2017 Notice of Annual Meeting & Proxy Statement

May 24, 2017 | Houston, TX

April 14, 2017

Dear Stockholder:

You are cordially invited to attend the 2017 Annual Meeting of Stockholders of NOW Inc., which will be held on Wednesday, May 24, 2017 at 10:00 a.m., local time, at the Company's corporate headquarters located at 7402 N. Eldridge Parkway, Houston, Texas 77041.

The accompanying notice of meeting and proxy statement contain information regarding the matters to be voted on at the meeting in the formal Notice of Meeting and Proxy Statement, which are included on the following pages of this booklet.

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting, it is important that your shares be represented and voted at the meeting, so please submit your proxy as soon as possible. You may vote by mailing a completed proxy card, by telephone, or over the Internet. If you so desire, you may withdraw your proxy and vote in person at the meeting.

Also included in this booklet as Appendix A is NOW Inc.'s 2016 Annual Report on Form 10K, which we are distributing to the Company's stockholders in lieu of a separate annual report.

Thank you for your continued support of and interest in NOW Inc.

Sincerely,

Robert Workman
President and Chief Executive Officer

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DISTRIBUTION NOW

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Wednesday, May, 24, 2017
10:00 a.m. (Houston time)

NOW INC.
7402 N. Eldridge Parkway
Houston, Texas 77041

The 2017 annual meeting of stockholders of NOW Inc. will be held at the Company's corporate headquarters located at 7402 N. Eldridge Parkway, Houston, Texas on Wednesday, May 24, 2017, at 10:00 a.m. local time, for the following purposes:

- To elect three directors to hold office for a three-year term;
- To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent auditors of the Company for 2017;
- To consider and act upon an advisory proposal to approve the compensation of our named executive officers; and
- To consider and act upon any other matters that may properly come before the annual meeting or any postponement or adjournment thereof.

The Board of Directors recommends that you vote "FOR" the election of the three nominees for director (Proposal 1), "FOR" the proposal to ratify the appointment of Ernst & Young LLP as Independent Auditors of the Company for 2017 (Proposal 2), and "FOR" the approval of the compensation of our named executive officers (Proposal 3).

The Board of Directors has set April 6, 2017 as the record date for the annual meeting of the stockholders ("Annual Meeting"). If you were a stockholder of record at the close of business on April 6, 2017, you are entitled to vote at the Annual Meeting. A complete list of these stockholders will be available for examination at the Annual Meeting and during ordinary business hours at our offices at 7402 N. Eldridge Parkway, Houston, Texas 77041 for a period of ten days prior to the Annual Meeting.

You are cordially invited to join us at the Annual Meeting. However, to ensure your representation, we request that you return your signed proxy card at your earliest convenience, whether or not you plan to attend the Annual Meeting. You may revoke your proxy at any time if you wish to attend and vote in person.

By Order of the Board of Directors

/s/ Raymond Chang
Raymond Chang
Vice President, General Counsel and Secretary

Houston, Texas
April 14, 2017

NOW INC.

7402 N. Eldridge Parkway

Houston, Texas 77041

PROXY STATEMENT

Except as otherwise specifically noted in this Proxy Statement, "NOW", the "Company," "we," "our," "us," and similar words in this Proxy Statement refer to NOW Inc.

ANNUAL MEETING:	Date:	Wednesday, May 24, 2017
	Time:	10:00 a.m. (Houston time)
	Place:	DistributionNOW 7402 N. Eldridge Parkway Houston, Texas 77041

AGENDA:

Proposal 1: To elect three nominees as directors of the Company for a term of three years.

Proposal 2: To ratify the appointment of Ernst & Young LLP as independent auditors of the Company.

Proposal 3: To approve, on an advisory basis, the compensation of our named executive officers.

The Board of Directors recommends that you vote "FOR" the election of the three nominees for director (Proposal 1), "FOR" the proposal to ratify the appointment of Ernst & Young LLP as Independent Auditors of the Company for 2017 (Proposal 2), and "FOR" the approval of the compensation of our named executive officers (Proposal 3).

RECORD DATE/ WHO CAN VOTE: All stockholders of record at the close of business on April 6, 2017 are entitled to vote. The only class of securities entitled to vote at the Annual Meeting is NOW common stock. Holders of NOW common stock are entitled to one vote per share at the Annual Meeting.

PROXIES SOLICITED BY: Your vote and proxy is being solicited by the Board of Directors for use at the Annual Meeting. This Proxy Statement and enclosed proxy card is being sent on behalf of the Board of Directors to all stockholders beginning on or about April 14, 2017. By completing, signing and returning your proxy card, you will authorize the persons named on the proxy card to vote your shares according to your instructions.

PROXIES: If your properly executed proxy does not indicate how you wish to vote your common stock, the persons named on the proxy card will vote FOR election of the three nominees for director (Proposal 1), FOR the ratification of the appointment of Ernst & Young LLP as independent auditors (Proposal 2), and FOR the approval of the compensation of our named executive officers (Proposal 3).

REVOKING YOUR PROXY:	You can revoke your proxy at any time prior to the time that the vote is taken at the meeting by: (i) filing a written notice revoking your proxy; (ii) filing another proxy bearing a later date; or (iii) casting your vote in person at the Annual Meeting. Your last vote will be the vote that is counted.
QUORUM:	As of April 6, 2017, there were 109,639,438 shares of NOW common stock issued and outstanding. The holders of these shares have the right to cast one vote for each share held by them. The presence, in person or by proxy, of stockholders entitled to cast at least 54,819,720 votes constitutes a quorum for adopting the proposals at the Annual Meeting. Abstentions will be included in determining the number of shares present at the meeting for the purpose of determining a quorum, as will broker non-votes. A broker non-vote occurs when a broker is not permitted to vote on a matter without instructions from the beneficial owner of the shares and no instruction is given. If you have properly signed and returned your proxy card by mail, you will be considered part of the quorum, and the persons named on the proxy card will vote your shares as you have instructed them.
VOTE REQUIRED FOR APPROVAL:	For the proposal to elect the three director nominees (Proposal 1), our bylaws require that each director nominee be elected by the majority of votes cast with respect to such nominee (i.e., the number of shares voted "for" a director nominee must exceed the number of shares voted "against" that nominee). For additional information regarding our majority voting policy, see page 6 of the proxy statement. You cannot abstain in the election of directors and broker non-votes are not counted. **Brokers are not permitted to vote your shares on the election of directors in the absence of your specific instructions as to how to vote. Please provide your broker with voting instructions so that your vote can be counted.** Approval of the proposal to ratify the appointment of Ernst & Young LLP as independent auditors (Proposal 2), and the proposal to approve the compensation of our named executive officers (Proposal 3), will require the affirmative vote of a majority of the shares of our common stock entitled to vote and present in person or by proxy. An abstention will have the same effect as a vote "against" such proposal. **With respect to Proposal 3, brokers are not permitted to vote your shares in the absence of your specific instructions as to how to vote. Please provide your broker with voting instructions so that your vote can be counted.**
MULTIPLE PROXY CARDS:	If you receive multiple proxy cards, this indicates that your shares are held in more than one account, such as two brokerage accounts, and are registered in different names. You should vote each of the proxy cards to ensure that all of your shares are voted.
HOUSEHOLDING:	The U.S. Securities and Exchange Commission, or SEC, has adopted rules that permit companies and intermediaries, such as brokers, to satisfy the delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a copy

of these materials, other than the Proxy Card, to those stockholders. This process, which is commonly referred to as "householding," can mean extra convenience for stockholders and cost savings for the Company. Beneficial stockholders can request information about householding from their banks, brokers, or other holders of record. Through householding, stockholders of record who have the same address and last name will receive only one copy of our Proxy Statement and Annual Report, unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. This procedure will reduce printing costs and postage fees.

Stockholders who participate in householding will continue to receive separate Proxy Cards. If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of Proxy Statements and Annual Reports, or if you hold stock in more than one account and wish to receive only a single copy of the Proxy Statement or Annual Report for your household, please contact Broadridge Householding Department, in writing, at 51 Mercedes Way, Edgewood, New York 11717, or by phone at (800) 542-1061. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate Proxy Statement and Annual Report, please notify your broker if you are a beneficial stockholder.

COST OF PROXY SOLICITATION:

We have retained InvestorCom, Inc. to solicit proxies from our stockholders at an estimated fee of $5,500, plus expenses. This fee does not include the costs of preparing, printing, assembling, delivering and mailing the Proxy Statement. The Company will pay for the cost of soliciting proxies. Some of our directors, officers and employees may also solicit proxies personally, without any additional compensation, by telephone or mail. Proxy materials also will be furnished without cost to brokers and other nominees to forward to the beneficial owners of shares held in their names.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on Wednesday, May 24, 2017.

The Company's 2017 Proxy Statement and the Annual Report to Stockholders for the year ended 2016 are also available at:

http://www.proxyvote.com

For directions to the Annual Meeting, please contact investor relations at 281-823-4700.

PLEASE VOTE -- YOUR VOTE IS IMPORTANT

ELECTION OF DIRECTORS
PROPOSAL NO. 1 ON THE PROXY CARD

The Board of Directors of NOW Inc. (the "Board") is divided into three classes, each class serving a term of three years. Directors whose terms expire this year include: Richard Alario, Rodney Eads, and Merrill A. Miller, Jr.

Richard Alario, Rodney Eads, and Merrill A. Miller, Jr. are nominees for directors for a three-year term expiring at the Annual Meeting in 2020, or when their successors are elected and qualified. We believe each of the nominees will be able to serve if elected. However, if any nominee is unable to serve, the remaining members of the Board have authority to nominate another person, elect a substitute, or reduce the size of the Board. Directors whose terms expire in 2018 and 2019 will continue to serve in accordance with their prior election or appointment. Proxies cannot be voted for a greater number of persons than the number of nominees named.

Vote Required for Approval

NOW's Bylaws require that each director be elected by the majority of votes cast with respect to such director in uncontested elections (the number of shares voted "for" a director nominee must exceed the number of votes cast "against" that nominee). In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), the standard for election of directors would be a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. Whether an election is contested or not is determined as of a date that is 14 days in advance of when we file our definitive proxy statement with the SEC. This year's election was determined to be an uncontested election, and the majority vote standard will apply. If a nominee who is serving as a director is not elected at the annual meeting, Delaware law provides that the director would continue to serve on the Board as a "holdover director." However, under our Bylaws and Corporate Governance Guidelines, each director must submit an advance, contingent, irrevocable resignation that the Board may accept if the director fails to be elected through a majority vote. In that situation, the Nominating/Corporate Governance Committee would make a recommendation to the Board about whether to accept or reject the resignation, or whether to take other action. The Board will act on the Nominating/Corporate Governance Committee's recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date the election results are certified. If a nominee who was not already serving as a director fails to receive a majority of votes cast at the annual meeting, Delaware law provides that the nominee does not serve on the Board as a "holdover director." In 2017, all director nominees are currently serving on the Board.

Brokers are not permitted to vote your shares on the election of directors in the absence of your specific instructions as to how to vote. Please provide your broker with voting instructions so that your vote can be counted.

Information Regarding Nominees for Director for Terms Expiring in 2017:

Name	**Age**	**Expiration Date of Current Term**	**Biography**	**Year First Became Director**
Richard Alario	62	2017	Mr. Alario has been a director of the Company since May 2014. Mr. Alario served as Chief Executive Officer and director of Key Energy Services, Inc., a provider of a complete range of well intervention services, since 2004 until his retirement in March 2016. Prior to joining Key Energy Services, Mr. Alario was employed by BJ Services Company, an oilfield services company, where he served as Vice President from 2002 after OSCA, Inc. was acquired by BJ Services. Prior to joining BJ Services, Mr. Alario had over 21 years of service in various capacities with OSCA, an oilfield services company, most recently having served as its Executive Vice President. He currently serves as ex-officio chairman and executive committee member of the National Ocean Industries Association. He is also a director of Kirby Corporation, serving as its presiding director and chairman of its Corporate Governance Committee.	2014
Rodney Eads	66	2017	Mr. Eads has been a director of the Company since May 2014. Mr. Eads has served as President of Eads Holdings, LLC, a wholly owned private investment firm since 2009. Mr. Eads previously served as Chief Operating Officer and Executive Vice President of Pride International Inc. from 2006 until 2009, where he was responsible for its worldwide offshore operations and South American and Eastern Hemisphere land assets. He served as Senior Vice President of Worldwide Operations for Diamond Offshore Drilling Inc. from 1997 until 2006. From 1977 to 1997, he served in several executive and operations management positions with Exxon Corporation, primarily in international assignments.	2014

Name	Age	Expiration Date of Current Term	Biography	Year First Became Director
Merrill Miller	66	2017	Mr. Miller has been a director of the Company and its Chairman of the Board since May 2014. Mr. Miller was elected Executive Chairman of the Company in February 2014. Mr. Miller served as a director of National Oilwell Varco from May 2001, and Chairman of its Board from July 2005, until the Company's spin-off from National Oilwell Varco in May 2014. Mr. Miller served as Executive Chairman of National Oilwell Varco from February 2014 until May 2014. He also served as Chief Executive Officer of National Oilwell Varco from May 2001 until February 2014, and as President from November 2000 until December 2012. Mr. Miller serves as a director of Chesapeake Energy Corporation, a company engaged in the development, acquisition, production, exploration, and marketing of onshore oil and natural gas properties in the United States. Mr. Miller is also on the board of directors of Transocean Ltd., a company that provides offshore contract drilling services for energy companies.	2014

YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE ELECTION OF THE THREE NOMINEES FOR DIRECTOR.

Information Regarding Continuing Directors:

Name	Age	Expiration Date of Current Term	Biography	Year First Became Director
Terry Bonno	59	2018	Ms. Bonno has been a director of the Company since May 2014. Ms. Bonno has served as a Senior Vice President of Marketing for Transocean Ltd since 2011 and Vice President Marketing since 2008 with oversight of Transocean's marketing in 14 countries. Additionally, her role included managing Turnkey/Project Management Organization (Applied Drilling Technology UK) from 2013 until its recent disposition and sale to private equity. Prior to this role she served in various Director and Management roles at Transocean Ltd leading the Marketing and Contracts efforts for West Africa and the Americas from 2001 until 2008. Prior to being acquired by Transocean Ltd., she served in a Director Marketing and Contracts role for Turnkey Drilling with RBFalcon and Global Marine (a wholly owned subsidiary of Applied Drilling Technology Inc. (ADTI)) from 1993 until 2001. During her time with Global Marine from 1982 to 1999 she served in various Accounting Management roles.	2014
Galen Cobb	63	2018	Mr. Cobb has been a director of the Company since May 2014. Mr. Cobb has served as Vice President Industry Relations for Halliburton since 2002, and is responsible for Halliburton's industry relations global activities, energy trade policy issues, executive client relations, and trade organization oversight. He has worked for Halliburton for over forty years serving in various executive management positions in operations, marketing, sales and business development. From 1991 to 1994, he was Director CIS and China with oversight in establishing Halliburton's presence and operations in these emerging markets. Later he was named Director Executive Sales and Business Development with expanded responsibilities for the worldwide development and promotion of Halliburton's services and products.	2014
James Crandell	63	2018	Mr. Crandell has been a director of the Company since May 2014. Mr. Crandell served as Managing Director of Cowen and Company from 2013 to 2016. Mr. Crandell served as Managing Director of Dahlman Rose from 2011 until its acquisition by Cowen and Company in 2013. Previously, he served as Managing Director at Barclays Capital plc from 2008 until 2011. Mr. Crandell was Managing Director for Lehman Brothers starting in 1999 until its acquisition by Barclays Capital in 2008. From 1981 until 1998, he held various posts at Salomon Brothers, including managing director, senior oil services analyst and director of U.S. equity research, before his promotion to global coordinator of equity research in 1994. Mr. Crandell has more than 30 years of experience as a Wall Street analyst focusing on oilfield services & equipment. He currently serves as a director of Independence Contract Drilling, Inc.	2014

Name	Age	Expiration Date of Current Term	Biography	Year First Became Director
Michael Frazier	67	2019	Mr. Frazier has been a director of the Company since May 2014. Mr. Frazier has been with Simmons & Company International, an independent investment bank specializing in the energy industry, since 1992, and has served as its President and Chief Executive Officer since 2002 and 2005, respectively, and as its Chairman since 2009, until its acquisition by Piper Jaffray Companies in February 2016. He serves on the board of Energy Opportunities Capital Management. Prior to joining Simmons, Mr. Frazier was actively involved in the exploration and production of oil and gas as an independent operator. Mr. Frazier also serves as a director of Piper Jaffray Companies, a leading investment bank and asset management firm.	2014
J. Wayne Richards	57	2019	Mr. Richards has been a director of the Company since May 2014. Mr. Richards has served as President and Chief Executive Officer of GR Energy Services, Inc., an oilfield products and services company focused primarily on onshore production and downhole completion services in North America, since 2013. Previously, he was President and Chief Executive Officer of Global Oilfield Services, a privately held oilfield products and services company focused on the artificial lift sector, from 2008 until 2011 when it was purchased by Halliburton. Mr. Richards served as Vice President of Artificial Lift for Halliburton from 2011 to 2013. Earlier in his career, Mr. Richards spent 25 years in various senior operational and sales and marketing positions at Schlumberger.	2014
Robert Workman	48	2019	Mr. Workman has been a director of the Company since May 2014. Mr. Workman was elected President and Chief Executive Officer of the Company in February 2014. Mr. Workman served as National Oilwell Varco’s President – Distribution Services from January 2001 until the Company’s spin-off in May 2014. He previously served National Oilwell Varco starting in 1991 in various managerial positions with the distribution business group. He also previously served as the Chairman of the Petroleum Equipment Suppliers Association.	2014

COMMITTEES AND MEETINGS OF THE BOARD

Committees

The Board of Directors appoints committees to help carry out its duties. The Board of Directors has the following standing committees: Audit, Compensation, and Nominating/Corporate Governance. Last year, the Board of Directors met 4 times and the committees met a total of 12 times. Mr. Miller and Mr. Workman do not serve on any committees. The following table sets forth the committees of the Board of Directors and their members as of the date of this proxy statement, as well as the number of meetings each committee held during 2016:

Director	Audit Committee	Compensation Committee	Nominating/Corporate Governance Committee
Merrill Miller, Jr.			
Robert Workman			
Richard Alario		+	•
Terry Bonno	•		
Galen Cobb	•		
James Crandell		•	•
Rodney Eads	+		
Michael Frazier		•	+
J. Wayne Richards	•		
Number of Meetings Held in 2016	8	2	2

(+) Denotes Chair

Attendance at Meetings

Each incumbent director attended at least 75% of the meetings of the Board and committees of which that director was a member.

Audit Committee

Messrs. Eads (Chairman), Cobb, Richards and Ms. Bonno are the current members of the Audit Committee. All members of this committee are "independent" within the meaning of the rules governing audit committees by the New York Stock Exchange, or NYSE.

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee's primary duties and responsibilities are to:

- monitor the integrity of the Company's financial statements, financial reporting processes, systems of internal controls regarding finance, and disclosure controls and procedures;
- select and appoint the Company's independent auditors, pre-approve all audit and non-audit services to be provided, consistent with all applicable laws, to the Company by the Company's independent auditors, and establish the fees and other compensation to be paid to the independent auditors;
- monitor the independence and performance of the Company's independent auditors and internal audit function;
- establish procedures for the receipt, retention, response to and treatment of complaints, including confidential, anonymous submissions by the Company's employees, regarding accounting, internal controls, disclosure or auditing matters, and provide an avenue of communication among the independent auditors, management, the internal audit function and the Board of Directors;

- prepare an audit committee report as required by the Securities and Exchange Commission (the "SEC") to be included in the Company's annual proxy statement; and
- monitor the Company's compliance with legal and regulatory requirements.

A copy of the Audit Committee Charter is available on the Company's website, www.distributionnow.com, under the Investor Relations/Corporate Governance section.

Audit Committee Financial Expert

The Board of Directors has determined that all members of the Audit Committee meet the NYSE standard of having accounting or related financial management expertise and meet the SEC's criteria of an Audit Committee Financial Expert.

Compensation Committee

Messrs. Alario (Chairman), Crandell and Frazier are the current members of the Compensation Committee. All members of the Compensation Committee are independent as defined by the applicable NYSE listing standards.

The Compensation Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee's primary duties and responsibilities are to:

- discharge the Board's responsibilities relating to compensation of the Company's directors and executive officers;
- approve and evaluate all compensation of directors and executive officers, including salaries, bonuses, and compensation plans, policies and programs of the Company; and
- administer all plans of the Company under which shares of common stock may be acquired by directors or executive officers of the Company.

A copy of the Compensation Committee Charter is available on the Company's website, www.distributionnow.com, under the Investor Relations/Corporate Governance section.

Compensation Committee Interlocks and Insider Participation

Messrs. Alario, Crandell, and Frazier served on the Compensation Committee during 2016. None of these members is a former or current officer or employee of the Company or any of its subsidiaries, is involved in a relationship requiring disclosure as an interlocking executive officer/director, or had any relationship requiring disclosure under Item 404 of Regulation S-K.

Nominating/Corporate Governance Committee

Messrs. Frazier (Chairman), Alario and Crandell are the current members of the Nominating/Corporate Governance Committee. All members of the Nominating/Corporate Governance Committee are independent as defined by the applicable NYSE listing standards.

The Nominating/Corporate Governance Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee's primary duties and responsibilities are to:

- ensure that the Board and its committees are appropriately constituted so that the Board and directors may effectively meet their fiduciary obligations to stockholders and the Company;
- identify individuals qualified to become Board members and recommend to the Board director nominees for each annual meeting of stockholders and candidates to fill vacancies in the Board;
- recommend to the Board annually the directors to be appointed to Board committees;

- monitor, review, and recommend, when necessary, any changes to the Corporate Governance Guidelines; and
- monitor and evaluate annually the effectiveness of the Board and management of the Company, including their effectiveness in implementing the policies and principles of the Corporate Governance Guidelines.

A copy of the Nominating/Corporate Governance Committee Charter is available on the Company's website, www.distributionnow.com, under the Investor Relations/Corporate Governance section.

BOARD OF DIRECTORS

Director Nomination Process and Diversity Considerations

The Nominating/Corporate Governance Committee has the responsibility of identifying candidates for election as directors, reviewing background information relating to candidates for director, and recommending to the Board of Directors nominees for directors to be submitted to stockholders for election. It is the policy of the Committee to consider director candidates recommended by stockholders. Nominees to be evaluated by the Nominating/Corporate Governance Committee are selected by the Committee from candidates recommended by multiple sources, including other directors, management, stockholders, and candidates identified by independent search firms (which firms may be paid by the Company for their services), all of whom will be evaluated based on the same criteria. As of April 7, 2016, we had not received any recommendations from stockholders for potential director candidates. All of the current nominees for director are standing members of the Board that are proposed by the entire Board for re-election. Written suggestions for nominees should be sent to the Secretary of the Company at the address listed below.

