments in companies that do business with sanctioned countries, persons and entities, which could adversely affect the market for our common stock and other securities.

The occurrence of cyber incidents, or a deficiency in our cybersecurity, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information or damage to our Company's image, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Our three primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our Company's image, and private data exposure. We have implemented solutions, processes, and procedures to help mitigate this risk, but these measures, as well as our organization's increased awareness of our risk of a cyber incident, do not guarantee that our financial results will not be negatively impacted by such an incident.

Compliance with and changes in laws and regulations in the countries in which we operate could have a significant financial impact and effect how and where we conduct our operations.

We have operations in the U.S. and in other countries that can be impacted by expected and unexpected changes in the business and legal environments in the countries in which we operate. Compliance with and changes in laws, regulations, and other legal and business issues could impact our ability to manage our costs and to meet our earnings goals. Compliance related matters could also limit our ability to do business in certain countries. Changes that could have a significant cost to us include new legislation, new regulations, or a differing interpretation of existing laws and regulations, changes in tax law or tax rates, the unfavorable resolution of tax assessments or audits by various taxing authorities, the expansion of currency exchange controls, export controls or additional restrictions on doing business in countries subject to sanctions in which we operate or intend to operate.

Risks Relating to the Spin-Off

Our historical consolidated financial information is not necessarily indicative of our future financial condition, results of operations or cash flows.

Our historical consolidated financial statements do not necessarily reflect the financial condition, results of operations or cash flows that we would have achieved as an independent, publicly traded company during the periods presented or those that we will achieve in the future, as a result of the following factors:

- Our historical consolidated financial results of operations reflect allocations of expenses for services historically provided by NOV, and those allocations may be significantly different than the comparable expenses we would have incurred as an independent company.
- Our working capital requirements historically have been satisfied as part of NOV's corporate-wide cash management programs, and our cost of debt and other cost of capital may differ significantly from that reflected in our historical

consolidated financial statements.

- Our historical consolidated financial information may not fully reflect the costs associated with being an independent public company, including significant changes that may occur in our cost structure, management, financing arrangements and business operations as a result of the Spin-Off.
- The historical consolidated financial information may not fully reflect the effects of certain assets and liabilities that we assumed.

We are subject to continuing contingent liabilities of NOV following the Spin-Off.

There are several significant areas where the liabilities of NOV may become our obligations. For example, under the U.S. Internal Revenue Code and the related rules and regulations, each corporation that was a member of the NOV combined U.S. federal income

tax reporting group during any taxable period or portion of any taxable period ending on or before the effective time of the Spin-Off is jointly and severally liable for the U.S. federal income tax liability of the entire NOV combined tax reporting group for that taxable period. In connection with the Spin-Off, we entered into a tax matters agreement with NOV that allocates the responsibility for prior period taxes of the NOV combined tax reporting group between us and NOV. However, if NOV is unable to pay any prior period taxes for which it is responsible, we could be required to pay the entire amount of such taxes.

If the Spin-Off, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, NOV and its stockholders could be subject to significant tax liability and, in certain circumstances, we could be required to indemnify NOV for material taxes pursuant to indemnification obligations under the tax matters agreement.

If the Spin-Off or certain internal restructuring transactions that were undertaken in anticipation of the Spin-Off are determined to be taxable for U.S. federal income tax purposes, then we, NOV and/or our stockholders could be subject to significant tax liability. To the extent that we are required to indemnify NOV (or its subsidiaries or other affiliates) or otherwise bear tax liabilities attributable to the Spin-Off under the tax matters agreement, we may be subject to substantial liabilities that could have a material adverse effect on our company.

We might not be able to engage in desirable strategic transactions and equity issuances following the Spin-Off because of certain restrictions relating to requirements for tax-free distributions.

For a two-year period (or, in certain cases, potentially longer) we are limited or prohibited from: undertaking certain sales, redemptions, issuances of our stock, stock repurchases, mergers, liquidations, asset dispositions; ceasing to actively conduct the distribution business; and, taking or failing to take other actions that prevent the distribution and related transactions from being tax-free. Such restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business.

We incurred significant costs to create the corporate infrastructure necessary to operate as an independent public company, and we will continue to experience ongoing costs in connection with being an independent public company.

NOV performed many important corporate functions for us, including some treasury, tax administration, accounting, financial reporting, human resources, compensation, legal and other services. We now perform these functions ourselves or hire third parties to perform these functions on our behalf. The costs associated with performing or outsourcing these functions may exceed the amounts reflected in our historical consolidated financial statements. A significant increase in the costs of performing or outsourcing these functions could materially and adversely affect our business, financial condition, results of operations and cash flows.

NOV's insurers may deny coverage to us for losses associated with occurrences prior to the Spin-Off.

In connection with the Spin-Off, we entered into agreements with NOV to address several matters associated with the Spin-Off, including insurance coverage. NOV's insurers may deny coverage to us for losses associated with occurrences prior to the separation. Accordingly, we may be required to temporarily or permanently bear the costs of such lost coverage.

Risks Relating to Our Common Stock

The market price of our shares may fluctuate widely.