The Board of Directors believes that nominees should reflect the following characteristics:

- have a reputation for integrity, honesty, candor, fairness and discretion;
- be knowledgeable, or willing to become so quickly, in the critical aspects of the Company's businesses and operations;
- be experienced and skillful in serving as a competent overseer of, and trusted advisor to, the senior management of at least one substantial enterprise; and
- have a range of talent, skill and expertise sufficient to provide sound and prudent guidance with respect to the full scope of the Company's operations and interests.

The Board considers diversity in identifying nominees for director. The Board seeks to achieve a mix of directors that represents a diversity of background and experience, including with respect to gender and race. The Board considers diversity in a variety of different ways and in a fairly expansive manner. The Board not only considers diversity concepts such as race and gender, but also diversity in the sense of differences in viewpoint, professional experience, education, skill and other qualities and attributes that contribute to board heterogeneity. Also considered as part of the diversity analysis is whether the individual has work experience in the Company's industry, or in the broader energy or industrial market. The Company believes the Board can benefit from different viewpoints and experiences by having a mix of members of the Board who have experience in its industry and those who may not have such experience.

The Nominating/Corporate Governance Committee reviews Board composition annually to ensure that the Board reflects the knowledge, experience, skills, expertise, and diversity required for the Board to fulfill its duties. There are currently no directorship vacancies to be filled on the Board. If and when the need arises for the Company to add a new director to the Board, the Nominating/Corporate Governance Committee will take every reasonable step to ensure that diverse candidates (including, without limitation, women and minority candidates) are in the pool from which nominees are chosen and strive to obtain diverse candidates by searching in traditional corporate environments, as well as government, academia, and non-profit organizations.

Director Qualifications

The Company believes that each member of its Board of Directors possess the basic attributes of being a director of the Company, namely having a reputation for integrity, honesty, candor, fairness and discretion. Each director has also become knowledgeable in major aspects of the Company's business and operations, which has allowed the Board to provide better oversight functions to the Company. In addition to the experience, qualifications, and skills of each director set forth in their biographies starting on page 7 of this proxy statement, the Company also considered the following factors in determining that the board member should serve on the Board:

Mr. Alario has served as the chief executive officer and chairman of a publicly traded company for 12 years, prior to his retirement. Mr. Alario has extensive experience in the oil service business, having worked in that industry for over 30 years. Mr. Alario has gained valuable board experience from his tenure as a director of Kirby Corporation, including from his service on its audit committee, as the chairman of its nominating/corporate governance committee, and as presiding director. Through service in these roles, Mr. Alario has gained extensive experience in assessing the risks associated with various energy industry cycles.

Ms. Bonno provides valuable service and experience to the Audit Committee, due to her past and current experience serving on the financial committee, enterprise risk management committee, and disclosure committee at Transocean Ltd. Ms. Bonno has extensive experience in the oil service industry and a background in accounting with approximately 30 years of being a certified public accountant and experience overseeing the Sox Compliance Global Marketing Function. Ms. Bonno has dealt with all facets of potential risk areas for a global energy company and brings that experience and perspective to the Board.

Mr. Cobb provides valuable service and experience to the Audit Committee, due to his over 40 years of serving in various management positions for Halliburton. Mr. Cobb has developed experience and expertise in warehouse management and distribution, international operations, especially in emerging markets, as well as marketing and business development in a large corporate environment. As a result of this extensive experience, Mr. Cobb is very familiar with the strategic and project planning processes that impact the Company's business and continued development for growth.

Mr. Crandell has over 30 years of experience as a Wall Street analyst focusing on oilfield services and equipment. He has held positions of increasing importance at multiple investment firms, including serving as managing director of global oilfield services equity research. Given Mr. Crandell's extensive experience as an analyst covering the oilfield services sector, he is able to provide the Company useful and impactful information from a shareholder perspective. As such, Mr. Crandell's experience as an analyst of the energy industry helps provide a different perspective for the Company.

Mr. Eads provides valuable service and experience to the Audit Committee, due to his MBA degree and 40 years of experience in the energy industry and in his previous roles in senior executive management where he worked to help mitigate risk. Mr. Eads has also been an active member of the National Association of Corporate Directors (NACD) since 2010, achieving the NACD's Governance Fellow recognition, the highest standard of credentialing for directors and governance professionals. Mr. Eads' significant international experience and deep expertise in drilling, supply chain management and construction projects, together with his 12 years of experience as an executive officer of two public companies, makes him well qualified to serve as a director of the Company.

Mr. Frazier has over 35 years of experience in investment banking specializing in the energy industry. He has served as president and chief executive officer of a private investment firm focused on the energy sector. Mr. Frazier has gained valuable outside board experience from serving on the boards of Simmons & Company International, Simmons & Company International Limited, and Energy Opportunities Capital Management.

Mr. Miller has been an officer of a publicly traded company since 1996, occupying positions of increasing importance from business group president, to COO, to CEO, to Executive Chairman. Mr. Miller has extensive experience with the Company and the oilfield service industry. Mr. Miller has an MBA degree, and is a graduate of the US Military Academy, West Point. Mr. Miller has also gained valuable outside board experience from his current tenure as a director of Chesapeake Energy Corporation and Transocean Ltd.

Mr. Richards provides valuable service and experience to the Audit Committee, due to his over 30 years of experience in the oilfield products and services industry. Mr. Richards' experience serving as the chief executive officer of several companies and his experience in growing energy companies organically and through acquisitions, makes him well qualified to serve as a director of the Company. Mr. Richards has dealt with many facets of potential risk areas for an energy service company, as a current and former chief executive officer, and brings that experience and perspective to the Board.

Mr. Workman has been an officer of a publicly traded company since 2001. Mr. Workman's 23-year career in the distribution business includes positions of increasing importance, from sales manager, to Vice President, to Business Group President. Mr. Workman has extensive experience with the Company and the oil service industry. Mr. Workman's extensive experience in the Company's business and the industry, his MBA degree, and his unparalleled knowledge of the Company makes him uniquely and well qualified to serve as a director of the Company.

AUDIT COMMITTEE REPORT

The responsibilities of the Audit Committee include providing oversight to the Company's financial reporting process through periodic combined and separate meetings with the Company's independent auditors and management to review accounting, auditing, internal controls, and financial reporting matters. The management of the Company is responsible for the preparation and integrity of the financial reporting information and related systems of internal controls. The Audit Committee, in carrying out its role, relies on the Company's senior management, including senior financial management, and its independent auditors.

The Board of Directors has determined that all of the members of the Audit Committee are independent based on the guidelines set forth by the NYSE and SEC rules for the independence of Audit Committee members. The Audit Committee, at each regularly scheduled quarterly meeting in 2016, met separately in executive session with both the internal audit director and the independent audit partner, without management being present.

The Audit Committee reviewed and discussed with senior management the audited financial statements included in the Company's Annual Report on Form 10-K. Management has confirmed to the Audit Committee that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles ("GAAP").

The Audit Committee discussed with Ernst & Young LLP, the Company's independent auditors, the matters required to be discussed under the Public Company Accounting Oversight Board ("PCAOB") standards. The Audit Committee has received the written disclosures and the letter from Ernst & Young required by applicable requirements of PCAOB regarding Ernst & Young's communication with the Audit Committee concerning independence and has discussed Ernst & Young's independence with Ernst & Young.

Based on the foregoing, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's 2016 Annual Report on Form 10-K.

Notwithstanding the foregoing, the Audit Committee's charter clarifies that it is not the Audit Committee's duty to conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with GAAP. Management is responsible for the Company's financial reporting process, including its system of internal controls, and for the preparation of financial statements in accordance with GAAP. Management is also responsible for assuring compliance with laws and regulations and the Company's corporate policies, subject to the Audit Committee's oversight in the areas covered by the Audit Committee's charter. The independent auditors are responsible for expressing opinions on those financial statements and on the effectiveness of the Company's internal control over financial reporting.

Members of the Audit Committee

Rodney Eads, Committee Chairman
Terry Bonno
Galen Cobb
Wayne Richards

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS
PROPOSAL NO. 2 ON THE PROXY CARD

Information Regarding our Independent Auditors

The Audit Committee of the Board of Directors has reappointed Ernst & Young LLP as independent auditors for 2017. Stockholders are being asked to vote upon the ratification of the appointment. Representatives of Ernst & Young will attend the Annual Meeting, where they will be available to respond to appropriate questions and have the opportunity to make a statement if they desire.

Vote Required for Approval

The proposal to ratify the appointment of Ernst & Young LLP as independent auditors will require approval of a majority of the shares of our common stock entitled to vote and present in person or by proxy. In accordance with NYSE rules, a proposal to ratify independent auditors is considered to be a "discretionary" item. This means that brokerage firms may vote in their discretion on this matter on behalf of beneficial owners who have not furnished voting instructions within the time period specified in the voting instructions submitted by such brokerage firms. Abstentions, which will be counted as votes present for the purpose of determining a quorum, will have the effect of a vote against the proposal. Your shares will be voted as you specify on your proxy. If your properly executed proxy does not specify how you want your shares voted, we will vote them for the ratification of the appointment of Ernst & Young LLP as independent auditors.

Audit Fees

The Audit Committee pre-approves all services provided by the Company's independent auditors to the Company and its subsidiaries. Consideration and approval of such services generally occurs in the regularly scheduled quarterly meetings of the Audit Committee. The Audit Committee has delegated the Chairman of the Audit Committee to pre-approve allowed non-audit services, subject to review by the full committee at the next regularly scheduled meeting. The Audit Committee has considered whether the provision of all services other than those rendered for the audit of the Company's financial statements is compatible with maintaining Ernst & Young's independence and has concluded that their independence is not compromised.

The following table sets forth Ernst & Young LLP's fees for services rendered during 2015 and 2016. All services provided by Ernst & Young LLP were pre-approved by the Audit Committee.

	2016	**2015**
Audit Fees	$1,882,825	$1,974,714
Audit Related Fees [(1)]	$87,000	$86,995
Tax Fees	$114,000	$69,167
All Other Fees	-	-
Total	$2,083,825	$2,130,876

[(1)] Consists primarily of fees for audits of employee benefit plans.

Your Board of Directors recommends that you vote "FOR" the proposal to ratify the appointment of Ernst & Young LLP.

APPROVAL OF COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS – PROPOSAL NO. 3 ON THE PROXY CARD

A proposal will be presented at the meeting asking stockholders to approve on an advisory basis the compensation of the Company's named executive officers as described in this proxy statement.

Why You Should Approve our Executive Compensation Program

The Company's compensation philosophy is designed to attract and retain executive talent and emphasize pay for performance, including the creation of stockholder value. The Company encourages its stockholders to read the Executive Compensation section of this proxy statement, including the compensation tables, as well as the Compensation Discussion and Analysis (CD&A) section of this proxy statement, for a more detailed discussion of our compensation programs and policies. The Company believes its compensation programs and policies are appropriate and effective in implementing its compensation philosophy and in achieving its goals and that they are aligned with stockholder interests and worthy of stockholder support.

We believe that stockholders should consider the following in determining whether to approve this proposal:

Compensation Program is Closely Linked to Stockholder Value

An important portion of each executive's compensation at the Company is in the form of long-term incentive awards, which are directly linked to the Company's performance and the creation of stockholder value. The Company's long-term incentive awards, starting with its first annual grant in 2015, consists of: stock options, time-based restricted stock and performance-based share awards. We believe this mix appropriately motivates long-term performance and rewards executives for absolute gains in share price, performance against designated metrics and relative financial performance against a designated peer group.

Strong Pay-for-Performance Orientation

The Company's annual and long-term incentive programs established in 2015, the Company's first full year in existence, pay its named executive officers only if certain performance metrics (absolute and/or relative) are achieved. Thus, two of the three components of an executives' pay at the Company are based on performance.

Compensation Program Has Appropriate Long-term Orientation

Minimum three-year vesting for equity awards: The Company encourages a long-term orientation by its executives through the use of three-year vesting requirements for annual grants of stock options, restricted stock and performance-based awards.

Summary of Good Governance and Risk Mitigating Factors

- *Limited Bonus payouts:* Bonus awards cannot exceed 200% of target, limiting excessive awards for short-term performance.

- *Balanced pay mix:* The mix of pay is balanced between annual and long-term compensation.

- *Multiple year vesting of long-term incentives:* Long-term incentive awards do not fully vest until a minimum of three years after the grant.

- *CEO Pay:* CEO base salary level is currently well below the competitive peer median (below the market 25th percentile) and actual total direct compensation is also below the competitive peer median.

- *Executive Chairman Pay:* Executive Chairman voluntarily receives $1 in annual base pay, does not participate in the annual incentive program, and voluntarily waived his right to receive an annual equity grant in 2015 and in 2016.

- *Clawback Policy:* Awards of long-term equity compensation and compensation under the Company's annual cash incentive plan can be terminated by the Compensation Committee if it determines that the recipient of such award has engaged in material misconduct.

In 2016, more than 94% of the votes cast on our say-on-pay proposal were in favor of our executive compensation program and policies.

The Company's compensation program for its named executive officers has been thoughtfully designed to support the Company's long-term business strategies and drive creation of stockholder value. The program does not encourage excessive risk-taking by management. It is aligned with the competitive market for talent, and highly sensitive to Company performance. The Company believes its program will deliver reasonable pay that is strongly linked to Company performance over time.

The following resolution will be submitted for a stockholder vote at the 2017 annual meeting:

"RESOLVED, that the stockholders of the Company approve, on an advisory basis, the compensation of the Company's named executive officers listed in the 2016 Summary Compensation Table included in the proxy statement for this meeting, as such compensation is disclosed pursuant to Item 402 of Regulation S-K in this proxy statement under the section entitled "Executive Compensation", including the compensation tables and other narrative executive compensation disclosures set forth under that section, as well as the section in the proxy statement entitled "Compensation Discussion and Analysis."

This advisory vote on the compensation of the Company's named executive officers gives stockholders another mechanism to convey their views about the Company's compensation programs and policies. Although your vote on executive compensation is not binding on the Company, the Board values the views of stockholders. The Board and Compensation Committee will review the results of the vote and take them into consideration in addressing future compensation policies and decisions.

Your Board of Directors recommends that you vote "FOR" the proposal to approve the compensation of our named executive officers.

CORPORATE GOVERNANCE

NOW's Board of Directors is committed to promoting transparency in reporting information about the Company, complying with the spirit as well as the literal requirements of applicable laws, rules and regulations, and corporate behavior that conforms to corporate governance standards that substantially exceed the consensus view of minimum acceptable corporate governance standards. The Board of Directors adopted Corporate Governance Guidelines which established provisions for the Board's composition and function, Board committees and committee membership, evaluation of director independence, the roles of the Chairman of the Board, the Chief Executive Officer and the Lead Director, the evaluation of the Chief Executive Officer, regular meetings of non-employee directors, board conduct and review, selection and orientation of directors, director compensation, access to management and independent advisors, and annual review of the Corporate Governance Guidelines. A copy of the Corporate Governance Guidelines is available on the Company's website, www.distributionnow.com, under the Investor Relations/Corporate Governance section. The Company will furnish print copies of the Corporate Governance Guidelines, as well as its Committee charters, to interested stockholders without charge, upon request. Written requests for such copies should be addressed to: Raymond Chang, Secretary, NOW Inc., 7402 N. Eldridge Parkway, Houston, Texas 77041.

Highlights

We maintain a strong and proactive approach to corporate governance, as follows:

- Active Board and committees of the Board oversight of risk of the Company;
- Independent committee chairs and members;
- Clawback policy to recover executive compensation;
- Lead independent director;
- Annual Board and committee self-evaluations and assessments;
- Directors meet in executive sessions without management present

Director Independence

The Corporate Governance Guidelines address, among other things, standards for evaluating the independence of the Company's directors. The Board undertakes an annual review of director independence and considers transactions and relationships during the prior year between each director or any member of his or her immediate family and the Company and its affiliates, including those reported under "Certain Relationships and Related Transactions" in this Proxy Statement. In February 2017, as a result of this annual review, the Board affirmatively determined that a majority of the members of the Board of Directors are independent of the Company and its management under the standards set forth in the Corporate Governance Guidelines. The following directors were affirmed as independent: Richard Alario, Terry Bonno, Galen Cobb, James Crandell, Rodney Eads, Michael Frazier, and J. Wayne Richards.

Board Leadership

Currently, the roles of Chairman of the Board and Chief Executive Officer are not combined at the Company. The Company believes that effective corporate governance, including the independent oversight of management, does not require that the Chairman of the Board be an independent director. The Company believes that its stockholders are best served by a Board that has the flexibility to establish a leadership structure that fits the needs of the Company at a particular point in time.

The Board believes that our current Executive Chairman is best situated to serve as Chairman because he is the director most familiar with our business and most capable of effectively identifying strategic priorities and leading the discussion and execution of our strategy. The Board also believes that the role of Executive Chairman facilitates information flow between management and the Board.

To assist with providing independent oversight of management and the Company's strategy, the non-employee members of the Board of Directors have appointed J. Wayne Richards, an independent director, as Lead Director. The Lead Director is responsible for: (1) developing the agenda for, and presiding over the executive sessions of, the Board's non-management directors, (2) facilitating communications among the Chairman of the Board, the Chief Executive Officer and other members of the Board, (3) coordinating, with the Chairman and the Chief Executive Officer, the assessment of the committee structure, organization, and charters, and evaluating the need for any changes, (4) acting as principal liaison between the non-management directors and the Chief Executive Officer on matters dealt with in executive session, and (5) assuming such further tasks as the independent directors may determine.

The Board also holds executive sessions on a quarterly basis at which only non-employee directors are present. In addition, the committees of the Board provide independent oversight of management. Each of the committees of the Board is composed entirely of independent directors.

The Board has concluded that this structure is in the best interest of stockholders because it provides an appropriate balance between our Chairman's ability to lead the Board and the Company and the ability of our independent directors, under the leadership of our Lead Director, to provide independent objective oversight of our management.

Board Role in Risk Oversight

The Board of Directors and its committees help conduct certain risk oversight functions for the Company. The Board is periodically advised on the status of various factors that could impact the business and operating results of the Company, including oil and gas prices. The full Board is also responsible for reviewing the Company's strategy, business plan, and capital expenditure budget at least annually. Through these various functions, the Board is able to monitor these risks and assist the Company in determining whether certain mitigating actions, if any, need to be taken.

The Audit Committee serves an important role in providing risk oversight, as further detailed in its charter. One of the Audit Committee's primary duties and responsibilities is to monitor the integrity of the Company's financial statements, financial reporting processes, systems of internal controls regarding finance, and disclosure controls and procedures. The Audit Committee is also responsible for establishing procedures for the receipt, retention, response to and treatment of complaints, including confidential, anonymous submissions by the Company's employees, regarding accounting, internal controls, disclosure or auditing matters, and providing an avenue of communication among the independent auditors, management, and the internal audit function and the Board. In addition, the Audit Committee monitors the Company's compliance with legal and regulatory requirements. The Company considers the Audit Committee an important part of the risk management process, and senior management works closely with the Audit Committee on these matters in managing material risks to the Company.

The other committees of the Board also assist in the risk oversight function. The Nominating/Corporate Governance Committee is responsible for ensuring that the Board and its committees are appropriately constituted so that the Board and its directors may effectively meet their fiduciary obligations to stockholders and the Company. The Nominating/Corporate Governance Committee is also responsible for monitoring and evaluating on an annual basis the effectiveness of the Board and management of the Company, including their effectiveness in implementing the policies and principles of the Corporate Governance Guidelines. The Compensation Committee is responsible for compensation of the Company's directors and executive officers. These various responsibilities of these committees allow them to work with the Company to make sure these areas do not pose undue risks to the Company.

Risk Assessment in Compensation Programs

Consistent with SEC disclosure requirements, the Company, its Compensation Committee and the Compensation Committee's independent compensation consultant assess the Company's compensation programs on an annual basis and have determined that the Company's compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company. On an annual basis, Company management, the Compensation Committee and the Compensation Committee's compensation consultant will assess the Company's executive and broad-based compensation programs to determine if the programs' provisions and operations create undesired or unintentional risk of a material nature.

The Company's variable forms of compensation, namely the annual cash incentive bonus program and long-term equity incentives, have structural limitations and other mitigating controls which are designed to prevent the Company from being exposed to unexpected or unbudgeted materially adverse events. For example, bonus payments to an executive under the annual cash incentive bonus program are capped at a certain percentage of the executive's base salary, and the number of shares of restricted stock and stock options granted under the Company's long-term equity incentive plan are fixed amounts of shares.

The Company, the Compensation Committee, and the Compensation Committee's consultant believe that the Company's compensation policies and practices do not create inappropriate or unintended significant risk to the Company as a whole. The Company and the Compensation Committee also believe that the Company's incentive compensation arrangements provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage significant risks and are supported by the oversight and administration of the Compensation Committee with regard to executive compensation programs.

Policies on Business Ethics and Conduct

The Company has a long-standing Business Ethics Policy. The Board adopted the Code of Business Conduct and Ethics For Members of the Board of Directors and Executive Officers and the Code of Ethics for Senior Financial Officers. These codes are designed to focus the Board and management on areas of ethical risk, provide guidance to personnel to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct and help to foster a culture of honesty and accountability. As set forth in the Corporate Governance Guidelines, the Board may not waive the application of the Company's policies on business ethics and conduct for any Director or Executive Officer. Copies of the Code of Business Conduct and Ethics For Members of the Board of Directors and Executive Officers and the Code of Ethics for Senior Financial Officers, as well as the code of ethics applicable to employees of the Company, are available on the Company's website, www.distributionnow.com, under the Investor Relations/Corporate Governance section. The Company will furnish print copies of these Codes to interested stockholders without charge, upon request. Written requests for such copies should be addressed to: Raymond Chang, Secretary, NOW Inc., 7402 N. Eldridge Parkway, Houston, Texas 77041.

Communications with Directors

The Board has provided a process for interested parties to communicate with our non-employee directors. Parties wishing to communicate confidentially with our non-employee directors may do so by calling 1-866-880-2773. This procedure is described on the Company's website, www.distributionnow.com, in the Investor Relations/Corporate Governance section. Calls to this number will be answered by an independent, automated system 24 hours a day, 365 days a year. A transcript of the call will be delivered to a member of the Audit Committee. Parties wishing to send written communications to the Board, other than sales-related communications, should send a letter addressed to the member or members of the Board to whom the communication is directed, care of the Secretary, NOW Inc., 7402 N. Eldridge Parkway, Houston, Texas, 77041. All such communications will be forwarded to the Board member or members specified.

Director Attendance at Annual Meetings

The Company does not have a formal policy with respect to director attendance at annual stockholder meetings. In 2016, all members of the Board were in attendance at the annual meeting.

NYSE Corporate Governance Matters

As a listed company with the NYSE, our Chief Executive Officer, as required under Section 303A.12(a) of the NYSE Listed Company Manual, must certify to the NYSE each year whether or not he is aware of any violation by the Company of NYSE Corporate Governance listing standards as of the date of the certification. On June 7, 2016, the Company's Chief Executive Officer submitted such a certification to the NYSE which stated that he was not aware of any violation by the Company of the NYSE Corporate Governance listing standards.

On February 15, 2017, the Company filed its 2016 Form 10-K with the SEC, which included as Exhibits 31.1 and 31.2 the Chief Executive Officer and Chief Financial Officer certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

EXECUTIVE OFFICERS

The following persons are our current executive officers. The executive officers of the Company serve at the pleasure of the Board of Directors and are subject to annual appointment by the Board of Directors. None of the executive officers, directors, or nominees for director has any family relationships with each other.

Name	Age	Position	Biography
Merrill Miller, Jr.	66	Executive Chairman	Mr. Miller has been a director of the Company and its Chairman of the Board since May 2014. Mr. Miller was elected Executive Chairman of the Company in February 2014. Mr. Miller served as a director of National Oilwell Varco from May 2001, and Chairman of its Board from July 2005, until the Company's spin-off from National Oilwell Varco in May 2014. Mr. Miller served as Executive Chairman of National Oilwell Varco from February 2014 until May 2014. He also served as Chief Executive Officer of National Oilwell Varco from May 2001 until February 2014, and as President from November 2000 until December 2012. Mr. Miller serves as a director of Chesapeake Energy Corporation, a company engaged in the development, acquisition, production, exploration, and marketing of onshore oil and natural gas properties in the United States. Mr. Miller is also on the board of directors of Transocean Ltd., a company that provides offshore contract drilling services for energy companies.
Robert Workman	48	President and Chief Executive Officer	Mr. Workman has been a director of the Company since May 2014. Mr. Workman has served as President and Chief Executive Officer of the Company since February 2014. Mr. Workman served as National Oilwell Varco's President – Distribution Services from January 2001 until the Company's spin-off in May 2014. He previously served National Oilwell Varco starting in 1991 in various managerial positions with the distribution business group. He also previously served as the Chairman of the Petroleum Equipment Suppliers Association.

Name	Age	Position	Biography
Daniel Molinaro	70	Senior Vice President and Chief Financial Officer	Mr. Molinaro has served as the Company's Senior Vice President and Chief Financial Officer since February 2014. Mr. Molinaro served as National Oilwell Varco's Vice President from 2003, and served as National Oilwell Varco's Treasurer from 1987, until the Company's spin-off in May 2014. Prior to that, he was Controller of the Oilwell Division of U.S. Steel Corporation ("USX"). He started with USX in 1968, and has held various managerial positions in auditing, accounting and finance.
Raymond Chang	46	Vice President, General Counsel and Secretary	Mr. Chang has served as the Company's Vice President and General Counsel since February 2014. Mr. Chang served as National Oilwell Varco's Vice President, Assistant General Counsel and Assistant Secretary from 2009 until the Company's spin-off in May 2014. He previously served National Oilwell Varco starting in 2001 in various positions within its legal department. Prior to joining National Oilwell Varco, he was an associate at the law firm of Baker & McKenzie from 1997 until 2001.
David Cherechinsky	53	Vice President, Corporate Controller and Chief Accounting Officer	Mr. Cherechinsky has served as the Company's Vice President, Corporate Controller and Chief Accounting Officer since February 2014. Mr. Cherechinsky served as Vice President—Finance for National Oilwell Varco's distribution business group from 2003, and as Vice President—Finance for National Oilwell Varco's Distribution & Transmission business segment from 2011, until the Company's spin-off in May 2014. He previously served National Oilwell Varco starting in 1989 in various corporate roles, including internal auditor, credit management and business analyst.

STOCK OWNERSHIP

Security Ownership of Certain Beneficial Owners

Based on information filed with the SEC as of the most recent practicable date, this table shows the number and percentage of shares beneficially owned by owners of more than five percent of the outstanding shares of the common stock of the Company at December 31, 2016. The number and percentage of shares of common stock beneficially owned is based on 109,639,438 shares outstanding as of December 31, 2016.

5% Owners	No. of Shares	Percent of Class
Baillie Gifford & Co. (1) Calton Square 1 Greenside Row Edinburgh EH1 3AN Scotland UK	13,192,445	12.03%
BlackRock, Inc. (2) 55 East 52nd Street New York, NY 10055	10,651,081	9.71%
The Vanguard Group (3) 100 Vanguard Blvd. Malvem, PA 19355	8,047,861	7.34%
First Eagle Investment Management, LLC (4) 1345 Avenue of the Americas New York, NY 10105	7,680,951	7.01%
Wellington Management Group LLP (5) 280 Congress Street Boston, MA 02210	7,038,608	6.42%
Clearbridge Investments, LLC (6) 620 8th Avenue New York, NY 10018	6,508,472	5.94%

(1) Shares owned at December 31, 2016, as reflected in Amendment No. 3 to Schedule 13G filed with the SEC on February 6, 2017 by Baillie Gifford & Co. ("Baillie Gifford"). Securities reported on this Schedule 13G were reported as being beneficially owned by Baillie Gifford and are held by Baillie Gifford and/or one or more of its investment adviser subsidiaries, which may include Baillie Gifford Overseas Limited, on behalf of investment advisory clients, which may include investment companies registered under the Investment Company Act, employee benefit plans, pension funds or other institutional clients.

(2) Shares owned at December 31, 2016, as reflected in Amendment No. 2 to Schedule 13G filed with the SEC on January 25, 2017 by BlackRock, Inc. ("BlackRock"). Within the BlackRock group are the following subsidiaries: BlackRock (Netherlands) B.V., BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management Schweiz AG, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, BlackRock Investment Management, LLC, BlackRock Life Limited.

(3) Shares owned at December 31, 2016, as reflected in Amendment No. 2 to Schedule 13G filed with the SEC on February 10, 2017 by the Vanguard Group. Vanguard Fiduciary Trust Company ("VFTC"), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 122,393 shares or 0.11% of the common stock outstanding of the Company as a result of its serving as investment manager of collective trust accounts. Vanguard Investments Australia, Ltd. ("VIA"), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 18,014 shares or 0.01% of the common stock outstanding of the Company as a result of its serving as investment manager of Australian investment offerings.

(4) Shares owned at December 31, 2016, as reflected in Amendment No. 2 to Schedule 13G filed with the SEC on February 6, 2017 by First Eagle Investment Management, LLC (“FEIM”). First Eagle Investment Management, LLC, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is deemed to be the beneficial owner of 7,680,951 shares, or 7.15% of the common stock believed to be outstanding as a result of acting as investment adviser to various clients. Clients of FEIM have the right to receive and the ultimate power to direct the receipt of dividends from, or the proceeds of the sale of, such securities. The First Eagle Global Fund, a registered investment company for which FEIM acts as investment adviser, may be deemed to beneficially own 5,851,664 of these 7,680,951 shares, or 5.44% of the Company’s common stock.

(5) Shares owned at December 31, 2016, as reflected in Schedule 13G filed with the SEC on February 9, 2017 by Wellington Management Group LLP, Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP and Wellington Management Company LLP. The securities as to which this Schedule 13G is filed by Wellington Management Group LLP, as parent holding company of certain holding companies and the Wellington Investment Advisers, are owned of record by clients of the Wellington Investment Advisers. Wellington Investment Advisers consists of one or more of the following investment advisers: Wellington Management Company LLP, Wellington Management Canada LLC, Wellington Management Singapore Pte Ltd, Wellington Management Hong Kong Ltd, Wellington Management International Ltd, Wellington Management Japan Pte Ltd, and Wellington Management Australia Pty Ltd. Wellington Investment Advisors Holdings LLP controls directly, or indirectly through Wellington Management Global Holdings, Ltd., the Wellington Investment Advisers. Wellington Investment Advisors Holdings LLP is owned by Wellington Group Holdings LLP. Wellington Group Holdings LLP is owned by Wellington Management Group LLP.

(6) Shares owned at December 31, 2016, as reflected in Amendment No. 1 to Schedule 13G filed with the SEC on February 14, 2017 by Clearbridge Investments, LLC.

Security Ownership of Management

This table shows the number and percentage of shares of the Company's common stock beneficially owned as of April 6, 2017 by each of our current directors and executive officers and by all current directors and executive officers as a group. The number and percentage of shares of common stock beneficially owned is based on 109,639,438 shares outstanding as of April 6, 2017. Beneficial ownership includes any shares as to which the director or executive officer has the right to acquire within 60 days of April 6, 2017 through the exercise of any stock option, warrant or other right. Each stockholder has sole voting and investment power, or shares these powers with his spouse, with respect to the shares beneficially owned.

	Shares Beneficially Owned		
Name of Individual	**Number of Common Shares[(1)]**	**Outstanding Options Exercisable Within 60 Days**	**Percent of Class***
Richard Alario…..……………………………………………..	15,782	0	*
Terry Bonno………...………………………………………….	18,182	0	*
Raymond Chang…...…………………………………………..	124,125	76,524	*
David Cherechinsky…....……………………………………..	88,294	75,687	*
Galen Cobb……..……………………………………………...	15,782	0	*
James Crandell…………………………………………………	15,782	0	*
Rodney Eads…………………………………………………...	21,046	0	*
Michael Frazier………………………………………………...	42,083	0	*
Merrill Miller Jr……………………………………………..	743,749	1,356,053	1.9%
Daniel Molinaro..………………………………………………	159,892	154,687	*
J. Wayne Richards..……………………………………………	15,782	0	*
Robert Workman...…………………………………………….	501,548	407,744	*
All current directors and executive officers as a group (12 persons)…………………………………………………	1,762,047	2,070,695	3.5%

*Less than 1 percent.

(1)Includes shares deemed held by executive officers and directors in the Company's 401(k) plans and deferred compensation plans.

COMPENSATION DISCUSSION AND ANALYSIS

General Overview

NOW Inc.'s executive compensation program is administered by the Compensation Committee of the Board of Directors. The Compensation Committee establishes specific compensation levels for the Company's executive officers and administers the Company's long-term incentive award plans. The Compensation Committee's objective regarding executive compensation is to design and implement a compensation program that will attract and retain the best available individuals to serve on the Company's executive team and properly incentivize those executives to achieve the Company's short-term and long-term financial and operational goals. To this end, the Compensation Committee strives to provide compensation packages for key executives that generally offer compensation opportunities in the median range of the companies in its designated peer group as described below. Data sources reviewed by the Compensation Committee and its independent compensation consultants include industry survey groups, national survey databases, proxy disclosures and general trend data, which are updated annually. The Compensation Committee reviews all elements of executive compensation both separately and in the aggregate.

Major components of the executive compensation program for 2016 are base salary, participation in the Company's annual cash incentive (bonus) plan and the grant of non-qualified stock options, restricted stock and performance-based restricted stock awards (long-term incentives).

2016 Performance Overview

In 2016, the Company had the following highlights:

- Second full year operating as an independent, publicly traded company;
- The Company completed its largest acquisition to date (Power Service);
- The Company generated $235 million in cash flow from operations in 2016;
- Revenue in 2016 of $2.1 billion.

Participants

The following is a list of our named executive officers by name and position, as of December 31, 2016:

Name	Position
Merrill Miller, Jr.	Executive Chairman
Robert Workman	President and Chief Executive Officer
Daniel Molinaro	Senior Vice President and Chief Financial Officer
Raymond Chang	Vice President, General Counsel and Secretary
David Cherechinsky	Vice President and Chief Accounting Officer

Good Pay Practices

Our compensation program and policies include key features that are designed to align the interests of our executives and stockholders and to mitigate compensation-related risks. The table below highlights our practices:

What We Do	What We Do Not Do
☑ Pay for Performance	☒ No gross-up payments to cover excise taxes or perquisites
☑ Long-term incentives linked to stock price appreciation and company financial performance	☒ No Guaranteed Annual or Multi-Year Bonuses
☑ Annual Cash Incentive and Long-Term Incentives are subject to the Company's clawback policy	☒ No Repricing of Underwater Stock Options
☑ Bonus payments to executives under the annual cash incentive program are capped at a certain percentage of the executive's base salary	☒ No significant compensation in the form of perquisites for executives
☑ Long-term incentive awards do not fully vest until a minimum of three years after the grant	☒ No pledging of our shares by executive officers or directors
☑ Varied performance metrics under short-term and long-term incentive plans	
☑ Double Trigger Provisions for Change in Control	
☑ Independent Consultant Reports Directly to the Compensation Committee	
☑ Fully independent Compensation Committee	
☑ Benchmark pay relative to the market and review the designated peer group used for market benchmarking on an annual basis	
☑ Mitigate Undue Risk in Compensation Programs	

In 2016, more than 94% of the votes cast on our say-on-pay proposal were in favor of our executive compensation program and policies.

Compensation Philosophy

The Company believes it is important for each executive to have a fixed amount of cash compensation, in the form of base salary, that is not dependent on the performance or results of the Company. The Company recognizes that a certain amount of financial certainty must be provided to its executives as part of their compensation.

While the Company believes a competitive base salary is needed to attract and retain talented executives, the Company's compensation program also places a strong emphasis on performance driven annual and long-term incentives to align the executive's interests with stockholder value. The annual and long-term incentives are calculated and paid based primarily on financial measures of profitability and stockholder value creation. Executives of the Company are incentivized to increase the Company's profitability and stockholder return and to optimize the Company's financial performance in order to earn a major portion of their compensation package.

The Company seeks to structure a balance between achieving strong short-term annual results and ensuring the Company's long-term success and viability. The Company wants each of its executives to balance his or her focus between the Company's day-to-day operational performance and the Company's long-term goals and strategies. To reinforce the importance of balancing these perspectives, the Company's executives are provided both short and long-term incentives.

Base salary is designed to compensate the executive for his or her performance of normal, everyday job functions. The Company's annual cash incentive (bonus) plan and long-term incentives are designed to reward the executive for executing business plans that will benefit the Company in the short and long-term. The Company believes that the mix of short and long-term incentives allows the Company to deliver results aligned with the interests of stockholders. Stock options create a focus on share price appreciation, while the annual cash incentive (bonus) and performance-based restricted stock awards emphasize financial performance, both absolute and relative.

Given the inherent nature of these forms of compensation and the cyclical nature of the industry in which we operate, the Company understands that its annual cash incentives and long-term compensation will result in varying compensation for its executives each year. Because of this, the Company has tried to design its annual cash incentives and long-term compensation program in such a way to provide meaningful financial rewards to its executives during times when the Company's financial and operational performance is strong, while motivating executives to stay with the Company during more challenging economic times when the Company's performance may not be as strong.

There are no compensation policy differences among the individual executives, except that the more senior officers, such as the chief executive officer, receive higher compensation consistent with their increased responsibilities. These differences are reviewed and considered in connection with the compensation analysis performed by the Compensation Committee's independent consultant.

Competitive Positioning

Because of these goals and objectives for executive compensation, the Company believes each element of compensation should be properly designed, as well as competitive with the marketplace, to incentivize its executives in the manner stated above. The Company believes it is also important that executive compensation be properly designed to attract and retain talented executives.

As part of its process to establish compensation levels for the Company's named executive officers, the Compensation Committee compares each of the major elements of compensation (base salary, annual bonus and long-term incentives) for each of its named executive officers against the median compensation provided to comparable executive officers at companies in a designated peer group. When analyzing peer group data, the Compensation Committee does not establish a specific numeric range around the median data points, which it considers reasonable or acceptable. Rather, in setting compensation for any particular named executive officer, the Compensation Committee considers any variance from the median, taking into account other factors as discussed below, and determines whether such variance is appropriate. If the Compensation Committee determines that any variance is unwarranted, the Compensation Committee will make appropriate adjustments to the compensation levels.

In November 2016, the Compensation Committee requested that its independent compensation consultant, Longnecker & Associates ("L&A"), review its designated peer group against which the Company's named executive officers compensation is compared, and provide recommendations on the ongoing peer group framework. The designated peer group, developed in 2014, was comprised of companies of similar size, companies in the equipment and services industry with emphasis on serving the energy industry, and companies in the peer group of its closest competitors, as well as companies for which the Company competes for management talent. Two companies in the peer group, Rosetta Resources and Dresser-Rand, were acquired by other companies since the establishment of the designated peer group. As a result, those two companies were removed from the designated peer group, reducing the designated peer group to fourteen companies.

L&A reviewed each designated peer company's revenue, assets, market capitalization and enterprise value in relation to the Company. L&A indicated that an ideal size for the designated peer group of the Company would be between 12 to 18 companies, and that the current designated peer group size of 14 companies would still be reasonable and proper. After reviewing the peer group and L&A's analysis and recommendations, the Compensation Committee approved the following peer group of 14 companies to form the Company's designated peer group:

W.W. Grainger, Inc.	WESCO International Inc.	KBR, Inc.
MRC Global Inc.	Flowserve Corp.	Superior Energy Services, Inc.
MasTec, Inc.	Fastenal Company	DXP Enterprises, Inc.
MSC Industrial Direct Co. Inc.	McDermott International Inc.	Applied Industrial Technologies, Inc.
Anixter International Inc.	Forum Energy Technologies, Inc.	

The Compensation Committee recognized that the designated peer group was within reasonable size parameters (generally 0.5 times to 2 times the Company's revenues, assets, EBITDA and/or market capitalization) and were generally similar to the Company in terms of industry and/or operations.

The Compensation Committee then engaged L&A in November 2016 to conduct its annual competitive review of executive compensation for the Company's top five executives relative to its peer companies, as well as to analyze internal pay equity based on the peer group approved by the Compensation Committee. L&A analyzed and compared each position's responsibilities and job title to develop competitive market data. Its executive compensation review covered the following elements of compensation: base salaries, annual bonuses, and equity compensation. L&A generated data on the components of the Company's compensation program compared to the market 25th percentile, market 50th percentile, and market 75th percentile of the designated peer group.

Based on the compiled data and the comparisons prepared by L&A, the Compensation Committee, in consultation with the Company and L&A, determined that the total direct compensation for the Company's named executive officers relative to the designated peer group was generally positioned between the 25th percentile and 50th percentile range of the peer group.

Components of Compensation

The following describes the elements of the Company's compensation program for 2016, why they were selected, and how the amounts of each element were determined.

Base Salary

Base salaries provide executives with a fixed level of monthly cash income. While the Compensation Committee is aware of competitive levels, actual salary levels are based on factors including tenure, individual performance, and level and scope of responsibility. The Company does not give specific weights to these factors. The Compensation Committee determines median base salary levels by having L&A conduct a comprehensive review of information provided in proxy statements filed by our peer companies. Generally, each executive is reviewed by the Compensation Committee individually on an annual basis. Salary adjustments are based on the individual's experience and background, the individual's performance during the prior year, the general movement of salaries in the marketplace, our financial position and, for each executive other than the chief executive officer, the recommendations of our executive chairman and chief executive officer. The Compensation Committee does not establish specific individual goals for the Company's named executive officers, other than the chief executive officer (see "Compensation of the Chief Executive Officer" below for a discussion of the chief executive officer's goals). The Compensation

Committee's analysis of the individual performance of any particular named executive officer is subjective in nature and takes into account the recommendations of the executive chairman and the chief executive officer (other than with respect to him). As a result of these factors, an executive's base salary may be above or below the targeted median at any point in time.

In November 2014, the Compensation Committee reviewed with L&A the base salaries of the named executive officers. The Compensation Committee considered each named executive officer's base salary relative to his peers and found that overall, the Company's executives are generally aligned below the market 25th percentile. Based on L&A's analysis, the CEO was further behind the market than the other executives. The Compensation Committee also considered that there had been no adjustments to the Company's named executive officers' base salary since the Company's spin-off from National Oilwell Varco in May 2014.

L&A recommended to the Compensation Committee that it adopt a philosophy of targeting base salaries near the market 50th percentile of the Company's designated peer group. Given that many of the executives were not near the market 50th percentile, and to allow the executives to mature into their current roles, L&A recommended that increases to base salaries to achieve near the market 50th percentile be made over a period of three years, so as to limit the amount of any increases over a one year period and to allow the Compensation Committee to review and make any further adjustments on an annual basis. In November 2014, the Compensation Committee agreed to the staged increases in base salary pay over a three year period, subject to an annual cap that would allow the Company to maintain fiscal responsibility and better manage pay for performance alignment while salaries adjust to the market median ("Three Year Base Pay Plan").

In November 2015, the Compensation Committee conducted its annual review with L&A of the base salaries of the named executive officers. The Compensation Committee considered each named executive officer's base salary relative to his peers and found that the Company's chief executive officer was below the market 25th percentile and the other executives were generally aligned between the market 25th percentile and the market 50th percentile. The results of such review were consistent with the analysis conducted in 2014, and were to be addressed by the Compensation Committee's approval and implementation of the Three Year Base Pay Plan.

However, given the difficult and severe market conditions during 2015, Company management requested that the Compensation Committee suspend the previously approved Three Year Base Pay Plan, and maintain each executive's base salary at current levels, even though such existing base salary levels were all below median levels of their designated peers (and in the case of the chief executive officer, below the market 25th percentile). The Compensation Committee, in consultation with the Company and L&A, reviewed the Company's request. While the Compensation Committee found the Three Year Base Pay Plan to still be fully supported by market data, it agreed to honor the Company's request and suspend implementation of the previously approved base salary adjustments for the Company's executive officers per the Three Year Base Pay Plan, and agreed to take such actions taken by Company management into consideration when compensation was reviewed again in 2016.

In November 2016, the Compensation Committee conducted its annual review with L&A of the base salaries of the named executive officers. The Compensation Committee considered each named executive officer's base salary relative to his peers and found that the Company's chief executive officer was still below the market 25th percentile and the other executives were generally aligned between the market 25th percentile and the market 50th percentile. Given the continued difficult and severe market conditions during 2016, Company management requested that the Compensation Committee continue to suspend the previously approved Three Year Base Pay Plan, and maintain each executive's base salary at current levels, even though such existing base salary levels were all below median levels of their designated peers (and in the case of the chief executive officer, below the market 25th percentile). The Compensation Committee, in consultation with the Company and L&A, reviewed the Company's request. While the Compensation

Committee found the Three Year Base Pay Plan to still be fully supported by market data, it agreed to honor the Company's request and continue to suspend implementation of the previously approved base salary adjustments for the Company's executive officers per the Three Year Base Pay Plan, and agreed to take such actions taken by Company management into consideration when compensation was reviewed again in 2017.

Based on these factors, the Company's named executive officers, other than its Executive Chairman (who continues to voluntarily receive $1 in annual base salary), had the following base salaries in 2016 (which have continued into 2017):

Name	2016 Base Salary
Robert Workman	$600,000
Daniel Molinaro	$425,000
Raymond Chang	$368,000
David Cherechinsky	$253,000

The Executive Chairman has voluntarily agreed to effectively forego cash compensation ($1 in annual base salary and no annual incentive compensation) and could only be compensated in long-term incentives.

Annual Incentive Award

The objectives of the Company's annual cash incentive plan are to incent performance to achieve the Company's corporate growth and profitability goals, encourage smart investments and prudent employment of capital, incent efficient and optimal cash flow management, and provide competitive compensation packages to attract and retain management talent.

The Company's annual incentive plan has two independent, pre-determined and equally weighted metrics to measure the Company's success and payouts under such plan: (1) working capital as a percentage of revenue ("Working Capital") and (2) EBITDA percentage ("EBITDA"). Working capital is defined as current assets (excluding cash) less current liabilities (excluding short-term borrowings). Substantially all corporate exempt employees of the Company, including executive officers, are eligible to participate in the Company's annual incentive plan in 2016, aligning a portion of each employee's cash compensation with Company performance.