The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including:

- our competitors' significant acquisitions or dispositions;
- the failure of our operating results to meet the estimates of securities analysts or the expectations of our stockholders;
- changes in earnings estimates by securities analysts or our ability to meet our earnings guidance;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations and general economic conditions; and
- the other factors described in these "Risk Factors" and elsewhere in this Form 10-K.

Stock markets in general have also experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could negatively affect the trading price of our common stock.

Your percentage ownership in us may be diluted in the future.

As with any publicly traded company, your percentage ownership in us may be diluted in the future because of equity issuances for acquisitions, capital market transactions or otherwise, including, without limitation, equity awards that we expect will be granted to our directors, officers and employees.

We cannot assure you that we will pay dividends on our common stock.

We do not currently pay dividends on our common stock. We currently intend to retain our future earnings to support the growth and development of our business. The payment of future cash dividends, if any, will be at the discretion of our Board of Directors and will depend upon, among other things, our financial condition, results of operations, capital requirements and development expenditures, future business prospects and any restrictions imposed by future debt instruments.

Certain provisions in our corporate documents and Delaware law may prevent or delay an acquisition of our company, even if that change may be considered beneficial by some of our stockholders.

The existence of some provisions of our certificate of incorporation and bylaws and Delaware law could discourage, delay or prevent a change in control of us that a stockholder may consider favorable. These include provisions:

- providing our Board of Directors with the right to issue preferred stock without stockholder approval;
- prohibiting stockholders from taking action by written consent;
- restricting the ability of our stockholders to call a special meeting;
- providing for a classified Board of Directors;
- providing that the number of directors will be filled by the Board of Directors and vacancies on the Board of Directors, including those resulting from an enlargement of the Board of Directors, will be filled by the Board of Directors;
- requiring cause and an affirmative vote of at least 80 percent of the voting power of the then-outstanding voting stock to remove directors;
- requiring the affirmative vote of at least 80 percent of the voting power of the then-outstanding voting stock to amend certain provisions of our certificate of incorporation and bylaws; and
- establishing advance notice requirements for nominations of candidates for election to our Board of Directors or for stockholder proposals.

In addition we are subject to Section 203 of the Delaware General Corporation Law (the “DGCL”) which may have an anti-takeover effect with respect to transactions not approved in advance by our Board of Directors, including discouraging takeover attempts that could have resulted in a premium over the market price for shares of our common stock.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board of Directors and by providing our Board of Directors with more time to assess any acquisition proposal. These provisions are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board of Directors determines is not in the best interests of our company and our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2015, we owned or leased approximately 300 facilities worldwide which totaled approximately 5.4 million square feet. Approximately 85% of our facilities worldwide are leased. Each location below is comprised of offices, distribution centers and branches. Owned facilities are not subject to any mortgages.

Location	Approximate number of facilities	Approximate
		size in square feet (in thousands)
United States	200	4,000
Canada	60	840
International	40	550

International properties include: Australia, Azerbaijan, Brazil, China, Colombia, England, Egypt, India, Indonesia, Kazakhstan, Mexico, Netherlands, Norway, Oman, Russia, Scotland, Singapore and United Arab Emirates.

ITEM 3. LEGAL PROCEEDINGS

We have various claims, lawsuits and administrative proceedings that are pending or threatened, all arising in the ordinary course of business, with respect to commercial, product liability and employee matters. Although no assurance can be given with respect to the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have, we believe any ultimate liability resulting from the outcome of such claims, lawsuits or administrative proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. See Note 11 “Commitments and Contingencies” to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Quarterly Common Stock Prices and Cash Dividends Per Share**

NOW Inc. common stock is traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “DNOW”. The following table sets forth the range of high and low closing prices for the common stock for each quarter starting June 2, 2014, the date on which our stock began trading the “regular-way” on the NYSE, through the fourth quarter of 2015:

2014				2015			
First	Second	Third	Fourth	First	Second	Third	Fourth

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	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
Common stock sale price:								
High	N/A	\$37.19	\$35.98	\$30.16	\$26.79	\$25.59	\$19.74	\$18.44
Low	N/A	\$30.40	\$30.11	\$22.50	\$20.27	\$19.91	\$14.80	\$15.01

Our board of directors has not declared any dividends during 2014 or 2015 and currently has no intention to declare any dividends.

As of February 16, 2016, there were 2,401 holders of record of our common stock. Many stockholders choose to own shares through brokerage accounts and other intermediaries rather than as holders of (excluding individual participants in securities positions listing) record so the actual number of stockholders is unknown but likely significantly higher.

The information relating to our equity compensation plans required by Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” is incorporated by reference to such information as set forth in Item 12. “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” contained herein.

Performance Graph

The graph below matches the cumulative 19-Month total return of holders of NOW Inc.'s common stock with the cumulative total returns of the S&P Midcap 400 index and a customized peer group of six companies that includes: Airgas, Inc., DXP Enterprises, Inc., Fastenal Company, MRC Global, Inc., W. W. Grainger, Inc. and Wesco International, Inc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was \$100 on 6/2/2014 and tracks it through 12/31/2015.