Each participant is assigned a target level percentage bonus, which ranges from 5% to 100% of salary, depending on the level of the participant. There are three performance result multiplier levels of the target level percentage bonus set under the incentive plan for each of the two performance metrics – minimum (50%), target (100%) and maximum (200%) (the "performance result multiplier"). Entry level is the "minimum" level of EBITDA and Working Capital for which the Company provides an annual incentive payout. If the Company's EBITDA is less than the entry level threshold, then there is no payout in that fiscal year for the EBITDA portion of the annual incentive. If the Company's Working Capital is less than the entry level threshold, then there is no payout in that fiscal year for the Working Capital portion of the annual incentive. If the Company achieves the entry level threshold for a performance metric, the "minimum" level payout of 50% of the target level percentage bonus is earned. For the EBITDA portion of the annual incentive plan, the target multiplier level (100% of the participant's applicable percentage of base salary) is earned when the target EBITDA level is reached by the Company. For the Working Capital portion of the annual incentive plan, the target multiplier level (100% of the participant's applicable percentage of base salary) is earned when the target Working Capital level is reached by the Company. For the EBITDA portion of the annual incentive plan, for the "maximum" level multiplier of 200% of the target level percentage bonus to occur, the Company's EBITDA must equal or exceed the maximum EBITDA goal that was set for the incentive plan. For the Working Capital portion of the annual incentive plan, for the “maximum” level multiplier of 200% of the target level percentage bonus to occur, the Company’s Working Capital must equal or exceed the maximum Working Capital goal that was set for the incentive plan. Results falling between the stated thresholds of minimum, target and maximum will result in an interpolated, or sliding scale payout.

For 2016, the chief executive officer’s participation level was 100%, the chief financial officer’s participation level was 80%, and the other executive officers’ participation levels were between 75-80%. These participation level percentages are based on each executive’s level of responsibility for the Company’s financial performance. Mr. Miller, the Company’s Executive Chairman, has voluntarily waived his right to participate in the Company’s annual incentive plan.

The Compensation Committee believes the use of two separate metrics, EBITDA and Working Capital, as the designated performance objectives under the annual incentive plan best align the interests of the Company’s stockholders and the Company’s executive officers. The “target” objective is set at a level that the Company believes is challenging to meet but achievable if the Company properly executes its operational plan and market conditions are positive and favorable during the year. The “minimum” and “maximum” level of operating profit under the incentive plan are set based off of the “target” objective. The Compensation Committee believes this objective, formulaic measure allows the “minimum” objective to be set at a level that the Company can achieve even if market conditions are not as favorable and/or the Company’s operational plan is not executed as efficiently as planned. The “minimum” objective serves to motivate the Company’s executives to continue to work towards executing the Company’s operational plan if market conditions, which are generally outside the control of the Company, are not as favorable. The Compensation Committee believes this objective, formulaic measure allows the “maximum” objective to be set at a level that would be extremely challenging for the Company to achieve. The Compensation Committee believes that, for the “maximum” objective to be achieved, a combination of market conditions being much more favorable than initially forecasted and the Company executing its operational plan in a highly efficient manner would need to occur.

Payouts are calculated by multiplying (A) the sum of (1) the performance result multiplier with respect to EBITDA performance, divided by two, and (2) the performance result multiplier with respect to Working Capital performance, divided by two, by (B) the participant’s base salary, by (C) the participant’s designated participation level percentage.

The following examples calculate an annual incentive award payment for Mr. Workman assuming (1) the Company’s 2016 EBITDA and Working Capital were each equal to the target set under the incentive plan and (2) the Company’s 2016 EBITDA and Working Capital each exceeded the maximum set under the incentive plan:

(1) ((100%/2) + (100%/2)) (performance result) x $600,000 (base salary) x 100% (participation level) = $600,000

(2) ((200%/2) + (200%/2)) (performance result) x $600,000 (base salary) x 100% (participation level) = $1,200,000

The Company’s annual incentive plan is designed to reward its executives in line with the financial performance of the Company on an annual basis. When the Company is achieving strong financial results, its executives will be rewarded well through its annual incentive plan. The Company believes this structure helps keep the executives properly motivated to continue helping the Company achieve these strong results. While the executives’ financial benefit is reduced during times when the Company’s performance is not as strong, other forms of the Company’s compensation program, namely its long-term incentive compensation as well as base salary, help motivate its executives to remain with the Company to help it achieve strong financial and operational results, thereby benefiting the executive, the Company and its stockholders.

Market conditions in 2016 were extremely challenging. The Company's operating results were heavily impacted by the declines in both rig count and the price of WTI and natural gas starting in 2015 through 2016, resulting in the Company not achieving the entry level ("minimum") of EBITDA under its annual cash incentive plan. However, because the Company was able to manage its balance sheet efficiently and well during such difficult market conditions in 2016, the Company nearly achieved the target level of Working Capital under its annual cash inventive plan.

Thus, based on the Company's financial results in 2016, bonus payments were made to the Company's named executive officers, as follows: Mr. Workman - $288,344; Mr. Molinaro - $163,395; Mr. Chang - $141,481; and Mr. Cherechinsky - $99,118.

Long-Term Incentive Compensation

The primary purpose of the Company's long-term incentive compensation is to focus its executive officers on a longer-term perspective in their managerial responsibilities. This component of an executive officer's compensation directly links the officers' interests with those of the Company's stockholders. In addition, long-term incentives encourage management to focus on the Company's long-term development and prosperity in addition to profitability and optimal cash flow. This program helps balance long-term versus short-term business objectives, reinforcing that one should not be achieved at the expense of the other. The Company's long-term incentive compensation program also serves to help the Company attract and retain management talent.

In November 2014, the Compensation Committee, the Company and L&A discussed establishing a long-term incentive plan structure for the Company. L&A conducted a market study to determine what types of grants were used by the Company's peers, as well as the type of grants the employees of the Company were accustomed to receiving during their employment with National Oilwell Varco before the spin-off.

In January 2015, the Compensation Committee agreed that equity grants to be made to the Company's executives under the Company's long-term incentive plan would consist of, in equal portions by value, stock options, time-based restricted stock and performance-based share awards. The Compensation Committee, the Company and L&A believed it was important that a portion of the equity grants included a grant based on the satisfaction of a specified performance condition to determine vesting of that particular grant. After consultation with Company management and L&A, the Compensation Committee established three separate performance metrics to be used for vesting of the performance share awards for executives. The Compensation Committee believed that the performance measures they established would serve to motivate the Company's executives to deliver results aligned with the interests of Company stockholders.

The performance share awards can be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into three equal, independent parts that are subject to these three separate performance metrics: 33 1/3% with a TSR (total shareholder return) goal, 33 1/3% with an EBITDA goal and 33 1/3% with a working capital as a percentage of revenue goal (working capital).

Performance against the TSR goal is determined by comparing the performance of the Company's TSR with the TSR performance of the members of the Company's designated peer group for the three year performance period of the performance share awards. The Compensation Committee believes that the members of the Company's designated peer group are an appropriate benchmark against which to compare the Company's TSR performance. The following table summarizes the relationship between the Company's TSR performance when compared with the TSR performance of the members of its designated peer group and the associated payout levels for the performance achieved for the TSR portion of the award:

Level	Payout %	Percentile Rank vs. Designated Peer Group
Maximum	200%	200% earned when the Company is at the 75th percentile or greater
Target	100%	100% earned when the Company is at the 50th percentile
Minimum	50%	50% earned when the Company is at the 25th percentile
No Payout	0%	0% earned when the Company is below the 25th percentile

Results falling between the stated thresholds of minimum, target and maximum will result in an interpolated, or sliding scale payout.

Performance against the EBITDA percentage goal is determined by comparing the performance of the Company's actual EBITDA percentage performance average for each of the three years of the performance period against the EBITDA goal set by the Compensation Committee. The following table summarizes the payout levels on the EBITDA portion of the award based on the Company's EBITDA percentage performance against the EBITDA percentage goal:

Level	Payout %	Actual EBITDA Performance
Maximum	200%	200% earned when EBITDA achievement is 3% or higher
Target	100%	100% earned when EBITDA achievement is 1%
Minimum	50%	50% earned when EBITDA achievement is 0%
No Payout	0%	0% earned when EBITDA achievement is less than 0%

Due to the negative market conditions existing throughout 2015 and continuing into 2016, the Compensation Committee adjusted the EBITDA metrics from 3% for the minimum threshold, 5% for the target threshold and 7% for the maximum threshold, to 0%, 1% and 3%, respectively. The Compensation Committee believed these revised thresholds better reflected existing market conditions and provided more reasonable thresholds as a result.

Results falling between the stated thresholds of minimum, target and maximum will result in an interpolated, or sliding scale payout.

Performance against the working capital as a percentage of revenue goal is determined by comparing the performance of the Company's actual working capital as a percentage of revenue performance average for each of the three years of the performance period against the working capital as a percentage of revenue goal set by the Compensation Committee. The following table summarizes the payout levels on the working capital as a percentage of revenue portion of the award based on the Company's working capital as a percentage of revenue performance against the working capital goal (WC):

Level	Payout %	Actual Working Capital Performance
Maximum	200%	200% earned when WC achievement is 25% or lower
Target	100%	100% earned when WC achievement is 30%
Minimum	50%	50% earned when WC achievement is 35%
No Payout	0%	0% earned when WC achievement is greater than 35%

Results falling between the stated thresholds of minimum, target and maximum will result in an interpolated, or sliding scale payout. Working capital for purposes of this calculation will exclude cash.

The Compensation Committee implemented this performance award structure to provide for long-term incentives comparable to those awards used by the Company's peers, such as:

- Making award payouts based on multiple measures/metrics; and
- Providing an earn-out structure with a threshold and maximum payout with varying levels of performance to incentivize performance

The Company grants stock options, time-based restricted stock and performance-based share awards to the Company's key executives based on competitive grants within the industry and based on the level of long-term incentives appropriate for the competitive long-term compensation component of total compensation. Such executives are eligible to receive stock options, restricted stock and performance share awards annually with other key managers being eligible on a discretionary basis. Eligibility for an award does not ensure receipt of an award.

Options are granted with an exercise price per share equal to the fair market value of the Company's common stock on the date of grant and generally vest in equal annual installments over a three-year period, and have a seven-year term subject to earlier termination. Option grants, restricted stock award grants and performance award grants must be reviewed and approved by the Compensation Committee.

The Company's long-term incentive compensation program is focused on employees who will have a greater impact on the direction and long-term results of the Company by virtue of their roles and responsibilities.

Based on the foregoing, on February 19, 2016, the Compensation Committee approved the grant of stock options to its executive officers pursuant to the NOW Inc. Long-Term Incentive Plan, as follows:

Name	**Securities Underlying Options (#)**
Robert Workman	181,913
Daniel Molinaro	54,574
Raymond Chang	41,580
David Cherechinsky	25,121

The exercise price of the stock options is $13.71 per share, which was the closing stock price of NOW Inc. common stock on the date of grant. The stock options have a term of seven years from the date of grant and vest in three equal annual installments beginning on the first anniversary of the date of the grant.

On February 19, 2016, the Compensation Committee approved the grant of time-based restricted stock to its executive officers pursuant to the NOW Inc. Long-Term Incentive Plan, as follows:

Name	**Shares of Restricted Stock (3 Years) (#)**
Robert Workman	67,411
Daniel Molinaro	20,223
Raymond Chang	15,408
David Cherechinsky	9,309

The restricted stock awards granted by the Company to its executive officers vest 100% on the third anniversary of the date of grant.

On February 19, 2016, the Compensation Committee approved the grant of performance share awards to its executive officers pursuant to the NOW Inc. Long-Term Incentive Plan, as follows:

Name	Performance Awards (Target # of Shares)
Robert Workman	67,411
Daniel Molinaro	20,223
Raymond Chang	15,408
David Cherechinsky	9,309

The performance share awards can be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into three equal, independent parts that are subject to three separate performance metrics: 33 1/3% with a TSR (total shareholder return) goal, 33 1/3% with an EBITDA percentage goal and 33 1/3% with a working capital as a percentage of revenue goal (working capital).

The Compensation Committee also designated an annual 2016 equity grant for Mr. Miller, the Company's Executive Chairman, in the form of stock options, time-based restricted stock and performance share awards. Mr. Miller voluntarily requested that he be allowed to decline receiving such grant and waive his right to it. While the size of his grant was fully supported by market data, as confirmed by L&A, the Compensation Committee respected Mr. Miller's wishes and allowed him to decline receiving such proposed grant.

The goal of the stock option program is to provide a compensation program that is competitive within the industry while directly linking a significant portion of the executive's compensation to the enhancement of stockholder value. The ultimate value of any stock option is based solely on the increase in value of the shares of the Company's common stock over the grant price. Accordingly, stock options have value only if the Company's stock price appreciates from the date of grant. Additionally, the option holder must remain employed during the period required for the option to "vest", thus providing an incentive for an option holder to remain employed by the Company. This at-risk component of compensation focuses executives on the creation of stockholder value over the long-term and is therefore inherently performance-based compensation.

The goal of the performance-based share award program is to provide a compensation program that is also competitive within the industry while directly linking a significant portion of the executive's compensation to the financial performance of the Company. The performance-based share awards received by the executives have value only if the Company's designated financial performance objectives are met and exceeded. Additionally, the holder must also remain employed during the period required for the award to "vest", thus providing an additional incentive for the award holder to remain employed by the Company. This at-risk component of compensation focuses executives on achieving strong financial performance for the Company over the long-term.

The goal of time-based restricted stock award grants is to serve as a key retention tool for the Company to retain its executives and key employees. The restricted stock awards will have value to the executive even if the Company's stock price falls below the price on the date of grant, provided that the executive remain employed during the period required for the award to "vest".

The Company believes that its equity incentive grants must be sufficient in size and duration to provide a long-term performance and retention incentive for executives and to increase their interest in the appreciation of the Company's stock and achievement of positive financial results, both in absolute terms and relative to its peers. The Company believes that stock option, restricted stock and performance award grants at a competitive level, with certain vesting requirements, are an effective way of promoting the long-term nature of its business.

Compensation of the Chief Executive Officer

The Compensation Committee determines the compensation of the chief executive officer based on competitive peer group data, leadership, meeting operational goals, executing the Company's business plan, and achieving certain financial results. Components of Mr. Workman's compensation for 2016 are consistent with those for executive officers as described above and included base salary, participation in the annual incentive plan and the grant of stock options, restricted stock and performance awards.

In considering Mr. Workman's base salary level, the Compensation Committee, generally on an annual basis, reviews the compensation level of chief executive officers of each of the companies in the designated peer group and considers Mr. Workman's individual performance and success in achieving the Company's strategic objectives.

The Compensation Committee establishes goals and objectives for Mr. Workman for each fiscal year. For 2016, Mr. Workman's performance will be measured in four key areas of the Company: (1) financial performance, (2) formulation and implementation of Company strategy, (3) operational performance, and (4) management and employee development. The specific goals within these four areas were set based on a determination of prioritizing Mr. Workman's efforts on those specific areas and responsibilities that would have the greatest impact on the Company, and included the following:

- grow market share, manage EBITDA margins and improve working capital as a percentage of revenue;
- utilize in an efficient manner Board approved capital expenditures;
- identify and execute on strategic growth opportunities;
- manage the size of operations based upon analysis of business and market conditions; and
- training throughout the Company to ensure best in class management development processes.

Retirement, Health and Welfare Benefits

The Company offers retirement, health and welfare programs to all eligible employees. The Company's executive officers generally are eligible for the same benefit programs on the same basis as the rest of the Company's employees. The health and welfare programs cover medical, pharmacy, dental, vision, life, business travel accident, accidental death and dismemberment and disability insurance.

The Company offers retirement programs that are intended to supplement the employee's personal savings. The programs include the NOW Inc. 401(k) and Retirement Savings Plan ("401k Plan") and NOW Inc. Supplemental Savings Plan ("Supplemental Plan"). The Company's U.S. employees, including its executives, are generally eligible to participate in the 401k Plan. Employees of the Company who are eligible based on guidelines established by the Company's benefits plan administrative committee may participate in the Supplemental Plan. Participation in the 401k Plan and Supplemental Plan are voluntary.

The Company established the 401k Plan to allow employees to save for retirement through a tax-advantaged combination of employee and Company contributions and to provide employees the opportunity to directly manage their retirement plan assets through a variety of investment options. The 401k Plan allows eligible employees to elect to contribute a portion of their eligible compensation into the 401k Plan. Wages and salaries from the Company are generally considered eligible compensation. After one year of service, employee contributions are matched in cash by the Company at the rate of $1.00 per $1.00 employee contribution for the first 4% of the employee's salary. In addition, the Company makes cash contributions for all eligible employees between 2.5% and 5.5% of their salary depending on the employee's full years of service with the Company. Such contributions vest immediately. The 401k Plan offers 26 different investment options, for which the participant has sole discretion in determining how both the employer and employee contributions are invested. The 401k Plan provides the Company's employees the option to invest directly in the Company's stock. The 401k Plan offers in-service withdrawals, loans and hardship distributions.

The Company established the Supplemental Plan, a non-qualified plan, to

- allow Supplemental Plan participants to continue saving towards retirement when, due to compensation and contribution ceilings established under the Internal Revenue Code, they can no longer contribute to the 401k Plan; and

- provide Company contributions that cannot be contributed to the 401k Plan due to compensation and contribution ceilings established under the Internal Revenue Code.

Compensation which may be deferred into the Supplemental Plan includes wages and salaries from the Company and bonus payments made under a Company incentive plan. Supplemental Plan participants may elect to defer a percentage of their base pay and bonus payments received under a Company incentive plan into the Supplemental Plan. Contributions in the Supplemental Plan vest immediately. The investment options offered in the Supplemental Plan are similar to the investment options offered in the 401k Plan (except Company stock is not offered).

U.S. Income Tax Limits on Deductibility

Section 162(m) of the Internal Revenue Code imposes a $1 million limitation on the deductibility of certain compensation paid to our chief executive officer and the next four highest paid executives excluding the chief financial officer ("covered employees"). Excluded from the limitation is compensation that is qualified as "performance based." For compensation to be performance based, it must meet certain criteria, including being based on predetermined objective standards approved by stockholders. Although the Compensation Committee takes the requirements of Section 162(m) into account in designing executive compensation, there may be circumstances when it is appropriate to pay compensation to our covered employees that does not qualify as "performance based compensation" and thus is not deductible by us for federal income tax purposes. Our stock option and performance-based share award grants are designed to be "performance based compensation." Bonus payments to our executives under the Company's Annual Incentive Plan should also qualify as performance based and therefore be excluded from this limitation.

Option Grant Practices

Historically, the Company has granted stock options to its key employees, including executives, in the first quarter of the year. The Company does not have any program, plan or practice to time its option grants to its executives in coordination with the release of material non-public information, and has not timed its release of material non-public information for the purposes of affecting the value of executive compensation. The Company does not set the grant date of its stock option grants to new executives in coordination with the release of material non-public information.

The Compensation Committee has the responsibility of approving any Company stock option grants. The Compensation Committee does not delegate material aspects of long-term incentive plan administration to any other person. The Company's senior executives in coordination with the Compensation Committee set a time for the Committee to meet during the first quarter of the year to review and approve stock option grants proposed by the senior executives. The specific timing of the meeting during the quarter is dependent on committee member schedules and availability and the Company finalizing its stock option grant proposal. If approved by the Compensation Committee, the grant date for the stock option grants is the date the Committee meets and approves the grant, with the exercise price for the option grant being based on the Company's closing stock price on the date of grant.

Recoupment Policy

The Company's Long-Term Incentive Plan allows the Compensation Committee, at its sole discretion, to terminate any award if it determines that the recipient of such award has engaged in material misconduct. For purposes of this provision, material misconduct includes conduct adversely affecting the Company's financial condition or results of operations, or conduct which constitutes fraud or theft of Company assets, any of which require the Company to make a restatement of its reported financial statements. If any material misconduct results in any error in financial information used in the determination of compensation paid to the recipient of any award and the effect of such error is to increase the payment amount pursuant to such award, the Compensation Committee may also require the recipient to reimburse the Company for all or a portion of such increase in compensation provided in connection with any such award. In addition, if there is a material restatement of the Company's financial statements that affects the financial information used to determine the compensation paid to the recipient of an award, then the Compensation Committee may take whatever action it deems appropriate to adjust such compensation.

Compensation Consultant Independence

In furtherance of maintaining the independence of the Compensation Committee's compensation consultant, the Compensation Committee has the sole authority to retain or terminate L&A.

In connection with its engagement of L&A, the Compensation Committee considered various factors bearing upon L&A's independence including, but not limited to, the amount of fees received by L&A from the Company as a percentage of L&A's total revenue, L&A's policies and procedures designed to prevent conflicts of interest, and the existence of any business or personal relationship that could impact L&A's independence. After reviewing these and other factors, the Compensation Committee determined that L&A was independent and that its engagement did not present any conflicts of interest. L&A also determined that it was independent from management and confirmed this to the Compensation Committee.

Recent Developments

In May 2016, our stockholders overwhelmingly approved, on an advisory basis, the compensation of our named executive officers, with approximately 94% of stockholder votes cast in favor of our say-on-pay resolution. As a result, the Compensation Committee decided to maintain our general approach to executive compensation, with an emphasis on short and long-term incentive compensation that rewards our executives when they achieve the Company's financial and operational goals and deliver value for our stockholders.

On February 21, 2017, the Compensation Committee approved the terms and structure of the 2017 NOW Inc. Annual Incentive Plan (the "2016 Incentive Plan"). The terms of the 2017 Incentive Plan are consistent with those described under "Annual Incentive Award" above.

On February 21, 2017, the Compensation Committee approved the terms and structure of the 2016 Long-Term Incentive grants to the Company's executives. The terms of such grants are consistent with those described under "Long-Term Incentive Compensation" above, except as otherwise set forth below.

Further to the above, the Compensation Committee approved the following specific grants to the Company's executive officers:

On February 21, 2017, the Compensation Committee approved the grant of stock options to its executive officers pursuant to the NOW Inc. Long-Term Incentive Plan, as follows:

Name	Securities Underlying Options (#)
Robert Workman	228,389
Daniel Molinaro	66,306
Raymond Chang	51,572
David Cherechinsky	29,470

The exercise price of the stock options is $20.64 per share, which was the closing stock price of NOW Inc. common stock on the date of grant. The stock options have a term of seven years from the date of grant and vest in three equal annual installments beginning on the first anniversary of the date of the grant.

On February 21, 2017, the Compensation Committee approved the grant of time-based restricted stock to its executive officers pursuant to the NOW Inc. Long-Term Incentive Plan, as follows:

Name	Shares of Restricted Stock (3 Years) (#)
Robert Workman	38,065
Daniel Molinaro	11,051
Raymond Chang	8,595
David Cherechinsky	4,912

The restricted stock awards granted by the Company to its executive officers vest 100% on the third anniversary of the date of grant.