	6/2/14	6/14	9/14	12/14	3/15	6/15	9/15	12/15
NOW Inc.	100.00	102.00	85.66	72.48	60.96	56.08	41.69	44.56
S&P Midcap 400	100.00	104.14	99.99	106.34	111.99	110.80	101.39	104.02
Peer Group	100.00	99.81	95.42	96.01	86.94	88.65	76.19	85.74

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

This information shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A (17 CFR 240.14a-1-240.14a-104), other than as provided in Item 201(e) of Regulation S-K, or to the liabilities of section 18 of the Exchange Act (15 U.S.C. 78r).

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data

The following selected financial data reflect the consolidated operations of NOW Inc. We derived the selected consolidated income statement data for the years ended December 31, 2015, 2014, 2013 and 2012 and the selected consolidated balance sheet data as of December 31, 2015, 2014 and 2013, from the audited consolidated financial statements of NOW Inc. We derived the selected consolidated income statement data for the years ended December 31, 2011 and the consolidated balance sheet data as of December 31, 2012 and 2011, from the underlying financial records of NOW Inc., which were derived from the financial records of NOV, and which are not included in this annual report.

	As of and For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In millions)				
Operating Data:					
Revenue	\$3,010	\$4,105	\$4,296	\$3,414	\$1,641
Operating profit (loss)	\$(510)	\$181	\$224	\$168	\$128
Net income (loss)	\$(502)	\$116	\$147	\$108	\$85
Earnings (Loss) Per Share Amounts:					
Basic	\$(4.68)	\$1.07	\$1.37	\$1.01	\$0.80
Diluted	\$(4.68)	\$1.06	\$1.36	\$1.00	\$0.79
Balance Sheet Data:					
Working capital	\$985	\$1,427	\$1,299	\$1,491	\$534
Total assets	\$1,832	\$2,596	\$2,183	\$2,373	\$829
Long-term debt	\$108	\$—	\$—	\$—	\$—
Total stockholders' equity	\$1,403	\$1,966	\$1,802	\$1,971	\$669

To ensure a full understanding, you should read the selected consolidated financial data presented above in conjunction with Note 20 “Acquisitions” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” including the pro forma results of operations that include the effects of Wilson and CE Franklin as they were acquired in 2012, and the audited combined financial statements and accompanying notes included in our Registration Statement on Form 10, as amended, filed May 1, 2014. The Company acquired Wilson in the second quarter of 2012 and CE Franklin in the third quarter of 2012.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview of the Separation

On May 1, 2014, the National Oilwell Varco, Inc. Board of Directors approved the Spin-Off of its distribution business into an independent, publicly traded company named NOW Inc. In accordance with a separation and distribution agreement, the two companies were separated by NOV distributing to its stockholders 107,053,031 shares of common stock of the Company after the market closed on May 30, 2014 (the “Spin-Off Date”). Each NOV stockholder received one share of NOW common stock for every four shares of NOV common stock held at the close of business on the record date of May 22, 2014 and not sold prior to close of business on May 30, 2014. Fractional shares of NOW common stock were not distributed and any fractional shares of NOW common stock otherwise

issuable to a NOV stockholder were sold in the open market on such stockholder's behalf, and such stockholder received a cash payment with respect to that fractional share. In conjunction with the Spin-Off, NOV received an opinion from its legal counsel to the effect that, based on certain facts, assumptions, representations and undertakings, for U.S. federal income tax purposes, the distribution of NOW common stock and certain related transactions generally was not taxable to NOV or U.S. holders of NOV common stock, except in respect to cash received in lieu of fractional shares, which generally will be taxable to such holders as a capital gain. Following the Spin-Off, NOW became an independent, publicly traded company as NOV had no ownership interest in NOW. Each company has separate public ownership, boards of directors and management. A Registration Statement on Form 10, as amended, relating to the Spin-Off was filed by the Company with the U.S. Securities and Exchange Commission and was declared effective on May 13, 2014. On June 2, 2014, NOW stock began trading the "regular-way" on the New York Stock Exchange under the ticker symbol "DNOW".

Basis of Presentation

All financial information presented before the Spin-Off represents the combined results of operations, financial position and cash flows for the Company and all financial information presented after the Spin-Off represents the consolidated results of operations, financial position and cash flows for the Company. Accordingly:

- The Company's consolidated statement of operations for the year ended December 31, 2014 consists of the consolidated results of NOW for the period from May 31 through December 31 and the combined results of NOW for the period from January 1 through May 30.
- The Company's consolidated balance sheets as of December 31, 2015 and December 31, 2014 are presented on a consolidated basis.
- The Company's consolidated statement of cash flows for the year ended December 31, 2014 consist of the consolidated results of NOW for the period from May 31 through December 31 and the combined results of NOW for the period from January 1 through May 30.

The Company's historical financial statements prior to May 31, 2014 were derived from the consolidated financial statements and accounting records of NOV and include assets, liabilities, revenues and expenses directly attributable to the Company's operations. The assets and liabilities in the consolidated financial statements have been reflected on a historical cost basis, as immediately prior to the separation all of the assets and liabilities presented were wholly-owned by NOV and were transferred within NOV. For the periods prior to the Spin-Off, the consolidated financial statements include expense allocations for certain functions provided by NOV as well as other NOV employees not solely dedicated to NOW, including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, ethics and compliance, shared services, employee benefits and incentives and stock-based compensation. These expenses were allocated to NOW on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating profit, headcount or other measures. Actual costs that would have been incurred, if NOW had been a stand-alone public company, would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

The Company's historical financial statements prior to May 31, 2014 do not reflect the debt or interest costs it might have incurred if it had been a stand-alone entity. In addition, the Company expects to incur other costs, not reflected in its historical financial statements prior to May 31, 2014, as a result of being a separate publicly traded company. As a result, the Company's historical financial statements prior to May 31, 2014 do not necessarily reflect what its financial position or results of operations would have been if it had been operated as a stand-alone public entity during the periods covered prior to May 31, 2014, and may not be indicative of the Company's future results of operations and financial position.

The consolidated financial statements include certain assets and liabilities that have historically been held by NOV but which are specifically identifiable or otherwise allocable to the Company. The cash and cash equivalents held by NOV are not specifically identifiable to NOW and therefore were not allocated to it for any of the periods presented prior to the Spin-Off. Cash and cash equivalents in the Company's consolidated balance sheets primarily represent cash held locally by entities included in its consolidated financial statements. Transfers of cash prior to the Spin-Off to and from NOV's cash management system are reflected as a component of additional paid-in capital on the consolidated balance sheets.

Prior to the Spin-Off, all significant intercompany transactions between NOW and NOV were considered to be effectively settled for cash at the time the transaction was recorded. The total net effect of the settlement of these intercompany transactions is reflected in the consolidated statements of cash flow as a financing activity and in the consolidated balance sheet as additional paid-in capital.

The Company combined operating and warehousing costs with selling, general and administrative expenses in its consolidated statements of operations beginning with its March 31, 2015 Form 10-Q. These costs are now presented within “Warehousing, selling and administrative” expense for all periods presented. Operating and warehousing costs totaled \$400 million and \$425 million for the years ended December 31, 2015 and 2014, respectively.

General Overview

We are a global distributor to energy and industrial markets with a legacy of over one-hundred and fifty years. We operate primarily under the DistributionNOW and Wilson Export brands. Through our network of over 300 locations and approximately 5,000 employees worldwide, we stock and sell a comprehensive offering of energy products as well as an extensive selection of products for industrial applications. Our energy product offering is consumed throughout all sectors of the oil and gas industry – from upstream drilling and completion, exploration and production, midstream infrastructure development to downstream petroleum refining – as well as in other industries, such as chemical processing, power generation and industrial manufacturing operations. The industrial

distribution portion of our business targets a diverse range of manufacturing and other end markets. We also offer supply chain management to drilling contractors, E&P operators, midstream operators and downstream energy and industrial manufacturing companies around the world.

Our global product offering includes consumable maintenance, repair and operating supplies, pipe, valves, fittings, flanges, line pipe, pumps, electrical, artificial lift solutions, mill tools, safety supplies and spare parts to support customers' operations. We provide a one-stop shop value proposition within the energy market and particularly in targeted areas of artificial lift, pumping solutions, measurement and controls and valve actuation. We also offer warehouse and inventory management solutions as part of a comprehensive supply chain and materials management offering. Through focused effort, we have developed expertise in providing application systems and parts integration, optimization solutions and after-sales support.

Our supply chain solutions include outsourcing the functions of procurement, inventory and warehouse management, logistics, business process and performance metrics reporting. This solutions offering allows us to leverage the infrastructure of our SAP™ Enterprise Resource Planning system to streamline the purchasing process for customers, from requisition to procurement to payment, by digitally managing workflow, approval routing and by providing robust reporting functionality.

We support land and offshore operations for all the major oil and gas producing regions around the world through our comprehensive network of energy branch locations. Our key markets beyond North America include Latin America, the North Sea, the Middle East, the Former Soviet Union ("FSU") and Southeast Asia. Products sold through our energy branch locations support greenfield and expansion upstream capital projects, midstream infrastructure and MRO and manufacturing consumables used in day-to-day production. We provide downstream energy and industrial products for petroleum refining, chemical processing, power generation and industrial manufacturing operations through Supply Chain and customer on-site locations.

We stock or sell more than 300,000 stock keeping units through our branch network. Our supplier network consists of thousands of vendors in approximately 40 countries. From our operations in over 20 countries, we sell to customers operating in over 90 countries. The supplies and equipment stocked by each of our branches is customized to meet varied and changing local customer demands. The breadth and scale of our offering enhances our value proposition to customers, suppliers and shareholders.

We employ advanced information technologies, including a common ERP platform across substantially all of our business, to provide complete procurement, materials management and logistics coordination to our customers around the globe. Having a common ERP platform allows immediate visibility into the financials and operations of our branches worldwide, enhancing decision-making and efficiency.

Our revenue and operating results are 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. See "Risk Factors." We conduct our operations through three business segments: United States, Canada and International. See "Business—Summary of Reportable Segments" for a discussion of each of these business segments.

Unless indicated otherwise, results of operations data are presented in accordance with accounting principles generally accepted in the United States ("GAAP"). In an effort to provide investors with additional information regarding our results as determined by GAAP, we may disclose non-GAAP financial measures. The primary non-GAAP financial measure we disclose is earnings before interest, taxes, depreciation and amortization, excluding other costs ("EBITDA excluding other costs"). This financial measure excludes the impact of certain amounts and is not calculated in accordance with GAAP. See "Non-GAAP Financial Measures and Reconciliations" in Results of Operations for an

explanation of our use of non-GAAP financial measures and reconciliations to the corresponding measures calculated in accordance with GAAP.