On February 21, 2017, the Compensation Committee approved the grant of performance share awards to its executive officers pursuant to the NOW Inc. Long-Term Incentive Plan, as follows:

Name	Performance Awards (Target # of Shares)
Robert Workman	38,065
Daniel Molinaro	11,051
Raymond Chang	8,595
David Cherechinsky	4,912

The performance share awards can be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into three equal, independent parts that are subject to three separate performance metrics: 33 1/3% with a TSR (total shareholder return) goal, 33 1/3% with an EBITDA.

The Compensation Committee also wanted to provide an annual 2017 equity grant for Mr. Miller, the Company's Executive Chairman, in the form of stock options, time-based restricted stock and performance share awards. Mr. Miller voluntarily requested that he be allowed to decline receiving such grant and waive his right to it. While such grant was fully supported by market data, as confirmed by L&A, the Compensation Committee respected Mr. Miller's wishes and allowed him to decline receiving such grant.

On February 21, 2017, the Compensation Committee agreed to implement the previously approved base salary increase for Mr. David Cherechinsky, the Company's Chief Accounting Officer, to $300,000, noting that such base salary increase still put Mr. Cherechinsky's base salary below the median market base salary level of his peers.

Compensation Committee Report

The responsibilities of the Compensation Committee, which are set forth in the Compensation Committee Charter adopted by the Board of Directors, include approving and evaluating all compensation of directors and executive officers, including salaries, bonuses, and compensation plans, policies and programs of the Company.

We have reviewed and discussed with senior management the Compensation Discussion & Analysis section included in this proxy statement. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in the Company's 2017 Proxy Statement.

Members of the Compensation Committee
Richard Alario, Committee Chairman
James Crandell
Michael Frazier

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Miller

The Company entered into an employment agreement on May 30, 2014 with Mr. Miller. Under the employment agreement, Mr. Miller is provided a base salary, currently set at one dollar ($1.00), as Mr. Miller has voluntarily waived his right to receive a base salary from the Company. The employment agreement also entitles him to receive an annual bonus and to participate in the Company's incentive, savings and retirement plans. The agreement has a term of three years and is automatically extended on an annual basis. The agreement provides for a base salary, participation in employee incentive plans, and employee benefits as generally provided to all employees.

In addition, the agreement contains certain termination provisions. If the employment relationship is terminated by the Company for any reason other than

- voluntary termination;
- termination for cause (as defined);
- death; or
- long-term disability;

or if the employment relationship is terminated by the employee for Good Reason, as defined below, Mr. Miller is entitled to receive three times the amount of his current base salary, 3 times the amount equal to the total of the employer matching contributions under the Company's 401k Plan and Supplemental Plan, and continual participation in the Company's welfare and medical benefit plans. Mr. Miller will have the right, during the 60-day period after such termination, to elect to surrender all or part of any stock options held by him at the time of termination, whether or not exercisable, for a cash payment equal to the spread between the exercise price of the option and the highest reported per share sales price during the 60-day period prior to the date of termination. Any option not so surrendered will remain exercisable until the earlier of one year after the date of termination or the stated expiration date of the specific option grant.

Under the agreement, termination by Mr. Miller for "Good Reason" means

- the assignment to him of any duties inconsistent with his current position or any action by the Company that results in a diminution in his position, authority, duties or responsibilities;
- a failure by the Company to comply with the terms of the agreement; or
- requiring Mr. Miller to relocate or to travel to a substantially greater extent than required at the date of the agreement.

The agreement also contains restrictions on competitive activities and solicitation of our employees for three years following the date of termination. After any such termination of employment, Mr. Miller will also have the option to participate in the Company's welfare and medical benefit plans at employee rates and will be entitled to receive outplacement services valued at not more than 15% of base salary.

Workman

The Company entered into an employment agreement on May 30, 2014 with Mr. Workman. Under the employment agreement, Mr. Workman is provided a base salary, currently set at $600,000. The employment agreement also entitles him to receive an annual bonus and to participate in the Company's incentive, savings and retirement plans. The agreement has a term of one year and is automatically extended on an annual basis. The agreement provides for a base salary, participation in employee incentive plans, and employee benefits as generally provided to all employees.

In addition, the agreement contains certain termination provisions. If the employment relationship is terminated by the Company for any reason other than

- voluntary termination;
- termination for cause (as defined);
- death; or
- long-term disability;

or if the employment relationship is terminated by the employee for Good Reason, as defined below, Mr. Workman is entitled to receive three times the amount of his current base salary, an amount equal to the total of the employer matching contributions under the Company's 401k Plan and Supplemental Plan, and continual participation in the Company's welfare and medical benefit plans. Further, any restricted stock held by Mr. Workman, not already vested, will be 100% vested.

Under the agreement, termination by Mr. Workman for "Good Reason" means

- the assignment to him of any duties inconsistent with his current position or any action by the Company that results in a diminution in his position, authority, duties or responsibilities;
- a failure by the Company to comply with the terms of the agreement; or
- requiring Mr. Workman to relocate or to travel to a substantially greater extent than required at the date of the agreement.

The agreement also contains restrictions on competitive activities and solicitation of our employees for one year following the date of termination. After any such termination of employment, Mr. Workman will also have the option to participate in the Company's welfare and medical benefit plans at employee rates and will be entitled to receive outplacement services valued at not more than 15% of base salary.

Molinaro, Chang, and Cherechinsky

The Company entered into employment agreements on May 30, 2014 with Messrs. Molinaro, Chang and Cherechinsky. Under the employment agreements, Messrs. Molinaro, Chang, and Cherechinsky are provided base salary. The agreements have a one-year term and are automatically extended on an annual basis. The agreements also provide for participation in employee incentive plans, and employee benefits as generally provided to all employees. If the employment relationship is terminated by the Company for any reason other than

- voluntary termination;
- termination for cause (as defined);
- death; or
- long-term disability;

or if the employment relationship is terminated by the employee for Good Reason, the employee is entitled to receive 2.5 times his current base salary (with the exception of Mr. Cherechinsky who would be entitled to receive 1.5 times his current base salary) and an amount equal to the total of the employer matching contributions under the Company's 401k Plan and Supplemental Plan, and continual participation in the Company's welfare and medical benefit plans. Further, any restricted stock held by the executive, not already vested, will be 100% vested.

Under the agreements, termination by Messrs. Molinaro, Chang, and/or Cherechinsky for "Good Reason" means:

- the assignment to him of any duties inconsistent with his current position or any action by the Company that results in a diminution in his position, authority, duties or responsibilities;
- a failure by the Company to comply with the terms of the agreement; or
- requiring the executive to relocate or to travel to a substantially greater extent than required at the date of the agreement.

The agreements also contain restrictions on competitive activities and solicitation of our employees for one year following the date of termination. After any such termination of employment, the executive will also have the option to participate in the Company's welfare and medical benefit plans at employee rates and will be entitled to receive outplacement services valued at not more than 15% of the executive's base salary.

Additionally, the Company's stock option agreements, restricted stock agreements, and performance award agreements provide for full vesting of unvested outstanding options, restricted stock and performance awards, respectively, in the event of a change of control of the Company and a change in the holder's responsibilities following a change in control of the Company (a "double trigger").

The Company's employment agreements with its executives do not contain any "gross up" provisions for excise tax that could be imposed under Section 4999 of the Internal Revenue Code as a result of any payment or benefits provided to an executive under his employment agreement.

Potential Payments Upon Termination or Change in Control

The Company has entered into certain agreements and maintains certain plans that will require the Company to provide compensation to the named executive officers in the event of a termination of employment or change in control of the Company.

The Company's Compensation Committee believes the payment and benefit levels provided to its named executive officers under their employment agreements and/or change of control plans upon termination or change of control should correspond to the level of responsibility and risk assumed by the named executive officer. Thus, the payment and benefit levels for Mr. Miller, Mr. Workman, Mr. Molinaro, Mr. Chang and Mr. Cherechinsky are based on their levels of responsibility and market considerations at the time the Company entered into the relevant agreements. The Compensation Committee recognizes that it is not likely that the Company's named executive officers would be retained by an acquirer in the event of a change of control. As a result, the Compensation Committee believes that a certain amount of cash compensation, along with immediate vesting of all unvested equity compensation, is an appropriate and sufficient incentive for the named executive officers to remain employed with the Company, even if a change of control were imminent. It is believed that these benefit levels should provide the Company's named executive officers with reasonable financial security so that they could continue to make strategic decisions that impact the future of the Company.

The amount of compensation payable to each named executive officer in each situation is listed in the tables below.

The following table describes the potential payments upon termination or change in control of the Company as of December 31, 2016 for Merrill Miller, Jr., the Company's Executive Chairman.

Executive Benefits and Payments Upon Termination (1)	**Involuntary Not for Cause Termination (2)**
Base Salary (3 times)	$3
Continuing medical benefits	$265,159
Retirement Contribution and Matching	$0
Value of Unvested Stock Options	$0
Value of Unvested Restricted Stock	$10,929,628
Outplacement Services (3)	$0
Total:	$11,194,790

(1) For purposes of this analysis, we assumed the Executive's compensation is as follows: base salary as of December 31, 2016 of $1.00. Unvested stock options include 156,672 options from 2014 grant at $31.433/share. Unvested restricted stock includes 533,934 shares from 2014 grants. Value of unvested stock options and restricted stock based on a share price of $20.47, the Company's closing stock price on December 31, 2016.

(2) Assumes the employment relationship is terminated by the Company for any reason other than voluntary termination, termination for cause, death, or disability, or if the employment relationship is terminated by the executive for "Good Reason", as of December 31, 2016. Termination by the executive for "Good Reason" means the assignment to the employee of any duties inconsistent with his current position or any action by the Company that results in a diminution in the executive's position, authority, duties or responsibilities; a failure by the Company to comply with the terms of the executive's employment agreement; or the requirement of the executive to relocate or to travel to a substantially greater extent than required at the date of the employment agreement.

(3) Executive also entitled to outplacement services valued at not more than 15% of base salary. For purposes of this analysis, we valued the outplacement services at 15% of base salary.

In the event of:

- a Company termination of Mr. Miller's employment for cause;
- Mr. Miller's voluntary termination of his employment with the Company (not for "Good Reason"); or
- Mr. Miller's employment with the Company is terminated due to his death or disability,

no extra benefits are payable by the Company to Mr. Miller as a result of any such events, other than accrued obligations and benefits owed by the Company to Mr. Miller (such as base salary through the date of termination and his outstanding balance in the Company's 401k Plan and Supplemental Plan). In the event termination is not for cause, Mr. Miller would also be entitled to receive an amount equal to 50% of his base salary.

The following table describes the potential payments upon termination or change in control of the Company as of December 31, 2016 for Robert Workman, the Company's President and Chief Executive Officer.

Executive Benefits and Payments Upon Termination (1)	**Involuntary Not for Cause Termination (2)**
Base Salary (3 times)	$1,800,000
Continuing medical benefits	$289,832
Retirement Contribution and Matching	$80,178
Value of Unvested Stock Options	$0
Value of Unvested Restricted Stock	$7,770,637
Value of Unvested Performance Awards (3)	$2,090,601
Outplacement Services (4)	$90,000
Total:	$12,121,248

(1) For purposes of this analysis, we assumed the Executive's compensation is as follows: base salary as of December 31, 2016 of $600,000. Unvested stock options include 25,409 options from 2014 grant at $31.433/share, 69,439 options from 2015 grant at $22.44/share and 181,913 options from 2016 grant at $13.71/share. Unvested restricted stock includes 277,481 shares from 2014 grants, 34,719 shares from 2015 grant and 67,411 shares from 2016 grant. Unvested performance share awards includes 34,719 shares from 2015 grant and 67,411 shares from 2016 grant. Value of unvested stock options, restricted stock and performance share awards based on a share price of $20.47, the Company's closing stock price on December 31, 2016.

(2) Assumes the employment relationship is terminated by the Company for any reason other than voluntary termination, termination for cause, death, or disability, or if the employment relationship is terminated by the executive for "Good Reason", as of December 31, 2016. Termination by the executive for "Good Reason" means the assignment to the employee of any duties inconsistent with his current position or any action by the Company that results in a diminution in the executive's position, authority, duties or responsibilities; a failure by the Company to comply with the terms of the executive's employment agreement; or the requirement of the executive to relocate or to travel to a substantially greater extent than required at the date of the employment agreement.

(3) For purposes of this analysis, we have assumed that the performance share awards vest at target (100%).

(4) Executive also entitled to outplacement services valued at not more than 15% of base salary. For purposes of this analysis, we valued the outplacement services at 15% of base salary.

In the event of:

- a Company termination of Mr. Workman's employment for cause;
- Mr. Workman's voluntary termination of his employment with the Company (not for "Good Reason"); or
- Mr. Workman's employment with the Company is terminated due to his death or disability,

no extra benefits are payable by the Company to Mr. Workman as a result of any such events, other than accrued obligations and benefits owed by the Company to Mr. Workman (such as base salary through the date of termination and his outstanding balance in the Company's 401k Plan and Supplemental Plan). In the event termination is not for cause, Mr. Workman would also be entitled to receive an amount equal to 50% of his base salary.

The following table describes the potential payments upon termination or change in control of the Company as of December 31, 2016 for Daniel Molinaro, the Company's Senior Vice President and Chief Financial Officer.

Executive Benefits and Payments Upon Termination (1)	**Involuntary Not for Cause Termination (2)**
Base Salary (2.5 times)	$1,062,500
Continuing medical benefits	$223,526
Retirement Contribution and Matching	$59,948
Value of Unvested Stock Options	$0
Value of Unvested Restricted Stock	$2,883,957
Value of Unvested Performance Awards (3)	$627,180
Outplacement Services (4)	$63,750
Total:	$4,920,861

(1) For purposes of this analysis, we assumed the Executive's compensation is as follows: base salary as of December 31, 2016 of $425,000. Unvested stock options include 10,063 options from 2014 grant at $31.433/share, 20,832 options from 2015 grant at $22.44/share and 54,574 options from 2016 grant at $13.71/share. Unvested restricted stock includes 110,248 shares from 2014 grants, 10,416 shares from 2015 grant and 20,223 shares from 2016 grant. Unvested performance share awards includes 10,416 shares from 2015 grant and 20,223 shares from 2016 grant. Value of unvested stock options, restricted stock and performance share awards based on a share price of $20.47, the Company's closing stock price on December 31, 2016.

(2) Assumes the employment relationship is terminated by the Company for any reason other than voluntary termination, termination for cause, death, or disability, or if the employment relationship is terminated by the executive for "Good Reason", as of December 31, 2016. Termination by the executive for "Good Reason" means the assignment to the employee of any duties inconsistent with his current position or any action by the Company that results in a diminution in the executive's position, authority, duties or responsibilities; a failure by the Company to comply with the terms of the executive's employment agreement; or the requirement of the executive to relocate or to travel to a substantially greater extent than required at the date of the employment agreement.

(3) For purposes of this analysis, we have assumed that the performance share awards vest at target (100%).

(4) Executive also entitled to outplacement services valued at not more than 15% of base salary. For purposes of this analysis, we valued the outplacement services at 15% of base salary.

In the event of:

- a Company termination of Mr. Molinaro's employment for cause;
- Mr. Molinaro's voluntary termination of his employment with the Company (not for "Good Reason"); or
- Mr. Molinaro's employment with the Company is terminated due to his death or disability,

no extra benefits are payable by the Company to Mr. Molinaro as a result of any such events, other than accrued obligations and benefits owed by the Company to Mr. Molinaro (such as base salary through the date of termination and his outstanding balance in the Company's 401k Plan and Supplemental Plan). In the event termination is not for cause, Mr. Molinaro would also be entitled to receive an amount equal to 50% of his base salary.

The following table describes the potential payments upon termination or change in control of the Company as of December 31, 2016 for Raymond Chang, the Company's Vice President and General Counsel.

Executive Benefits and Payments Upon Termination (1)	Involuntary Not for Cause Termination (2)
Base Salary (2.5 times)	$920,000
Continuing medical benefits	$1,040,048
Retirement Contribution and Matching	$43,712
Value of Unvested Stock Options	$0
Value of Unvested Restricted Stock	$2,322,035
Value of Unvested Performance Awards (3)	$477,852
Outplacement Services (4)	$55,200
Total:	$4,858,847

(1) For purposes of this analysis, we assumed the Executive's compensation is as follows: base salary as of December 31, 2016 of $368,000. Unvested stock options include 5,033 options from 2014 grant at $31.433/share, 15,872 options from 2015 grant at $22.44/share and 41,580 options from 2016 grant at $13.71/share. Unvested restricted stock includes 90,092 shares from 2014 grants, 7,936 from 2015 grant and 15,408 shares from 2016 grant. Unvested performance share awards includes 7,936 shares from 2015 grant and 15,408 shares from 2016 grant. Value of unvested stock options, restricted stock and performance share awards based on a share price of $20.47, the Company's closing stock price on December 31, 2016.

(2) Assumes the employment relationship is terminated by the Company for any reason other than voluntary termination, termination for cause, death, or disability, or if the employment relationship is terminated by the executive for "Good Reason", as of December 31, 2016. Termination by the executive for "Good Reason" means the assignment to the employee of any duties inconsistent with his current position or any action by the Company that results in a diminution in the executive's position, authority, duties or responsibilities; a failure by the Company to comply with the terms of the executive's employment agreement; or the requirement of the executive to relocate or to travel to a substantially greater extent than required at the date of the employment agreement.

(3) For purposes of this analysis, we have assumed that the performance share awards vest at target (100%).

(4) Executive also entitled to outplacement services valued at not more than 15% of base salary. For purposes of this analysis, we valued the outplacement services at 15% of base salary.

In the event of:

- a Company termination of Mr. Chang's employment for cause;
- Mr. Chang's voluntary termination of his employment with the Company (not for "Good Reason"); or
- Mr. Chang's employment with the Company is terminated due to his death or disability,

no extra benefits are payable by the Company to Mr. Chang as a result of any such events, other than accrued obligations and benefits owed by the Company to Mr. Chang (such as base salary through the date of termination and his outstanding balance in the Company's 401k Plan and Supplemental Plan). In the event termination is not for cause, Mr. Chang would also be entitled to receive an amount equal to 50% of his base salary.

The following table describes the potential payments upon termination or change in control of the Company as of December 31, 2016 for David Cherechinsky, the Company's Vice President and Chief Accounting Officer:

Executive Benefits and Payments Upon Termination (1)	**Involuntary Not for Cause Termination (2)**
Base Salary (1.5 times)	$379,500
Continuing medical benefits	$530,056
Retirement Contribution and Matching	$36,748
Value of Unvested Stock Options	$0
Value of Unvested Restricted Stock	$1,660,997
Value of Unvested Performance Awards (3)	$288,709
Outplacement Services (4)	$37,950
Total:	$2,933,960

(1) For purposes of this analysis, we assumed the Executive's compensation is as follows: base salary as of December 31, 2016 of $253,000. Unvested stock options include 3,524 options from 2014 grant at $31.433/share, 9,590 options from 2015 grant at $22.44/share and 25,121 options from 2016 grant at $13.71/share. Unvested restricted stock includes 67,039 shares from 2014 grants, 4,795 shares from 2015 grant and 9,309 shares from 2016 grant. Unvested performance share awards includes 4,795 shares from 2015 grant and 9,309 shares from 2016 grant. Value of unvested stock options, restricted stock and performance share awards based on a share price of $20.47, the Company's closing stock price on December 31, 2016.

(2) Assumes the employment relationship is terminated by the Company for any reason other than voluntary termination, termination for cause, death, or disability, or if the employment relationship is terminated by the executive for "Good Reason", as of December 31, 2016. Termination by the executive for "Good Reason" means the assignment to the employee of any duties inconsistent with his current position or any action by the Company that results in a diminution in the executive's position, authority, duties or responsibilities; a failure by the Company to comply with the terms of the executive's employment agreement; or the requirement of the executive to relocate or to travel to a substantially greater extent than required at the date of the employment agreement.

(3) For purposes of this analysis, we have assumed that the performance share awards vest at target (100%).

(4) Executive also entitled to outplacement services valued at not more than 15% of base salary. For purposes of this analysis, we valued the outplacement services at 15% of base salary.

In the event of:

- a Company termination of Mr. Cherechinsky's employment for cause;
- Mr. Cherechinsky's voluntary termination of his employment with the Company (not for "Good Reason"); or
- Mr. Cherechinsky's employment with the Company is terminated due to his death or disability,

no extra benefits are payable by the Company to Mr. Cherechinsky as a result of any such events, other than accrued obligations and benefits owed by the Company to Mr. Cherechinsky (such as base salary through the date of termination and his outstanding balance in the Company's 401k Plan and Supplemental Plan). In the event termination is not for cause, Mr. Cherechinsky would also be entitled to receive an amount equal to 50% of his base salary.

EXECUTIVE COMPENSATION

The following table sets forth for the year ended December 31, 2016 the compensation paid by the Company to its named executive officers (the "Named Executive Officers") serving in such capacity at December 31, 2016.

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($)(1) (c)	Bonus ($) (d)	Stock Awards ($)(2) (e)	Option Awards ($)(3) (f)	Non-Equity Incentive Plan Compensation ($)(4) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($)(5) (i)	Total ($) (j)
Merrill Miller, Jr. *Executive Chairman*	2016 2015 2014	$1 $1 $1	- - -	(6) (6) $11,000,013	(6) (6) -	- - -	- - -	- - -	$1 $1 $11,000,014
Robert Workman *President & Chief Executive Officer*	2016 2015 2014	$600,000 $600,000 $291,667	- - -	$2,100,551 $1,624,270 $6,300,026	$941,345 $839,597 -	$288,344 - $250,000	- - -	$30,000 $27,981 $12,981	$3,960,240 $3,091,848 $6,854,674
Daniel Molinaro *Senior VP & Chief Financial Officer*	2016 2015 2014	$425,000 $425,000 $230,417	- - -	$630,156 $487,295 $2,400,000	$282,404 $251,876 -	$163,395 - $158,000	- - -	$25,552 $41,818 $22,038	$1,526,507 $1,205,989 $2,810,455
Raymond Chang *VP, General Counsel, & Secretary*	2016 2015 2014	$368,000 $368,000 $186,667	- - -	$480,119 $371,273 $1,900,020	$215,164 $191,912 -	$141,481 - $128,000	- - -	$22,080 $20,668 $9,415	$1,226,844 $951,853 $2,224,102
David Cherechinsky *VP & Chief Accounting Officer*	2016 2015 2014	$253,000 $253,000 $128,333	- - -	$290,072 $224,326 $1,350,006	$129,994 $115,947 -	$99,118 - $103,125	- - -	$23,587 $21,683 $7,890	$795,771 $614,956 $1,589,354

(1) Base salary for Named Executive Officers for 2014 only includes that portion of annual base salary received by the executive from the Company after its spin-off from National Oilwell Varco in 2014. The annual base salaries of the executives as of December 31, 2014 were as follows: Mr. Miller - $1; Mr. Workman - $500,000; Mr. Molinaro- $395,000; Mr. Chang - $320,000; and Mr. Cherechinsky - $220,000.