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Operating Environment Overview

Our results are dependent on the level of worldwide oil and gas drilling, well remediation activity, the prices of crude oil, natural gas and steel, capital spending by other oilfield service companies and drilling contractors, and the worldwide oil and gas inventory levels, among other things. Key industry indicators for the past three years include the following:

			% 2015 v 2014	% 2015 v 2013	
	2015*	2014*	2014	2013*	2013
Active Drilling Rigs:					
U.S.	977	1,861	(47.5%)	1,761	(44.5%)
Canada	193	380	(49.2%)	354	(45.5%)
International	1,167	1,337	(12.7%)	1,296	(10.0%)
Worldwide	2,337	3,578	(34.7%)	3,411	(31.5%)
West Texas Intermediate Crude Prices (per barrel)	\$48.69	\$93.26	(47.8%)	\$97.91	(50.3%)
Natural Gas Prices (\$/MMBtu)	\$2.63	\$4.38	(40.0%)	\$3.72	(29.3%)
Hot-Rolled Coil Prices (steel) (\$/short ton)	\$469.90	\$663.14	(29.1%)	\$631.56	(25.6%)

* Averages for the years indicated. See sources on following page.

The following table details the U.S., Canadian, and international rig activity and West Texas Intermediate (“WTI”) oil prices for the past nine quarters ended December 31, 2015 on a quarterly basis:

Sources: Rig count: Baker Hughes, Inc. (www.bakerhughes.com); West Texas Intermediate Crude Price: Department of Energy, Energy Information Administration (www.eia.doe.gov); Hot-Rolled Coil Prices: American Metal Market (www.amm.com).

The worldwide average rig count declined 34.7% (from 3,578 to 2,337) and the U.S. declined 47.5% (from 1,861 to 977), in 2015 compared to 2014. The average price of West Texas Intermediate (“WTI”) crude declined 47.8% (from \$93.26 per barrel to \$48.69 per barrel) and natural gas prices declined 40.0% (from \$4.38 per MMBtu to \$2.63 per MMBtu) in 2015 compared to 2014. The average price of Hot-Rolled Coil declined 29.1% (from \$663.14 per short ton to \$469.90 per short ton) in 2015 compared to 2014.

U.S. rig count at February 12, 2016 was 541 rigs down 44.6% compared to the 2015 average of 977 rigs. The price for WTI crude was \$29.71 per barrel at February 8, 2016, down 39.0% from the 2015 average. The price for natural gas was \$2.23 per MMBtu at February 8, 2016, down 15.2% from the 2015 average. The price for Hot-Rolled Coil was \$397.00 per short ton at February 12, 2016, down 15.5% from the 2015 average.

Executive Summary

For the year ended December 31, 2015, the Company generated a net loss of \$502 million, or \$(4.68) per fully diluted share on \$3,010 million in revenue. Net income decreased for the year ended December 31, 2015 \$618 million when compared to the corresponding period of 2014. Revenue decreased for the year ended December 31, 2015 \$1,095 million, or 26.7%, when compared to the corresponding period of 2014. For the year ended December 31, 2015, operating loss was \$510 million, or negative 16.9% of revenue, compared to operating profit of \$181 million or 4.4% of revenue for the corresponding period of 2014.

For the fourth quarter ended December 31, 2015, the Company generated a net loss of \$249 million, or \$(2.33) per fully diluted share on \$644 million in revenue. Net income decreased for the fourth quarter ended December 31, 2015 \$265 million when compared to the corresponding period of 2014. Revenue decreased for the fourth quarter ended December 31, 2015 \$362 million, or 36.0%, when compared to the corresponding period of 2014. For the fourth quarter ended December 31, 2015, operating loss was \$184 million or negative 28.6% of revenue, compared to operating profit of \$26 million or 2.6% of revenue for the corresponding period of 2014.

Outlook

Our outlook for the Company remains tied to global rig count and drilling and completion expenditures, particularly in North America. The significant recent declines contribute to an uncertain environment and several factors could alter activity significantly. Analysts’ projections for oil and gas prices and resulting rig counts vary considerably and many energy-related companies are continuing to make cost reduction measures in this uncertain environment. Furthermore, political risk will remain elevated. Lower oil prices may heighten the risk of political disturbances in oil-export-dependent economies.

Given the lack of visibility into when this market will recover, our approach to 2016 will be to focus on what we can control. We plan to manage DistributionNOW based on market conditions, while also continuing to advance our long-term strategic goals. We believe current market conditions present an opportunity to execute strategic acquisitions that will help position the Company to emerge as an even stronger, global distribution business when the market recovers. In addition, we are diligent about managing our expenses and our working capital to reflect the current market environment. We also believe that our history of managing through these cycles, paired with our healthy balance sheet, will enable us to maximize new opportunities.

Results of Operations

Consolidated Results

Years Ended December 31, 2015 and December 31, 2014

A summary of the Company's revenue and operating profit (loss) by operating segment in 2015 and 2014 follows (in millions):

	Year Ended		Variance
	December 31,	December 31,	
	2015	2014	\$
Revenue:			
United States	\$2,027	\$2,793	\$(766)
Canada	378	669	(291)
International	605	643	(38)
Total Revenue	\$3,010	\$4,105	\$(1,095)
Operating Profit (Loss):			
United States	\$(515)	\$89	\$(604)
Canada	(1)	47	(48)
International	6	45	(39)
Total Operating Profit (Loss)	\$(510)	\$181	\$(691)
Operating Profit (Loss) %:			
United States	(25.4 %)	3.2 %	
Canada	(0.3 %)	7.0 %	
International	1.0 %	7.0 %	
Total Operating Profit (Loss) %	(16.9 %)	4.4 %	

United States

Revenue was \$2,027 million for the year ended December 31, 2015, a decline of \$766 million or 27.4% compared to the year ended December 31, 2014. This decrease was primarily driven by a nearly 50% decline in U.S. rig count, offset by incremental revenue gains of approximately \$140 million from acquisitions and the balance attributable to the relief of internal demands related to the 2014 Spin-Off.

Operating loss was \$515 million for the year ended December 31, 2015, a decline of \$604 million compared to operating profit of \$89 million for the year ended December 31, 2014. Operating loss percentage was negative 25.4% for the year ended December 31, 2015, compared to operating profit percentage of 3.2% for the year ended December 31, 2014. Excluding \$393 million in charges related to goodwill impairment, U.S. operating profit decreased due to deflationary pressures at lower volumes and full year impact of the incremental costs incurred in connection with operating as an independent publicly traded company.

Canada

Revenue was \$378 million for the year ended December 31, 2015, a decline of \$291 million or 43.5% compared to the year ended December 31, 2014. This decrease was attributable to the sharp decline in Canadian rig count coupled with the impact of the strengthening U.S. dollar, offset by the relief of internal demands related to the ERP implementation.

Our Canadian revenue changed from 16% of total revenue in 2014 to 13% in 2015. We are subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar, as our Canadian revenue is favorably impacted as the U.S. dollar weakens relative to the Canadian dollar, and unfavorably impacted as the U.S. dollar strengthens relative to the Canadian dollar. In 2015, our revenue from Canada was unfavorably impacted by approximately \$57 million due to changes in foreign currency exchange rates over the prior year, as the U.S. dollar strengthened relative to the Canadian dollar.

Operating loss was \$1 million for the year ended December 31, 2015, a decline of \$48 million compared to operating profit of \$47 million for the year ended December 31, 2014. Operating loss percentage was negative 0.3% in 2015 compared to operating profit percentage of 7.0% in 2014. Operating profit decreased in 2015 primarily due to the revenue decline discussed above, offset by expense reductions made during the period.

International

Revenue was \$605 million for the year ended December 31, 2015, a decline of \$38 million or 5.9% compared to the year ended December 31, 2014. This decrease was mainly attributable to an overall decline in international drilling activity and customer project spend, offset by incremental revenue gains from acquisitions of approximately \$220 million in the period.

Our international revenue grew from 16% of total revenue in 2014 to 20% in 2015. We are subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar, as our international revenue is favorably impacted as the U.S. dollar weakens relative to other foreign currencies, and unfavorably impacted as the U.S. dollar strengthens relative to other foreign currencies. Our international segment revenue, excluding the impact from acquisitions, was unfavorably impacted by approximately \$25 million due to changes in foreign currency exchange rates over the prior year, as the U.S. dollar strengthened relative to certain currencies, most notably the Australian dollar, Brazilian real, British pound, Mexican peso and Russian ruble.

Operating profit was \$6 million for the year ended December 31, 2015, a decline of \$39 million compared to operating profit of \$45 million for the year ended December 31, 2014. Operating profit percentage was 1.0% for the year ended December 31, 2015, compared to 7.0% for the year ended December 31, 2014. The decrease in operating profit was primarily attributed to volume declines and additional bad debt charges in excess of profits contributed from acquisitions.

Cost of products

Cost of products was \$2,508 million for the year ended December 31, 2015 compared to \$3,286 million for the year ended December 31, 2014, a decrease of \$778 million. The decrease in cost of products was attributable to a decline in revenue coupled with inventory cost adjustments in the period. Cost of products includes the cost of inventory sold and related items, such as vendor consideration, inventory allowances, amortization of intangibles and inbound and outbound freight.

Warehousing, selling and administrative expenses

Warehousing, selling and administrative expenses were \$619 million for the year ended December 31, 2015 compared to \$638 million for the year ended December 31, 2014. The decrease is related to cost-cutting initiatives taken as a result of the decline in market activity, offset by additional expenses resulting from acquisitions, full year expenses associated with operating as a publicly traded company and incremental bad debt charges. Warehousing, selling and administrative costs include branch location, distribution center and regional expenses (including costs such as compensation, benefits and rent) as well as corporate general selling and administrative expenses.