(2) The amounts reported in this column represent the aggregate grant date fair value of stock awards granted in the relevant year compiled in accordance with FASB Topic 718, excluding forfeiture estimates. Refer to the Company's 2016 Annual Report on Form 10-K, for all relevant valuation assumptions used to determine the grant date fair value of the stock awards included in this column. 2014 stock award reflects a one-time restricted stock grant made to the Named Executive Officers as a result of the spin-off from National Oilwell Varco. On February 19, 2016, each of the Named Executive Officers was granted shares of performance-based share awards, which are included in this column in the table above. The grants vest on the third anniversary of the date of grant, contingent on performance against three separate, independently established goals. For a more detailed discussion, see the section titled "Long-Term Incentive Compensation". For the performance-based share awards, the value as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures, based upon the probable outcome of such conditions were as follows: Mr. Workman - $1,176,347; Mr. Molinaro- $352,899; Mr. Chang - $268,875; and Mr. Cherechinsky - $162,445. For the performance-based share awards, the value as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures, assuming that the highest level of performance conditions will be achieved were as follows: Mr. Workman - $2,100,082; Mr. Molinaro- $630,015; Mr. Chang - $480,012; and Mr. Cherechinsky - $290,007.

(3) The amounts reported in this column represent the aggregate grant date fair value of option awards granted in the relevant year compiled in accordance with FASB Topic 718, excluding forfeiture estimates. Refer to the Company's 2016 Annual Report on Form 10-K, for all relevant valuation assumptions used to determine the grant date fair value of option awards included in this column.

(4) The non-equity incentive plan payments to the Named Executive Officers of the Company for 2014 were made under the structure of National Oilwell Varco's annual incentive plan, under which the executives participated in prior to the spin-off from National Oilwell Varco. Starting in 2015, the Named Executive Officers participated in the NOW Inc. Annual Incentive Plan. There were no payments awarded under the 2015 Annual Incentive Plan. For further information, see the section titled "Annual Incentive Award".

(5) The amounts include:

(a) The Company's cash contributions for 2016 under the 401k Plan, a defined contribution plan, on behalf of Mr. Miller - $0; Mr. Workman - $30,000; Mr. Molinaro - $25,552; Mr. Chang - $22,080; and Mr. Cherechinsky - $23,587.
(b) The Company's cash contributions for 2016 under the Supplemental Plan, a defined contribution plan, on behalf of Mr. Miller - $0; Mr. Workman - $0; Mr. Molinaro - $16,421; Mr. Chang - $0; and Mr. Cherechinsky - $0.

(6) The Compensation Committee also designated an annual 2015 equity grant and an annual 2016 equity grant for Mr. Miller in the form of stock options, time-based restricted stock and performance share awards. Mr. Miller voluntarily requested that he be allowed to decline receiving such grant. While the Compensation Committee believed such grant for Mr. Miller was fully supported by market data, as confirmed by the Compensation Committee's independent compensation consultant, Longnecker & Associates, the Compensation Committee agreed to honor Mr. Miller's request and allowed him to decline receiving such proposed grant.

Grants of Plan Based Awards

The following table provides information concerning stock options, restricted stock and performance share awards granted to Named Executive Officers during the fiscal year ended December 31, 2016. The Company has granted no stock appreciation rights.

Grants of Plan-Based Awards

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards (3)
		Thresh-old ($)(1)	Target ($)(1)	Maximum ($)(1)	Thresh-old (#)(2)	Target (#)(2)	Maximum (#)(2)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Merrill Miller, Jr.	2016	-	-	-	-	-	-	-	-	-	(4)
Robert Workman	2016	$300,000	$600,000	$1,200,000	33,706	67,411	134,822	67,411	181,913	$13.71	$3,041,896
Daniel Molinaro	2016	$170,000	$340,000	$680,000	10,112	20,223	40,446	20,223	54,574	$13.71	$912,560
Raymond Chang	2016	$147,200	$294,400	$588,800	7,704	15,408	30,816	15,408	41,580	$13.71	$695,283
David Cherechinsky	2016	$94,875	$189,750	$379,500	4,655	9,309	18,618	9,309	25,121	$13.71	$420,066

(1) Represents the range of possible payouts under our 2016 annual incentive compensation plan.

(2) On February 19, 2016, each of the Named Executive Officers was granted performance-based share awards, which are reflected in the "Estimated Future Payouts Under Equity Incentive Plan Awards" column in the table above. The performance share awards can be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into three equal, independent parts that are subject to these three separate performance metrics: 33 1/3% with a TSR (total shareholder return) goal, 33 1/3% with an EBITDA goal and 33 1/3% with a working capital as a percentage of revenue goal (working capital). For a more detailed discussion, see the section titled "Long Term Incentive Compensation".

(3) Assumptions made in calculating the value of option and restricted stock awards are further discussed in Item 15. Exhibits and Financial Statement Schedules – Notes to Consolidated Financial Statements, Note 16, of the Company's Form 10-K for the fiscal year ended December 31, 2016.

(4) The Compensation Committee also designated an annual 2016 equity grant for Mr. Miller in the form of stock options, time-based restricted stock and performance share awards. Mr. Miller voluntarily requested that he be allowed to decline receiving such grant. While the Compensation Committee believed such grant for Mr. Miller was fully supported by market data, as confirmed by the Compensation Committee's independent compensation consultant, Longnecker & Associates, the Compensation Committee agreed to honor Mr. Miller's request and allowed him to decline receiving such proposed grant.

Exercises and Holdings of Previously-Awarded Equity Disclosure

The following table provides information regarding outstanding awards that have been granted to Named Executive Officers where the ultimate outcomes of such awards have not been realized, as of December 31, 2016. The table includes awards received by the Named Executive Officers while employed under National Oilwell Varco (NOV awards granted prior to the spin-off) which were converted into Company awards as a result of the spin-off from National Oilwell Varco.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Merrill Miller, Jr.	264,248			$33.521	2/23/21				
	308,290			$35.529	2/22/22				
	470,172			$29.123	2/16/23				
	313,343	156,672 (2)		$31.433	2/26/24				
								148,104 (5)	$3,031,689
								385,830 (7)	$7,897,940
Robert Workman	56,182			$33.521	2/23/21				
	69,037			$35.529	2/22/22				
	76,225			$29.123	2/16/23				
	50,816	25,409 (2)		$31.433	2/26/24				
	34,719	69,439(3)		$22.44	2/24/22				
		181,913(4)		$13.71	2/19/23				
								26,748 (5)	$547,532
								29,757 (6)	$609,126
								220,976 (7)	$4,523,379
								34,719 (8)	$710,698
								34,719 (9)	$710,698
								67,411(10)	$1,379,903
								67,411(11)	$1,379,903
Daniel Molinaro	27,960			$33.521	2/23/21				
	27,329			$35.529	2/22/22				
	30,188			$29.123	2/16/23				
	20,125	10,063 (2)		$31.433	2/26/24				
	10,415	20,832 (3)		$22.44	2/24/22				
		54,574(4)		$13.71	2/19/23				
								5,237 (5)	$107,201
								20,830 (6)	$426,390
								84,181 (7)	$1,723,185
								10,416 (8)	$213,216
								10,416 (9)	$213,216
								20,223(10)	$413,965
								20,223(11)	$416,965

Option Awards						Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1) (j)
Raymond Chang	11,569			$33.521	2/23/21				
	9,565			$35.529	2/22/22				
	10,565			$29.123	2/16/23				
	10,060	5,033 (2)		$31.433	2/26/24				
	7,936	15,872 (3)		$22.44	2/24/22				
		41,580(4)		$13.71	2/19/23				
								2,618 (5)	$53,590
								20,830 (6)	$426,390
								66,644 (7)	$1,364,203
								7,936 (8)	$162,450
								7,936 (9)	$162,450
								15,408(10)	$315,402
								15,408(11)	$315,402
David Cherechinsky	3,808			$10.905	2/21/19				
	11,653			$18.512	2/17/20				
	11,569			$33.521	2/23/21				
	9,565			$35.529	2/22/22				
	10,565			$29.123	2/16/23				
	7,041	3,524 (2)		$31.433	2/26/24				
	4,794	9,590 (3)		$22.44	2/24/22				
		25,121(4)		$13.71	2/19/23				
								1,833 (5)	$37,522
								17,854 (6)	$365,471
								47,352 (7)	$969,295
								4,795 (8)	$98,154
								4,795 (9)	$98,154
								9,309(10)	$190,555
								9,309(11)	$190,555

(1) Calculations based upon the closing price ($20.47) of the Company’s common stock on December 30, 2016, the last trading day of the year.

(2) 2014 NOV Stock Option Grant - Stock options vest at the rate of 33 1/3%/year, with vesting dates of 2/25/15, 2/25/16 and 2/25/17.

(3) 2015 Stock Option Grant – Stock options vest at the rate of 33 1/3%/year, with vesting dates of 2/24/2016, 2/24/2017, 2/24/2018.

(4) 2016 Stock Option Grant – Stock options vest at the rate of 33 1/3%/year, with vesting dates of 2/19/2017, 2/19/2018, 2/19/2019.
(5) February 2014 NOV Restricted Stock Award – The Grant vests 100% on the third anniversary of the date of grant.
(6) May 2014 NOV Restricted Stock Award – The Grant vests 100% on the fourth anniversary of the date of grant.
(7) November 2014 DNOW Restricted Stock Award – The Grant vests 100% on the sixth anniversary of the date of grant.
(8) 2015 Restricted Stock Award – The Grant vests 100% on the third anniversary of the date of grant.
(9) 2015 Performance Share Award Grant – The performance share awards can be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into three equal, independent parts that are subject to these three separate performance metrics: 33 1/3% with a TSR (total shareholder return) goal, 33 1/3% with an EBITDA goal and 33 1/3% with a working capital as a percentage of revenue goal (working capital).
(10) 2016 Restricted Stock Award – The Grant vests 100% on the third anniversary of the date of grant.
(11) 2016 Performance Share Award Grant – The performance share awards can be earned by the executives only by performance against established goals and vest three years from the grant date. The performance share awards are divided into three equal, independent parts that are subject to these three separate performance metrics: 33 1/3% with a TSR (total shareholder return) goal, 33 1/3% with an EBITDA goal and 33 1/3% with a working capital as a percentage of revenue goal (working capital).

The following table provides information on the amounts received by the Named Executive Officers during 2016 upon exercise of stock options or vesting of stock awards.

Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
(a)	(b)	(c)	(d)	(e)
Merrill Miller, Jr.	0	$0	167,404	$3,100,322
Robert Workman	0	$0	57,696	$897,388
Daniel Molinaro	0	$0	5,237	$68,029
Raymond Chang	0	$0	1,833	$23,811
David Cherechinsky	0	$0	1,833	$23,811

Post-Employment Compensation

The following table provides information on nonqualified deferred compensation provided under the Supplemental Plan to the Named Executive Officers during the fiscal year ended December 31, 2016. For a more detailed discussion, see the section titled "Compensation Discussion and Analysis – Retirement, Health and Welfare Benefits".

Nonqualifed Deferred Compensation

Name (a)	Executive Contributions in Last FY ($)(1) (b)	Registrant Contributions in Last FY ($)(2) (c)	Aggregate Earnings in Last FY ($)(3) (d)	Aggregate Withdrawals/ Distributions ($) (e)	Aggregate Balance at Last FYE ($) (f)
Merrill Miller, Jr.	$0	$0	$0	-	$0
Robert Workman	$0	$0	$0	-	$0
Daniel Molinaro	$67,019	$16,421	$29,056	-	$256,273
Raymond Chang	$0	$0	$0	-	$0
David Cherechinsky	$0	$0	$0	-	$0

(1) Executive contributions were from the executive's salary and are included in the Summary Compensation Table under the "Salary" column.
(2) Registrant contributions are included in the Summary Compensation Table under the "All Other Compensation" column.
(3) Aggregate earnings reflect the returns of the investment funds selected by the executives and are not included in the Summary Compensation Table.

Certain Relationships and Related Transactions

We transact business with companies with which certain of our Directors are affiliated. All transactions with these companies are on terms competitive with other third party vendors, and none of these is material either to us or any of these companies.

A "conflict of interest" occurs when a director or executive officer's private interest interferes in any way, or appears to interfere, with the interests of the Company. Conflicts of interest can arise when a director or executive officer, or a member of his or her immediate family, have a direct or indirect material interest in a transaction with us. Conflicts of interest also arise when a director or executive officer, or a member of his or her immediate family, receives improper personal benefits as a result of his or her position as a director or executive officer of the Company. The Company's Code of Business Conduct and Ethics for Members of the Board of Directors and Executive Officers provides that directors and executive officers must avoid conflicts of interests with the Company. Any situation that involves, or may reasonably be expected to involve, a conflict of interest with the Company must be disclosed immediately to the Chair of the Company's Audit Committee for his review and approval or ratification. This code also provides that the Company shall not make any personal loans or extensions of credit to nor become contingently liable for any indebtedness of directors or executive officers or a member of his or her family.

DIRECTOR COMPENSATION

Directors who are employees of the Company do not receive compensation for serving on the Board of Directors. The following table sets forth the compensation paid by the Company to its non-employee members of the Board of Directors for the year ended December 31, 2016.

Director Compensation

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)(1)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation ($) (g)	Total ($) (h)
Richard Alario	$106,000	$119,940	-	-	-	-	$225,940
Terry Bonno	$101,500	$119,940	-	-	-	-	$221,440
Galen Cobb	$101,500	$119,940	-	-	-	-	$221,440
James Crandell	$96,000	$119,940	-	-	-	-	$215,940
Rodney Eads	$114,000	$119,940	-	-	-	-	$233,940
Michael Frazier	$106,000	$119,940	-	-	-	-	$225,940
J. Wayne Richards	$121,500	$119,940	-	-	-	-	$241,440

(1) The aggregate number of outstanding shares of restricted stock as of December 31, 2016 for each director are as follows: Mr. Alario – 6,945; Ms. Bonno – 6,945; Mr. Cobb – 6,945; Mr. Crandell – 6,945; Mr. Eads – 6,945; Mr. Frazier – 6,945; and, Mr. Richards – 6,945.

Board Compensation

Members of the Company’s Board of Directors who are not full-time employees of the Company receive the following cash compensation:

- For service on the Board of Directors – an annual retainer of $70,000, paid quarterly;
- For service as chairperson of the audit committee of the Board of Directors – an annual retainer of $20,000, paid quarterly;
- For service as chairperson of the compensation committee of the Board of Directors – an annual retainer of $15,000, paid quarterly;
- For service as chairperson of the nominating/corporate governance committee of the Board of Directors – an annual retainer of $15,000, paid quarterly;

- For service as a member of the audit committee of the Board of Directors – an annual retainer of $7,500, paid quarterly;

- For service as a member of the compensation committee of the Board of Directors – an annual retainer of $5,000, paid quarterly;

- For service as a member of the nominating/corporate governance committee of the Board of Directors – an annual retainer of $5,000, paid quarterly; and

- $2,000 for each Board meeting and each committee meeting attended.

The Lead Director receives an annual retainer of $20,000, paid quarterly.

Directors of the Board who are also employees of the Company do not receive any compensation for their service as directors.

Members of the Board are also eligible to receive stock options and awards, including restricted stock, performance awards, phantom shares, stock payments, or SARs under the NOW Inc. Long-Term Incentive Plan.

The Board approved the grant of 6,945 shares of restricted stock awards on May 25, 2016 to each non-employee director under the NOW Inc. Long-Term Incentive Plan. The restricted stock award shares vest in full on the first anniversary of the date of the grant.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the SEC require that the Company disclose late filings of reports of stock ownership (and changes in stock ownership) by its directors, executive officers, and beneficial owners of more than ten percent of the Company's stock. The Company has undertaken responsibility for preparing and filing the stock ownership forms required under Section 16(a) of the Securities and Exchange Act of 1934, as amended, on behalf of its officers and directors. Based upon a review of forms filed and information provided by the Company's officers and directors, we believe that all Section 16(a) reporting requirements were met during 2016.

STOCKHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING

If you wish to submit a proposal to be included in our 2018 Proxy Statement, we must receive it on or before December 14, 2017. Please address your proposal to: **Raymond Chang, Vice President, General Counsel and Secretary, NOW Inc., 7402 N. Eldridge Parkway, Houston, TX 77041**.

If you wish to otherwise introduce any item of business for consideration at our 2018 annual meeting, you must comply with the procedures specified in our bylaws and the rules of the SEC, including giving written notice of such item of business no later than January 13, 2018 nor earlier than December 14, 2017 to: **Raymond Chang, Vice President, General Counsel and Secretary, NOW Inc., 7402 N. Eldridge Parkway, Houston, TX 77041**.

ANNUAL REPORT AND OTHER MATTERS

At the date this Proxy Statement went to press, we did not know of any other matters to be acted upon at the meeting other than the election of directors, ratification of the appointment of independent auditors, and approval on an advisory basis of the compensation of our named executive officers, as discussed in this Proxy Statement. If any other matter is presented, proxy holders will vote on the matter in accordance with their best judgment.

NOW Inc.'s 2016 Annual Report on Form 10-K filed on February 15, 2017 is included in this mailing, but is not considered part of the proxy solicitation materials.

By order of the Board of Directors,

/s/ Raymond Chang

Raymond Chang
Vice President, General Counsel and Secretary

Houston, Texas
April 14, 2017

Appendix A

Annual Report to Stockholders

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, 2016

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)

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

Common Stock, par value $.01	**New York Stock Exchange**
(Title of Class)	**(Exchange on which registered)**

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	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller Reporting Company	☐

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, 2016 was $1.9 billion. As of February 8, 2017, there were 107,478,712 shares of the Company's common stock (excluding 2,079,451 unvested restricted shares) outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement in connection with the 2017 Annual Meeting of Stockholders are incorporated in Part III of this report.

FORM 10-K

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), "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7) and "Quantitative and Qualitative Disclosures about Market Risk" (Part II, Item 7A). 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 the oil and gas 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 approximately 300 locations and approximately 4,500 employees worldwide, we stock and sell a comprehensive offering of energy products as well as selection of products for industrial applications. Our 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, mining, utilities, industrial and manufacturing operations. The industrial distribution end markets include manufacturing, aerospace, automotive, refineries and engineering and construction. We also provide supply chain management solutions 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, gaskets, fasteners, electrical, instrumentation, artificial lift solutions, power transmission, production process equipment, pumps, paint and coatings, mill tools, safety supplies and spare parts to support customers' operations. We provide value within the energy market, particularly in targeted areas of artificial lift, pumping solutions, modular process, measurement and control equipment 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.

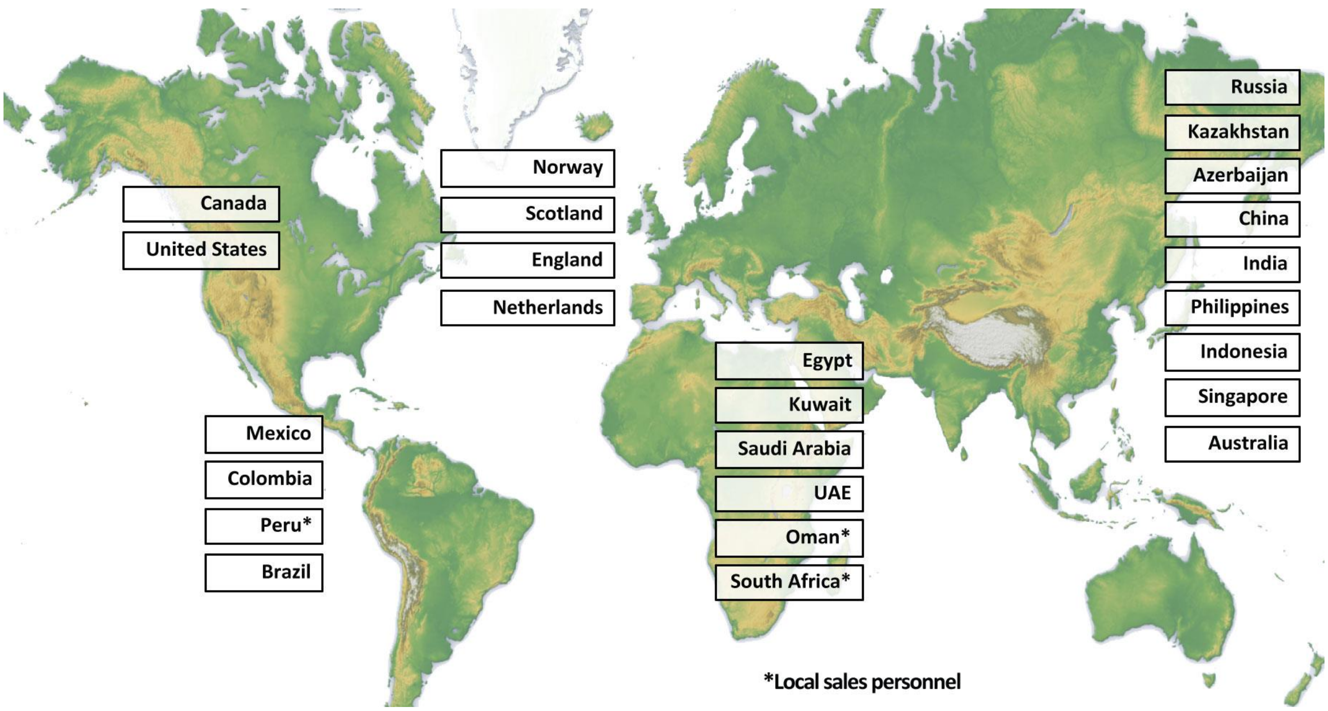
Our solutions can include outsourcing the functions of procurement, inventory and warehouse management, logistics, point of issue technology, project management and business process and performance metrics reporting. These solutions allow us to leverage the infrastructure of our SAP™ Enterprise Resource Planning ("ERP") system and other technologies to streamline our customers' purchasing processes, 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 locations support greenfield and expansion upstream capital projects, midstream infrastructure and transmission and MRO and manufacturing consumables used in day-to-day production. We provide downstream energy and industrial products for petroleum refining, chemical processing, LNG terminals, power generation, utilities and industrial manufacturing operations 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 approximately 80 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 our customers, suppliers and shareholders.

We employ advanced information technologies, including a common ERP platform across most 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 our financials and operations 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 and industrial manufacturing 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 conventional and 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.

We have expanded globally, through acquisitions and organic investments, into Australia, Azerbaijan, Brazil, Canada, China, Colombia, Egypt, England, India, Indonesia, Kazakhstan, Kuwait, Mexico, Netherlands, Norway, Oman, Peru, Philippines, Russia, Saudi Arabia, Scotland, Singapore, South Africa, 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 of Financial Condition and Results of Operations ("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 by our three reporting segments (in millions):

	Year Ended December 31,		
	2016	2015	2014
Revenue:			
United States	$ 1,445	$ 2,027	$ 2,793
Canada	258	378	669
International	404	605	643
Total revenue	$ 2,107	$ 3,010	$ 4,105

United States

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

We offer higher value solutions in key product lines in the U.S. which broaden and deepen our customer relationships and related product line value. Examples of these include artificial lift, pumps, valves and valve actuation, process equipment, fluid transfer products, measurement and controls, along with many other products required by our customers, which enable them to focus on their core business as we take care of their supply chain.