Impairment

In the three months ended December 31, 2015, the Company completed the measurement of its reporting units' goodwill impairment resulting from the interim test performed in the three months ended September 30, 2015. As a result, two of the Company's four reporting units' goodwill were impaired (U.S. Energy and U.S. Supply Chain). The international reporting unit showed impairment indicators during the step 1 goodwill impairment calculation. However, no impairment was recognized as a result of our step 2 analysis. At the step 2 valuation date, the implied fair value of goodwill for the international reporting unit exceeded the carrying amount by approximately 12%. For the three months and the year ended December 31, 2015, the Company recognized a goodwill impairment loss of \$138 million and \$393 million, respectively. The inputs used in the impairment test were updated for current market conditions and forecasts and the valuation techniques used in the analysis were consistent with those used

during previous testing. The impairment charges were primarily the result of the substantial and sustained decline in oil prices during 2015, actual and forecasted declines in rig activity and the effects of those events and forecasts on the Company's results of operations. Further, continued adverse market conditions could result in the recognition of additional impairment if the Company determines that the fair values of its reporting units have fallen below their carrying values.

Other expense

Other expense was \$8 million for the year ended December 31, 2015 compared to \$3 million for the year ended December 31, 2014. These charges were mainly attributable to exchange rate fluctuations and bank charges associated with utilizing the credit facility.

Provision for income taxes

The effective tax rate for the years ended December 31, 2015 and December 31, 2014 was 3.0% and 34.9%, respectively. The tax rate is affected by recurring items, such as lower tax rates on income earned in foreign jurisdictions that is permanently reinvested, offset by nondeductible expenses and state income taxes. The effective tax rate decreased in 2015 primarily due to goodwill impairment and

the valuation allowance recorded against deferred tax assets. See Note 9 “Income Taxes” for a discussion of the valuation allowance recorded at December 31, 2015. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year.

Consolidated Results

Years Ended December 31, 2014 and December 31, 2013

A summary of the Company’s revenue and operating profit by operating segment in 2014 and 2013 follows (in millions):

	Year Ended		Variance
	December 31, 2014	2013	
Revenue:			
United States	\$2,793	\$2,863	\$ (70)
Canada	669	773	(104)
International	643	660	(17)
Total Revenue	\$4,105	\$4,296	\$ (191)
Operating Profit:			
United States	\$89	\$134	\$ (45)
Canada	47	47	—
International	45	43	2
Total Operating Profit	\$181	\$224	\$ (43)
Operating Profit %:			
United States	3.2 %	4.7 %	
Canada	7.0 %	6.1 %	
International	7.0 %	6.5 %	
Total Operating Profit %	4.4 %	5.2 %	

United States

Revenue was \$2,793 million for the year ended December 31, 2014, a decrease of \$70 million or 2.4% compared to the year ended December 31, 2013. We experienced approximately \$105 million decline in pipe sales driven by our strategic pursuit of higher margin business, the relocation of our central pipe yard and our focus on the peripheral system enhancements and employee training associated with ERP conversion and implementation. In addition, we experienced internal demands related to Spin-Off, which negatively impacted sales across other product lines (notably, valves declined approximately \$25 million). These decreases were offset by increased market activity.

Operating profit was \$89 million for the year ended December 31, 2014, a decrease of \$45 million or 33.6% compared to \$134 million for the year ended December 31, 2013. Operating profit percentage was 3.2% for the year ended December 31, 2014, compared to 4.7% for the year ended December 31, 2013. The decrease in operating profit was attributable to lower revenues and incremental costs incurred in connection with converting our information systems and operating as an independent publicly traded company.

Canada

Revenue was \$669 million for the year ended December 31, 2014, a decrease of \$104 million or 13.5% compared to the year ended December 31, 2013. The strengthening of the U.S. dollar accounted for approximately half of this decline. The balance of the decrease was primarily attributable to the ERP implementation creating a disruption across the business including the Edmonton distribution center warehouse management software.

Our Canadian revenue changed from 18% of total revenue in 2013 to 16% in 2014. We are subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar, as our Canadian revenue is favorably impacted as the U.S. dollar weakens relative to the Canadian dollar, and unfavorably impacted as the U.S. dollar strengthens relative to the Canadian dollar. In 2014, our revenue from Canada was unfavorably impacted by approximately \$48 million due to changes in foreign currency exchange rates over the prior year, as the U.S. dollar strengthened relative to the Canadian dollar.

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Operating profit was \$47 million for the year ended December 31, 2014, unchanged year over year. Operating profit percentage increased to 7.0% from 6.1% in 2013 due to lower operating costs realized by facility consolidations year over year.

International

Revenue was \$643 million for the year ended December 31, 2014, a decrease of \$17 million or 2.6% compared to the year ended December 31, 2013. This decrease was mainly attributable to large export and valve project orders occurring in 2013 that did not repeat in 2014. These declines were partially offset by strong activity in the Middle East year over year.

Our international revenue changed from 15% of total revenue in 2013 to 16% in 2014. We are subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar, as our international revenue is favorably impacted as the U.S. dollar weakens relative to other foreign currencies, and unfavorably impacted as the U.S. dollar strengthens relative to other foreign currencies. Our international segment revenue was unfavorably impacted by approximately \$6 million due to changes in foreign currency exchange rates over the prior year, as the U.S. dollar strengthened relative to certain currencies, most notably the Australian dollar, Brazilian real, Kazakhstani tenge, Mexican peso and the Russian ruble, and partially offset by the favorable impact of the U.S. dollar weakening against certain currencies, most notably the British pound.