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, transportation and processing of oil and gas and industrial manufacturing.

In 2016, we expanded in the U.S. energy and industrial markets, with the acquisition of Power Service, Inc., which enhanced our position in the oil and gas turnkey tank battery, midstream and mining markets. In this business, we provide additional value to our customers through the design, assembly, fabrication and optimization of products with equipment essential to the safe and efficient production and processing of oil and gas.

Canada

We have a network of more than 55 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, mining and drilling business, offering customers many of 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, jointed and spoolable composite pipe. This product line is supported by inventory and product and installation expertise to serve our customers.

International

We operate in approximately 20 countries and serve the needs of our international customers from more than 35 locations outside of the U.S. and Canada, 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 most of the global energy producing regions.

Distribution Industry Overview

The distribution industry is highly fragmented, comprised of large companies with global reach and numerous small, local and regional competitors. 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

Energy branches are 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. Products are inventoried in 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.

This distribution channel primarily serves the upstream and midstream energy, industrial and manufacturing end markets with locations worldwide. A team of sales and operations professionals is trained in the products, applications and customer service required to support customers as they drill, explore, produce, transport and refine oil and gas and other products. Products include line pipe, valves, actuated valves, fittings and flanges, pumps, OEM parts, electrical products, mill supplies, tools, safety supplies, personal protective equipment, applied products and applications, such as artificial lift systems, coatings and miscellaneous expendable items.

Supply Chain

Supply Chain locations serve the upstream and downstream energy, industrial and manufacturing end markets through a network of facilities staffed by skilled personnel. The primary product offering includes various grades of pipe, valves, fittings, mill supplies, machine and cutting tools, power and hand tools and safety supplies. Additionally, 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. Supply Chain locations serve many oil and gas operators, drilling contractors and industrial manufacturers.

Supply Chain customers can also outsource procurement functions to the Company, providing a significant vendor network that enables the customer to benefit from on-site management of their warehouses, inventory, materials, projects, logistics and manufacturing tool cribs. We partner with customers to evaluate their current operations and to make informed recommendations regarding inventory levels and mix. Supply Chain solutions can be customized to a customer’s requirements and guided by a strategic framework to reduce direct material expenditures and direct supply chain costs, improve maintenance productivity, reduce inventory-related working capital, streamline time to revenue and manage the risk of material availability affecting business continuity.

Process Solutions

Process Solutions has a team of distribution and technical professionals who provide expertise on pumps, service, repair, gas meter runs and valve actuation. Process Solutions distributes OEM parts including pumps, generator sets, air compressors and blowers, and fabricates custom Lease Automatic Custody Transfer (LACT) units, Vapor Recovery Units, ASME Code Vessels and Water Production skids.

Process Solutions serves the upstream, midstream and downstream oil and gas markets as well as the municipal industrial, mining, power generation and general industries. Process Solutions also provides modular oil and gas tank battery solutions that positively impact our operator customers by enabling them to expedite revenue generation by reducing the time to complete a tank battery and get oil and gas into the pipeline and saving our customers time and expense related to well hookup decommissioning.

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 their 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 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 companies we serve, as the larger resulting companies look to global distributors as their source for products and related solutions.

No single customer represents more than 10% of our revenue. Our top 30 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 and includes 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 FloWorks. 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

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.

Employees

At December 31, 2016 we had approximately 4,500 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 declined significantly starting in 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 $26 per barrel in February 2016. 2016 was another challenging and volatile year for crude oil prices, as a result of 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.

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 level of production by non-OPEC countries;
- 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 dropped from 664 rigs on January 8, 2016 to 658 rigs on December 30, 2016. U.S. rig count averaged 510 rigs in 2016. U.S. rig count at February 3, 2017 was 729 rigs. The price for WTI crude was $53.81 per barrel at February 3, 2017. The price for WTI crude was $52.72 per barrel on January 2, 2015 and $36.81 per barrel on January 4, 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 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 (including, but not limited to, working capital requirements such as inventory);
- 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 generally do not commit our customers to any minimum purchase volume. Therefore, a significant number of our 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 30 largest customers represented approximately one-third of our revenue for the year ended December 31, 2016. 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;
- 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 which would 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, 2016, we had $311 million of goodwill and $184 million in intangibles, net 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

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.

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, 2016, our three reporting segments, the United States, Canada and International, had more than 200, 55 and 35 locations, respectively. International countries include: Australia, Azerbaijan, Brazil, China, Colombia, England, Egypt, India, Indonesia, Kazakhstan, Kuwait, Mexico, Netherlands, Norway, Oman, Peru, Philippines, Russia, Saudi Arabia, Scotland, Singapore, South Africa and United Arab Emirates. Our properties are comprised of offices, distribution centers and branches, approximately 85% of which are leased. Owned facilities are not subject to any mortgages.

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, for the periods indicated, the range of high and low closing prices for the common stock, as reported by the NYSE:

	2015				2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock sale price:								
High	$ 26.79	$ 25.59	$ 19.74	$ 18.44	$ 20.02	$ 19.30	$ 21.55	$ 23.21
Low	$ 20.27	$ 19.91	$ 14.80	$ 15.01	$ 12.48	$ 15.96	$ 17.87	$ 18.05

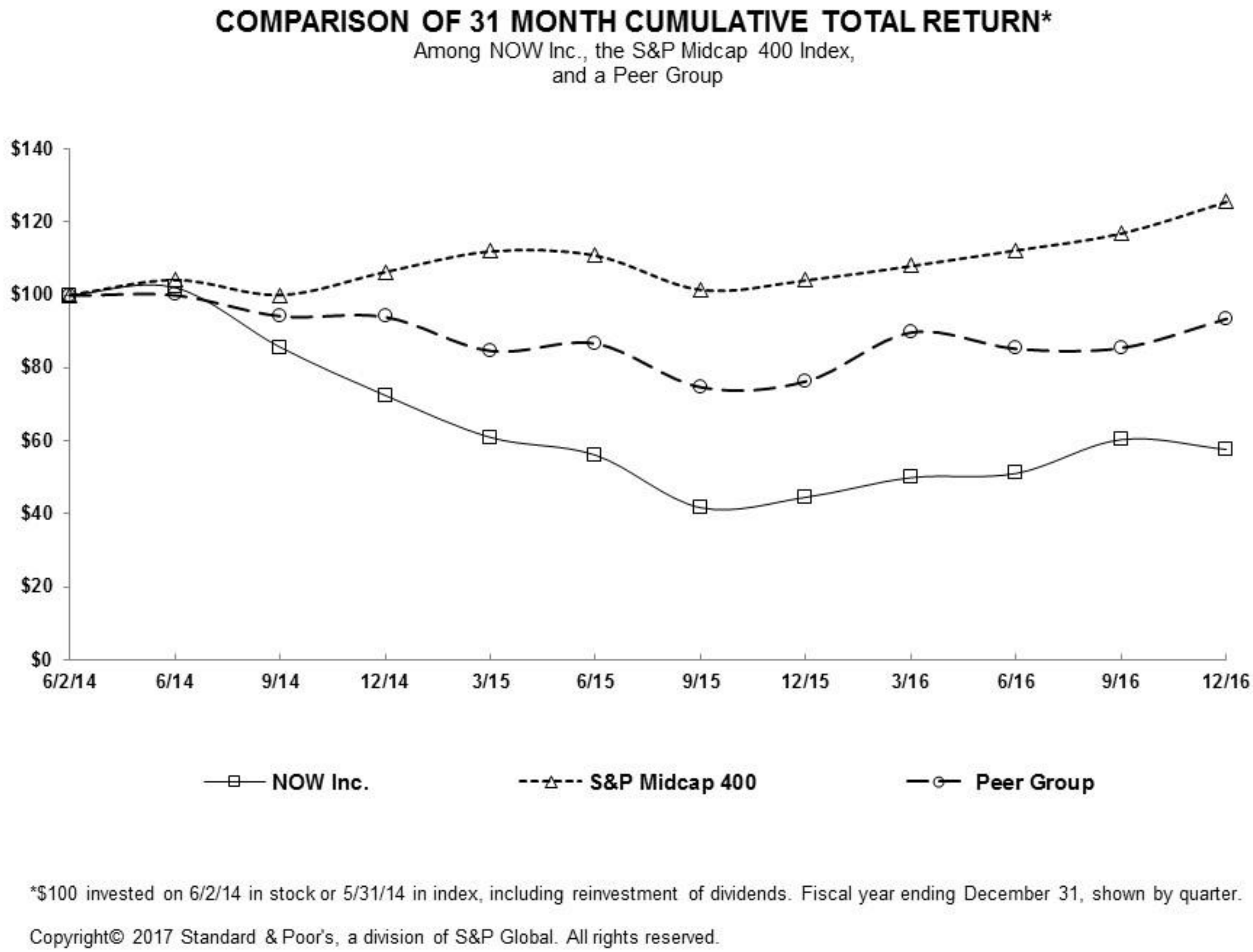
Our board of directors has not declared any dividends during 2015 or 2016 and currently has no intention to declare dividends.

As of February 8, 2017, there were 2,302 holders of record of our common stock. Many stockholders choose to own shares through brokerage accounts and other intermediaries rather than as holders of record (excluding individual participants in securities positions listing) 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 31-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 five companies that includes: DXP Enterprises Inc., Fastenal Co, 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 12/31/2016.



	6/2/14	6/14	9/14	12/14	3/15	6/15	9/15	12/15	3/16	6/16	9/16	12/16
NOW Inc.	$100	$102	$ 86	$ 72	$ 61	$ 56	$ 42	$ 45	$ 50	$ 51	$ 60	$ 58
S&P Midcap 400	100	104	100	106	112	111	101	104	108	112	117	126
Peer Group	100	100	94	94	85	87	75	76	90	85	86	94

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, 2016, 2015, 2014, 2013 and 2012 and the selected consolidated balance sheet data as of December 31, 2016, 2015, 2014 and 2013, from the audited consolidated financial statements of NOW Inc. We derived the selected consolidated balance sheet data as of December 31, 2012, from the underlying financial records of NOW Inc., which were derived from the financial records of NOV, and which were not included in a NOW Inc. annual report.

	As of and For the Year Ended December 31,				
	2016	2015	2014	2013	2012
			(In millions)		
Operating data:					
Revenue	$ 2,107	$ 3,010	$ 4,105	$ 4,296	$ 3,414
Operating profit (loss)	$ (222)	$ (510)	$ 181	$ 224	$ 168
Net income (loss)	$ (234)	$ (502)	$ 116	$ 147	$ 108
Earnings (loss) per share amounts:					
Basic	$ (2.18)	$ (4.68)	$ 1.07	$ 1.37	$ 1.01
Diluted	$ (2.18)	$ (4.68)	$ 1.06	$ 1.36	$ 1.00
Balance sheet data:					
Working capital	$ 612	$ 985	$ 1,427	$ 1,299	$ 1,491
Total assets	$ 1,603	$ 1,832	$ 2,596	$ 2,183	$ 2,373
Long-term debt	$ 65	$ 108	$ −	$ −	$ −
Total stockholders' equity	$ 1,183	$ 1,403	$ 1,966	$ 1,802	$ 1,971

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 balance sheet as of December 31, 2016 and December 31, 2015 are presented on a consolidated basis.
- 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 statement of cash flows 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 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.

General Overview

We are a global distributor to the oil and gas 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 approximately 300 locations and approximately 4,500 employees worldwide, we stock and sell a comprehensive offering of energy products as well as selection of products for industrial applications. Our 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, mining, utilities, industrial and manufacturing operations. The industrial distribution end markets include manufacturing, aerospace, automotive, refineries and engineering and construction. We also provide supply chain management solutions 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, gaskets, fasteners, electrical, instrumentation, artificial lift solutions, power transmission, production process equipment, pumps, paint and coatings, mill tools, safety supplies and spare parts to support customers' operations. We provide value within the energy market, particularly in targeted areas of artificial lift, pumping solutions, valve actuation and modular process, measurement and control equipment. 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 solutions can include outsourcing the functions of procurement, inventory and warehouse management, logistics, point of issue technology, project management and business process and performance metrics reporting. These solutions allow us to leverage the infrastructure of our SAP™ ERP system and other technologies to streamline our customers' purchasing processes, 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 FSU. Products sold through our locations support greenfield expansion upstream capital projects, midstream infrastructure and transmission and MRO and manufacturing consumables used in day-to-day production. We provide downstream energy and industrial products for petroleum refining, chemical processing, LNG terminals, power generation, utilities and industrial manufacturing operations 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 approximately 80 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 our customers, suppliers and shareholders.

We employ advanced information technologies, including a common ERP platform across most 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 our financials and operations 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 Item 1A. "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 focus on 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.

Operating Environment Overview

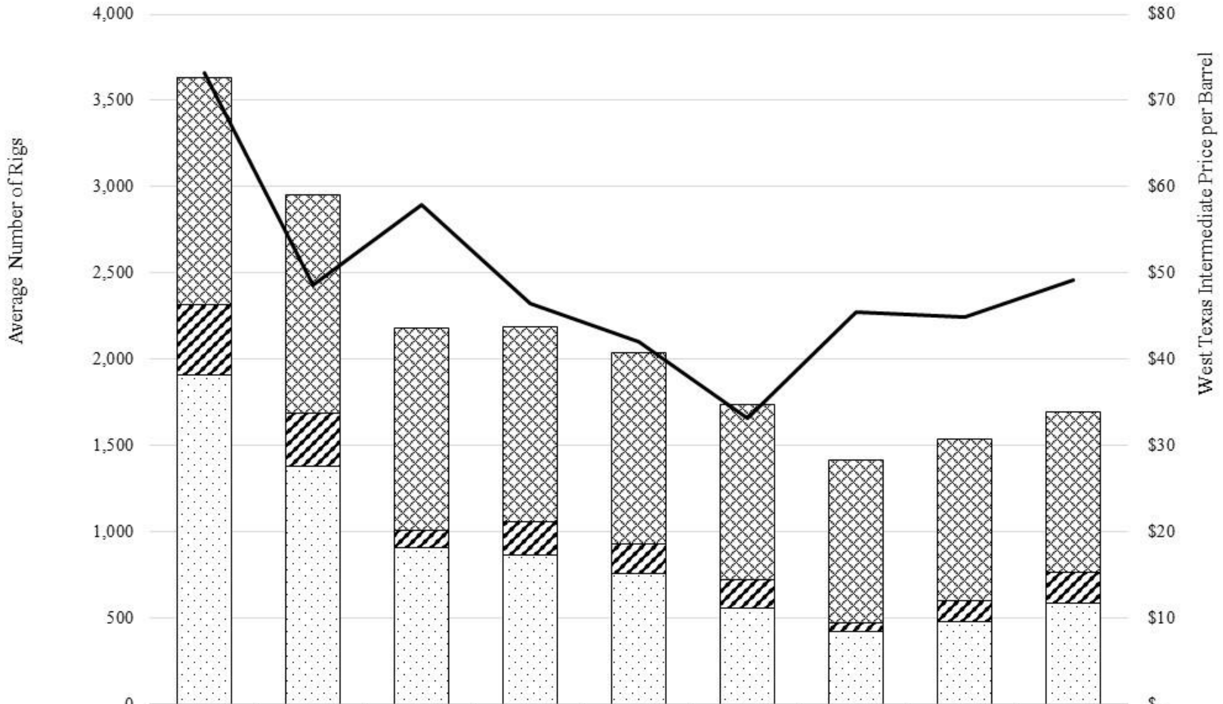
Our results are dependent on, among other things, the level of worldwide oil and gas drilling, well remediation activity, crude and natural gas prices, capital spending by oilfield service companies and drilling contractors, and the worldwide oil and gas inventory levels. Key industry indicators for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

	2016*	2015*	% 2016 v 2015	2014*	% 2016 v 2014
Active Drilling Rigs:					
U.S.	510	977	(47.8%)	1,861	(72.6%)
Canada	128	193	(33.7%)	380	(66.3%)
International	955	1,167	(18.2%)	1,337	(28.6%)
Worldwide	1,593	2,337	(31.8%)	3,578	(55.5%)
West Texas Intermediate Crude Prices (per barrel)	$ 43.14	$ 48.69	(11.4%)	$ 93.26	(53.7%)
Natural Gas Prices ($/MMBtu)	$ 2.52	$ 2.63	(4.4%)	$ 4.38	(42.6%)
Hot-Rolled Coil Prices (steel) ($/short ton)	$ 520.63	$ 469.90	10.8%	$ 663.14	(21.5%)

* 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, 2016 on a quarterly basis:

Industry Trends
Rig Counts and Oil Prices



	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016
International	1,315	1,261	1,169	1,132	1,105	1,016	943	936	925
Canada	407	309	100	191	174	164	49	121	179
U.S.	1,911	1,380	909	866	755	555	421	480	586
Worldwide	3,633	2,950	2,178	2,189	2,034	1,735	1,413	1,537	1,690
WTI	$73.21	$48.54	$57.85	$46.42	$41.96	$33.18	$45.41	$44.85	$49.14

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

The worldwide average rig count declined 31.8% (from 2,337 to 1,593) and the U.S. declined 47.8% (from 977 to 510) in 2016 compared to 2015. The average price of West Texas Intermediate ("WTI") crude declined 11.4% (from $48.69 per barrel to $43.14 per barrel) and natural gas prices declined 4.4% (from $2.63 per MMBtu to $2.52 per MMBtu) in 2016 compared to 2015. The average price of Hot-Rolled Coil increased 10.8% (from $469.90 per short ton to $520.63 per short ton) in 2016 compared to 2015.

U.S. rig count at February 3, 2017 was 729 rigs, up 42.9% compared to the 2016 average of 510 rigs. The price for WTI crude was $53.81 per barrel at February 3, 2017, up 24.7% from the 2016 average. The price for natural gas was $3.13 per MMBtu at February 3, 2017, up 24.5% from the 2016 average. The price for Hot-Rolled Coil was $608.73 per short ton at January 20, 2017, up 16.9% from the 2016 average.

Executive Summary

For the year ended December 31, 2016, the Company generated a net loss of $234 million, or $(2.18) per fully diluted share on $2,107 million in revenue. Net loss narrowed for the year ended December 31, 2016 by $268 million when compared to the corresponding period of 2015. Revenue decreased for the year ended December 31, 2016 by $903 million, or 30.0%, when compared to the corresponding period of 2015. For the year ended December 31, 2016, operating loss was $222 million, or negative 10.5% of revenue, compared to operating loss of $510 million or negative 16.9% of revenue for the corresponding period of 2015.

For the fourth quarter ended December 31, 2016, the Company generated a net loss of $71 million, or $(0.66) per fully diluted share on $538 million in revenue. Net loss narrowed for the fourth quarter ended December 31, 2016 by $178 million when compared to the corresponding period of 2015. Revenue decreased for the fourth quarter ended December 31, 2016 by $106 million, or 16.5%, when compared to the corresponding period of 2015. For the fourth quarter ended December 31, 2016, operating loss was $47 million or negative 8.7% of revenue, compared to operating loss of $184 million or negative 28.6% of revenue for the corresponding period of 2015.

Outlook

Our outlook for the Company remains tied to global rig count and drilling and completion expenditures, particularly in North America. After the longest period of decline since the 1980s, the business environment seems to have steadied in the second half of 2016, suggesting that the bottom of this cycle may have been reached. Oil prices will continue to be the primary catalyst determining U.S. rig demand, and with OPEC and certain Non-OPEC countries' agreements to reduce production in an effort to support global oil prices, U.S. rig counts are expected to strengthen in 2017.

Our approach continues to be to focus on what we can control. We take a long-term approach advancing our long-term strategic goals, but manage the Company based on market conditions. We remain diligent about managing our expenses and working capital to reflect the market opportunities as they develop. We believe that our history of managing through these cycles, paired with our resources, will enable us to maximize on new opportunities.

Results of Operations

Consolidated Results

Years Ended December 31, 2016 and December 31, 2015

A summary of the Company's revenue and operating profit (loss) by operating segment in 2016 and 2015 follows (in millions):

	Year Ended December 31, 2016	Year Ended December 31, 2015	Variance $
Revenue:			
United States	$ 1,445	$ 2,027	$ (582)
Canada	258	378	(120)
International	404	605	(201)
Total revenue	$ 2,107	$ 3,010	$ (903)
Operating profit (loss):			
United States	$ (192)	$ (515)	$ 323
Canada	(18)	(1)	(17)
International	(12)	6	(18)
Total operating profit (loss)	$ (222)	$ (510)	$ 288
Operating profit (loss) % of revenue:			
United States	(13.3%)	(25.4%)	
Canada	(7.0%)	(0.3%)	
International	(3.0%)	1.0%	
Total operating profit (loss) %	(10.5%)	(16.9%)	

United States

Revenue was $1,445 million for the year ended December 31, 2016, a decline of $582 million or 28.7% compared to the year ended December 31, 2015. This decrease was primarily driven by a 48% decline in U.S. rig count, as average West Texas Intermediate crude oil prices declined for the third straight year, offset by incremental revenue gains of approximately $154 million from acquisitions.

Operating loss was $192 million for the year ended December 31, 2016, an improvement of $323 million compared to operating loss of $515 million for the year ended December 31, 2015. Operating loss percentage was negative 13.3% for the year ended December 31, 2016, compared to operating loss percentage of negative 25.4% for the year ended December 31, 2015. Excluding $393 million in charges related to goodwill impairment in 2015, U.S. operating losses widened due to lower revenues caused by suppressed market activity as measured by much lower U.S. rig count, partially offset by reductions in operating expenses.

Canada

Revenue was $258 million for the year ended December 31, 2016, a decline of $120 million or 31.7% compared to the year ended December 31, 2015. This decrease was in line with the decline in Canadian rig count coupled with the impact of the strengthening U.S. dollar.

Our Canadian revenue remained slightly above 12% of total revenue in 2015 and 2016. We are subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar. 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 2016, our revenue from Canada was unfavorably impacted by approximately $12 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 $18 million for the year ended December 31, 2016, an increase of $17 million compared to operating loss of $1 million for the year ended December 31, 2015. Operating loss percentage was negative 7.0% in 2016 compared to operating loss percentage of negative 0.3% in 2015. Operating losses widened in 2016 primarily due to the revenue decline discussed above, partially offset by expense reductions made during the year.

International

Revenue was $404 million for the year ended December 31, 2016, a decline of $201 million or 33.2% compared to the year ended December 31, 2015. This decrease was mainly attributable to an overall decline in international deepwater drilling activity as our customers continued to focus on cost reduction, redistribution of inventory from idled rigs and remained disciplined with respect to allocation of capital.

Our international revenue changed from 20% of total revenue in 2015 to 19% in 2016. We are subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar. 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 $33 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 Azerbaijani new manat, British pound, Kazakhstan tenge and Mexican peso.

Operating loss was $12 million for the year ended December 31, 2016, a decline of $18 million compared to operating profit of $6 million for the year ended December 31, 2015. Operating loss percentage was negative 3.0% for the year ended December 31, 2016, compared to 1.0% for the year ended December 31, 2015. The decrease in operating profit was primarily attributed to volume declines partially offset by overall reduction in operating expenses.