Operating profit was \$45 million for the year ended December 31, 2014, an increase of \$2 million or 4.7% compared to \$43 million for the year ended December 31, 2013. Operating profit percentage increased to 7.0% for the year ended December 31, 2014, compared to 6.5% for the year ended December 31, 2013. The increase in operating profit was mainly attributable to reduced cost of products.

Cost of products

Cost of products was \$3,286 million for the year ended December 31, 2014 compared to \$3,499 million for the year ended December 31, 2013, a decrease of \$213 million. The decrease in cost of products was in line with changes in revenue. Cost of products includes the cost of inventory sold and related items, such as vendor consideration, inventory allowances, amortization of intangibles and inbound and outbound freight.

Warehousing, selling and administrative expenses

Warehousing, selling and administrative expenses were \$638 million for the year ended December 31, 2014 compared to \$573 million for the year ended December 31, 2013. The increase was primarily related to the incremental costs incurred in connection with operating as an independent publicly traded company, spin activities and ERP conversion and implementation. Warehousing, selling and administrative costs include branch location, distribution center and regional expenses (including costs such as compensation, benefits and rent) as well as corporate general selling and administrative expenses.

Other expense

Other expense was \$3 million for the year ended December 31, 2014 compared to \$2 million for the year ended December 31, 2013. This difference was primarily due to foreign currency exchange rate changes.

Provision for income taxes

The effective tax rate for the years ended December 31, 2014 and December 31, 2013 was 34.9% and 33.8%, respectively. The tax rate is affected by recurring items, such as lower tax rates on income earned in foreign jurisdictions that is permanently reinvested, offset by nondeductible expenses and state income taxes. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year.

Non-GAAP Financial Measures and Reconciliations

In an effort to provide investors with additional information regarding our results of operations as determined by GAAP, we may disclose non-GAAP financial measures. The primary non-GAAP financial measure we disclose is earnings before interest, taxes, depreciation and amortization, excluding other costs ("EBITDA excluding other costs"). This financial measure excludes the impact of certain amounts and is not calculated in accordance with GAAP. A reconciliation of any non-GAAP financial measure to its most comparable GAAP financial measure is included below.

We use EBITDA excluding other costs internally to evaluate and manage the Company's operations because we believe it provides useful supplemental information regarding the Company's on-going economic performance. We have chosen to provide this information to investors to enable them to perform more meaningful comparisons of operating results and as a means to further analyze the results of ongoing operations. We believe EBITDA excluding other costs helps investors compare our operating performance with the performance of other companies who have different financing and capital structures or tax rates.

The following table sets forth the reconciliations of EBITDA excluding other costs to the most comparable GAAP financial measures (in millions):

	Year Ended December		
	31, 2015	2014	2013
Net income (loss) ⁽¹⁾	(502)	116	147
Interest, net	2	(1)	—
Income tax provision (benefit)	(16)	62	75
Depreciation and amortization	38	21	17
Other costs ⁽²⁾	413	1	—
EBITDA excluding other costs	\$(65)	\$199	\$239
EBITDA % excluding other costs ⁽³⁾	(2.2 %)	4.8 %	5.6 %

⁽¹⁾We believe that net income (loss) is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to EBITDA excluding other costs. EBITDA excluding other costs measures the Company's operating performance without regard to certain expenses. EBITDA excluding other costs is not a presentation made in accordance with GAAP and the Company's computation of EBITDA excluding other costs may vary from others in the industry. EBITDA excluding other costs has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

⁽²⁾Other costs primarily includes goodwill impairment charge of \$393 million in the year ended December 31, 2015, and transaction costs associated with acquisitions including the cost of inventory that was stepped up to fair value during purchase accounting related to acquisitions and severance expenses which are included in operating profit (loss).

⁽³⁾EBITDA % excluding other costs is defined as EBITDA excluding other costs divided by Revenue.

Liquidity and Capital Resources

We assess liquidity in terms of our ability to generate cash to fund operating, investing and financing activities. We remain in a strong financial position, with resources available to reinvest in existing businesses, strategic acquisitions and capital expenditures to meet short and long-term objectives. We believe that cash on hand, cash generated from expected results of operations and amounts available under our revolving credit facility will be sufficient to fund operations, anticipated working capital needs and other cash requirements such as capital expenditures. 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 continue to expect to fund future cash acquisitions primarily with cash flow from operations and the usage of available portion of the revolving credit facility.

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At December 31, 2015 and 2014, we had cash and cash equivalents of \$90 million and \$195 million, respectively. At December 31, 2015, \$64 million of our cash and cash equivalents was maintained in the accounts of our various foreign subsidiaries and, if such amounts were repatriated to the U.S., may be subject to additional tax liabilities, which would be recognized in our financial statements in the period during or subsequent to when such decision is made. We currently have the intent and ability to permanently reinvest the cash held by our foreign subsidiaries and there are currently no plans for the repatriation of such amounts.

The following table summarizes our net cash flows provided by operating activities, net cash used in investing activities and net cash provided by (used in) financing activities for the periods presented (in millions):

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	\$324	\$108	\$317
Net cash used in investing activities	(523)	(67)	(54)