Cost of products

Cost of products was $1,762 million for the year ended December 31, 2016 compared to $2,508 million for the year ended December 31, 2015, a decrease of $746 million. The decrease in cost of products was attributable to a decline 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 $567 million for the year ended December 31, 2016 compared to $619 million for the year ended December 31, 2015. The decrease is related to cost-cutting initiatives taken as a result of the decline in market activity coupled with a decline in bad debt charges, offset by additional expenses resulting from acquisitions made in the periods. 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

During the fourth quarter of 2016, we performed our annual goodwill impairment test resulting in no impairment. All reporting units tested passed the step 1 calculation and the excess of their estimated fair value over carrying value (expressed as a percentage of carrying value) was more than 50% except for the International reporting unit. This reporting unit exceeded the carrying value by 15%. The Company continues to monitor the cash flows for this reporting unit. For the year ended December 31, 2015, we recognized a total of $393 million goodwill impairment (U.S. Energy and U.S. Supply Chain) as a result of our testing.

Other expense

Other expense was $8 million for the year ended December 31, 2016 compared to $8 million for the year ended December 31, 2015. These charges were mainly attributable to interest and bank charges associated with utilizing the credit facility and foreign currency exchange rate fluctuations.

Provision for income taxes

The effective tax rate for the years ended December 31, 2016 and December 31, 2015 was (1.6%) and 3.0%, 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. In 2015, the effective tax rate was impacted by nondeductible goodwill impairments and a valuation allowance recorded against the Company's deferred tax assets in the United States. In 2016, the effective tax rate continues to be impacted by a valuation allowance recorded against the Company's deferred tax assets in the United States, Canada and other foreign jurisdictions.

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 December 31, 2015	Year Ended December 31, 2014	Variance $
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) % of revenue:			
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.

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 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 this 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 ongoing economic performance. We have chosen to provide this information to investors to enable them to perform more meaningful comparisons of operating results.

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,		
	2016	**2015**	**2014**
GAAP net income (loss) [1]	$ (234)	$ (502)	$ 116
Interest, net	3	2	(1)
Income tax provision (benefit)	4	(16)	62
Depreciation and amortization	53	38	21
Other costs [2]	10	413	1
EBITDA excluding other costs	$ (164)	$ (65)	$ 199
EBITDA % excluding other costs [3]	(7.8%)	(2.2%)	4.8%

(1) We believe that net income (loss) is the financial measure calculated and presented in accordance with GAAP 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 transaction costs associated with acquisitions, including the cost of inventory that was stepped up to fair value during purchase accounting, and severance expenses, and a goodwill impairment charge of $393 million in the year ended December 31, 2015, and 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 expect resources to be 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, including capital expenditures.

At December 31, 2016 and 2015, we had cash and cash equivalents of $106 million and $90 million, respectively. At December 31, 2016, $90 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., $90 million would be subject to a 35% U.S. income tax rate, offset by any available foreign tax credits. 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.

As of December 31, 2016, we had borrowed $65 million against our senior secured revolving credit facility, and had $446 million in availability (as defined in the Credit Agreement) resulting in the excess availability (as defined in the Credit Agreement) of 87%, subject to certain restrictions. Borrowings that result in the excess availability dropping below 25% are conditioned upon compliance with or waiver of a minimum fixed charge ratio (as defined in the Credit Agreement). The credit facility contains usual and customary affirmative and negative covenants for credit facilities of this type including financial covenants. As of December 31, 2016, we were in compliance with all covenants. We continuously monitor compliance with debt covenants. A default, if not waived or amended, would prevent us from taking certain actions, such as incurring additional debt.

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,		
	2016	2015	2014
Net cash provided by operating activities	$ 235	$ 324	$ 108
Net cash used in investing activities	(183)	(523)	(67)
Net cash provided by (used in) financing activities	(47)	106	66

Fiscal year 2016 compared to fiscal year 2015

Net cash provided by operating activities served as the primary source of liquidity. Net cash flows provided by operating activities in 2016 were $235 million, down from $324 million in 2015. Net loss was $234 million in 2016 compared to $502 million in 2015. Net changes in operating assets and liabilities, net of acquisitions, provided $342 million in 2016 compared to $300 million in 2015. The improvement was primarily due to a decrease of $190 million in inventory as management actively reduced inventory levels reflecting lower market volumes, a $102 million reduction in receivables as a result of improved collections, and a $22 million increase in accounts payable and accrued liabilities resultant of curtailed spending. Income taxes receivable, net also provided $25 million during the year. Adjustments to reconcile net income to net cash provided by operating activities was $127 million in 2016 compared to $526 million in 2015. The decline in reconciling adjustments decreased mainly due to goodwill impairment charges in 2015 that did not recur in 2016, offset by greater depreciation and amortization.

Net cash used in investing activities in 2016 was $183 million compared to $523 million in 2015. Cash used in 2016 was mainly related to business acquisitions for $175 million, net of cash acquired.

Net cash used in financing activities for 2016 was $47 million related to net repayments under the revolving credit facility, compared to $106 million provided by financing activities in 2015 associated with net borrowings from the revolving credit facility.

Fiscal year 2015 compared to fiscal year 2014

Net cash provided by operating activities served as the primary source of liquidity. Net cash flows provided by operating activities in 2015 were $324 million, up from $108 million in 2014. Net loss was $502 million in 2015 compared to net income of $116 million in 2014, primarily due to a goodwill impairment charge and weaker energy environment. Net changes in operating assets and liabilities, net of acquisitions, provided $300 million in 2015 compared to a deficit of $66 million in 2014. The improvement was primarily due to a $414 million reduction in receivables, as a result of improved collections, and a decrease of $258 million in inventory as management actively reduced inventory levels reflecting lower market volumes, and was offset by $367 million decline in accounts payable and accrued liabilities, resultant of curtailed purchases. Adjustments to reconcile net income to net cash provided by operating activities was $526 million in 2015 compared to $58 million in 2014 driven by goodwill impairment charges and greater depreciation and amortization coupled with an increase in provisions for inventory and doubtful accounts.

Net cash used in investing activities in 2015 was $523 million compared to $67 million in 2014. Cash used in 2015 was mainly related to business acquisitions for $515 million, net of cash acquired.

Net cash provided by financing activities for 2015 was $106 million related to borrowings from the revolving credit facility, compared to $66 million in 2014 associated with net contributions from the parent company.

Effect of the change in exchange rates

The effect of the change in exchange rates on cash flows was an increase of $11 million and a decrease of $12 million for the years ended December 31, 2016 and 2015, respectively.

Capital Spending

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 the available portion of the revolving credit facility. We expect capital expenditures for fiscal year 2017 to be approximately $10 million primarily related to purchases of property, plant and equipment.

Off-Balance Sheet Arrangements

We are often party to certain transactions that require off-balance sheet arrangements such as performance bonds, guarantees and operating leases for equipment that are not reflected in our consolidated balance sheets. These arrangements are made in our normal course of business and they are not reasonably likely to have a current or future material adverse effect on our financial condition, results of operations, liquidity or cash flows.

Contractual Obligations

The following table summarizes our aggregate contractual fixed and variable obligations as of December 31, 2016 (in millions):

		Payment Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Contractual obligations:					
Long-term debt	$ 65	$ –	$ 65	$ –	$ –
Operating leases	125	39	46	22	18
Total contractual obligations	$ 190	$ 39	$ 111	$ 22	$ 18

Critical Accounting Policies and Estimates

In preparing the financial statements, we make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments that are most critical in nature, which are related to allowance for doubtful accounts, inventory reserves, goodwill, purchase price allocation of acquisitions, vendor consideration and income taxes. Our estimates are based on historical experience and on our future expectations that we believe are reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results are likely to differ from our current estimates and those differences may be material.

Allowance for Doubtful Accounts

We grant credit to our customers, which operate primarily in the energy industry. Concentrations of credit risk are limited because we have a large number of geographically diverse customers, thus spreading trade credit risk. We control credit risk through credit evaluations, credit limits and monitoring procedures. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral, but may require letters of credit for certain international sales. Credit losses are provided for in the financial statements and changes in estimates can be material. Allowances for doubtful accounts are determined based on a continuous process of assessing the Company's portfolio on an individual customer basis taking into account current market conditions and trends. This process consists of a thorough review of historical collection experience, current aging status of the customer accounts, and financial condition of the Company's customers. Based on a review of these factors, the Company will establish or adjust allowances for specific customers. At December 31, 2016 and 2015, allowance for doubtful accounts totaled $34 million and $38 million, or 8.8% and 7.3% of gross accounts receivable, respectively.

Inventory Reserves

Inventories consist of oilfield and industrial finished goods. Inventories are stated at the lower of cost or market and using average cost methods. Allowances for excess and obsolete inventories are determined based on our historical usage of inventory on-hand as well as our future expectations. The Company's estimated carrying value of inventory therefore depends upon demand driven by oil and gas drilling and well remediation activity, which depends in turn upon oil, gas and steel prices, the general outlook for economic growth worldwide, available financing for the Company's customers, political stability in major oil and gas producing areas, and the potential obsolescence of various types of products we stock, among other factors. At December 31, 2016 and 2015, inventory reserves totaled $48 million and $44 million, or 9.0% and 6.0% of gross inventory, respectively. Changes in our estimates can be material under different market conditions.

Goodwill

The Company has $311 million of goodwill as of December 31, 2016. Generally accepted accounting principles require the Company to test goodwill for impairment at least annually or more frequently whenever events or circumstances occur indicating that it might be impaired. Events or circumstances which could indicate a potential impairment include, but are not limited to: further sustained declines in worldwide rig counts below current analysts' forecasts, collapse of prices for oil, gas and steel, significant deterioration of external financing for our customers, higher risk premiums or higher cost of equity. The Company reviews goodwill for impairment annually in the fourth quarter of its fiscal year, or more frequently if impairment indicators arise. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the estimated fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, goodwill impairment is indicated and a second step is performed to measure the amount of impairment loss, if any.

For purposes of testing goodwill, the Company has five reporting units; U.S. Energy, U.S. Supply Chain, U.S. Process Solutions, Canada and International. When performing goodwill impairment testing, the fair values of reporting units are determined based on valuation techniques using the best available information, primarily discounted cash flow projections. The discounted cash flow is based on management's short-term and long-term forecast of operating performance for each reporting unit. The two main assumptions used in measuring goodwill impairment, which bear the risk of change and could impact the Company's goodwill impairment analysis, include the cash flow from operations from each of the Company's individual business units and the discount rate. The starting point for each of the reporting unit's cash flow from operations is the detailed annual plan or updated forecast. The detailed planning and forecasting process takes into consideration a multitude of factors including worldwide rig activity, inflationary forces, pricing strategies, customer analysis, operational issues, competitor analysis, capital spending requirements, working capital requirements and customer needs among other items which impact the individual reporting unit projections. Cash flows beyond the specific operating plans were estimated using a terminal value calculation, which incorporated historical and forecasted financial cyclical trends for each reporting unit and considered long-term earnings growth rates. The financial and credit market volatility impacts the fair value measurement by adjusting the discount rate. During times of volatility, significant judgment must be applied to determine whether credit changes are a short-term or long-term trend. The Company makes significant assumptions and estimates, which utilize level 3 measures, about the extent and timing of future cash flows, growth rates, and discount rates that represent unobservable inputs into valuation methodologies. In evaluating the reasonableness of the Company's fair value estimates, the Company considers, among other factors, the relationship between the market capitalization of the Company and the estimated fair value of its reporting units.

All reporting units tested passed the step 1 calculation and the excess of their estimated fair value over carrying value (expressed as a percentage of carrying value) was more than 50% except for the International reporting unit. This reporting unit exceeded the carrying value by 15%. The Company continues to monitor the cash flows for this reporting unit.

In 2015, the Company considered the sustained decline in worldwide oil and gas prices and rig counts, which has impacted the Company's current results and future outlook, as well as the decline in the market value of the Company's stock, as indicators that the fair value of the Company's reporting units' goodwill could have fallen below their carrying value. As a result, the Company performed a goodwill impairment test as of September 30, 2015, and recognized an estimated impairment of $255 million in U.S. Energy and International reporting units.

The Company completed the annual test performed in the three months ended December 31, 2015, and identified additional indicators that the remaining goodwill may have fallen below its carrying amount. As a result of our valuations, the Company recognized an incremental loss of $138 million (U.S. Energy and U.S. Supply Chain) for the three months ended December 31, 2015. 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%. The Company recorded a valuation allowance against the full value of its deferred tax assets in the United States, therefore, no tax benefit was reported on its goodwill impairment for the year ended December 31, 2015. See Note 9 "Income Taxes" for a discussion of the valuation allowance recorded at December 31, 2015. 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.

Purchase Price Allocation of Acquisitions

The Company allocates the fair value of the purchase price consideration of an acquired business to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the fair value of the acquired assets and liabilities, if any, is recorded as goodwill. The Company uses all available information to estimate fair values including quoted market prices, the carrying value of acquired assets, and widely accepted valuation techniques such as discounted cash flows. The Company engages third-party appraisal firms to assist in fair value determination of inventories, identifiable intangible assets, and any other significant assets or liabilities when appropriate. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, could materially impact the Company's results of operations.

Vendor Consideration

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction of inventory when purchased and once these goods are sold to third parties the associated amount is credited to cost of sales. The Company develops accrual rates for vendor consideration based on the provisions of the arrangements in place, historical trends, purchases and future expectations. Due to the complexity and diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Income Taxes

The Company is a U.S. registered company and is subject to income taxes in the U.S. The Company operates through various subsidiaries in a number of countries throughout the world. Income taxes are based upon the tax laws and rates of the countries in which the Company operates and income is earned.

The Company's annual tax provision is based on taxable income, statutory rates, and the interpretation of the tax laws in the various jurisdictions in which the Company operates. It requires significant judgment and the use of estimates and assumptions regarding significant future events such as the amount, timing and character of income, deductions and tax credits. Changes in tax laws, regulations and treaties, foreign currency exchange restrictions or the Company's level of operations or profitability in each jurisdiction could impact the tax liability in any given year. The Company also operates in many jurisdictions where the tax laws relating to the pricing of transactions between related parties are open to interpretation, which could potentially result in aggressive tax authorities asserting additional tax liabilities with no offsetting tax recovery in other countries.

The Company determined the provision for income taxes under the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. The Company recognizes deferred tax assets to the extent that the Company believes these assets are more-likely-than-not to be realized. If the Company determines that they would be able to realize their deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. In evaluating the Company's ability to recover deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of operations. In projecting future taxable income, the Company begins with historical results adjusted for the results of discontinued operations and incorporates assumptions about the amount of future state, federal, and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates the Company is using to manage the underlying businesses.

Based upon the significant level of recent losses, management believes that it is not more-likely-than-not that the Company would be able to realize the benefits of its deferred tax assets in the U.S., Canada, and other foreign jurisdictions and accordingly recognized a valuation allowance for the year ended December 31, 2016. The change during the year in the valuation allowance was $64 million, $7 million, and $2 million, respectively.

The Company records unrecognized tax benefits as liabilities in accordance with ASC 740 and adjusts these liabilities when judgment changes as a result of the evaluation of new information not previously available in jurisdictions of operation. The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) the Company determines whether it is more-likely-than-not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The annual tax provision includes the impact of income tax provisions and benefits for changes to liabilities that the Company considers appropriate, as well as related interest.

The Company is subject to audits by federal, state and foreign jurisdictions which may result in proposed assessments. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the unrecognized tax benefit liabilities. The Company reviews these liabilities quarterly and to the extent audits or other events result in an adjustment to the liability accrued for a prior year, the effect will be recognized in the period of the event.

The Company considers the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and specific plans for reinvestment of those subsidiary earnings. Should the Company decide to repatriate the foreign earnings, the Company would need to adjust the income tax provision in the period the Company determined that the earnings will no longer be indefinitely invested outside the United States. Unremitted earnings of these subsidiaries were $140 million at December 31, 2016. The Company makes a determination each period whether to permanently reinvest these earnings. If, as a result of these reassessments, the Company distributes these earnings in the future, additional tax liabilities would result, offset by any available foreign tax credits.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 affects any entity using GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in *Revenue Recognition* (Topic 605), and most industry-specific guidance. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of *Property, Plant, and Equipment* (Topic 360), and intangible assets within the scope of *Intangibles—Goodwill and Other* (Topic 350)) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. The ASU provides two transition methods: (i) retrospectively to each prior reporting period presented or (ii) retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. In August 2015, the FASB proposed the effective date to be the annual reporting periods beginning after December 15, 2017, and interim periods therein. In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients* (Topic 606), which clarifies implementation guidance on assessing collectability, presentation of sales tax, noncash consideration and completed contracts and contract modifications at transition. The Company established a project steering committee and cross-functional implementation team to identify potential differences that would result from applying the requirements of the new standard to the Company's revenue contracts. In addition, the implementation team is also responsible for identifying and implementing changes to business processes, systems and controls, if any, to support recognition and disclosure under the new standard. The company plans to adopt Topic 606 in the first quarter of fiscal year 2018 pursuant to the aforementioned adoption method (ii). While the Company is currently assessing the impact of the new standard, the revenue is primarily generated from the sale of finished product to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. These are largely un-impacted by the new standard. Based on the Company's preliminary assessment, which are subject to change, the Company does not expect this new guidance to have a material impact on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (Subtopic 205-40). Under ASU 2014-15, management is to assess, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern and provide related disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard as of December 31, 2016, with no impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* (Topic 330). Under ASU 2015-11, inventory will be measured at the "lower of cost and net realizable value." ASU 2015-11 defines net realizable value as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." ASU 2015-11 is effective for annual and interim periods in fiscal years beginning after December 15, 2016. The Company plans to adopt this standard in the first quarter of fiscal year 2017 prospectively and does not expect a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company is currently assessing the impact of ASU 2016-02 on its consolidated financial statements. The Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon the adoption of ASU 2016-02, which will increase the total assets and total liabilities that are reported relative to such amounts prior to adoption.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (Topic 718), which simplifies the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual and interim periods in fiscal years beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard as of December 31, 2016, with no impact to its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326), which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. ASU 2016-13 requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. ASU 2016-13 is effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted as of December 15, 2018, and requires modified retrospective transition method. The Company is currently assessing the impact of ASU 2016-13 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (Topic 230), to provide guidance on specific cash inflows and outflows. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted, and requires retrospective application of these amendments unless not practicable, in which case amendments would be applied prospectively as of the earliest date practicable. The Company adopted this standard as of December 31, 2016, with no impact to its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Asset Transfers of Assets Other than Inventory* (Topic 740), to recognize the income tax consequences of intra-entity transfers of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual and interim periods in fiscal years beginning after December 15, 2017 with early adoption permitted in the first interim period of fiscal year 2017. Upon adoption, any deferred charge established upon the intra-company transfer would be recorded as a cumulative-effect adjustment to retained earnings. At December 31, 2016, the Company had a deferred charge of $1 million included in prepaid and other current assets in the accompanying consolidated balance sheets. However, due to the Company's full valuation allowance in the U.S, no deferred charge will be recorded as a cumulative-effect adjustment to accumulated deficit. The Company plans to adopt this standard in the first quarter of fiscal year 2017.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* (Topic 350), which eliminates Step 2 from the goodwill impairment test. ASU 2017-04 is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017 and should be applied prospectively. The Company plans to adopt this standard in the first quarter of the fiscal year 2017 and does not expect a material impact on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks that are inherent in our financial instruments and arise from changes in interest rates and foreign currency exchange rates. We may enter into derivative financial instrument transactions to manage or reduce market risk but do not enter into derivative financial instrument transactions for speculative purposes. We do not currently have any material outstanding derivative instruments. See Note 13 "Derivative Financial Instruments" to the consolidated financial statements.

A discussion of our primary market risk exposure in financial instruments is presented below.

Foreign Currency Exchange Rate Risk

We have operations in foreign countries and transact business globally in multiple currencies. Our net assets as well as our revenues and costs and expenses denominated in foreign currencies, expose us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. Because we operate globally and approximately one-third of our 2016 net sales were outside the United States, foreign currency exchange rates can impact our financial position, results of operations and competitive position. We are a net receiver of foreign currencies and therefore benefit from a weakening of the U.S. dollar and are adversely affected by a strengthening of the U.S. dollar relative to the foreign currency. As of December 31, 2016, our most significant foreign currency exposure was to the Canadian dollar with less significant foreign currency exposures to the Australian dollar, Azerbaijani new manat, British pound, Kazakhstan tenge and Mexican peso.

The financial statements of foreign subsidiaries are translated into their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities, while revenue, costs and expenses are translated at average monthly exchange rates. Translation gains and losses are components of other comprehensive income (loss) as reported in the statements of consolidated comprehensive income. During 2016, we experienced a net foreign currency translation loss totaling $8 million, which was included in other comprehensive income (loss).

Foreign currency exchange rate fluctuations generally do not materially affect our earnings since the functional currency is typically the local currency; however, our operations also have net assets not denominated in their functional currency, which exposes us to changes in foreign currency exchange rates that impact our net income as foreign currency transaction gains and losses. Foreign currency transaction gains and losses, arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency, are recognized in the consolidated statements of operations as a component of other expense. For the years ended December 31, 2016, 2015 and 2014, we reported foreign currency transaction losses of $1 million, $3 million and $2 million, respectively. Gains and losses are primarily due to exchange rate fluctuations related to monetary asset balances denominated in currencies other than the functional currency and fair value adjustments to economically hedged positions as a result of changes in foreign currency exchange rates.

Some of our revenues for our foreign operations are denominated in U.S. dollars, and therefore, changes in foreign currency exchange rates impact earnings to the extent that costs associated with those U.S. dollar revenues are denominated in the local currency. Similarly some of our revenues for our foreign operations are denominated in foreign currencies, but have associated U.S. dollar costs, which also give rise to foreign currency exchange rate exposure. In order to mitigate those risks, we may utilize foreign currency forward contracts to better match the currency of the revenues and the associated costs. Although we may utilize foreign currency forward contracts to economically hedge certain foreign currency denominated balances or transactions, we do not currently hedge the net investments in our foreign operations. The counterparties to our forward contracts are major financial institutions. The credit ratings and concentration of risk of these financial institutions are monitored by us on a continuing basis. In the event that the counterparties fail to meet the terms of a foreign currency contract, our exposure is limited to the foreign currency rate differential.

The average foreign exchange rate for 2016 compared to the average for 2015 for the aggregate of our foreign operations compared to the U.S. dollar decreased by approximately 8%. The average foreign exchange rate for 2016 compared to the average for 2015 of the Australian dollar, Azerbaijani new manat, British pound, Canadian dollar, Kazakhstan tenge and Mexican peso compared to the U.S. dollar decreased by approximately 1%, 36%, 12%, 4%, 38% and 15%, respectively.

We utilized a sensitivity analysis to measure the potential impact on earnings based on a hypothetical 10% change in foreign currency rates. A 10% change from the levels experienced during 2016 of the U.S. dollar relative to foreign currencies that affected the Company would have resulted in an approximate $3 million change in net loss for 2016.

Commodity Steel Pricing

Our business is sensitive to steel prices, which can impact our product pricing, with steel tubular prices generally having the highest degree of sensitivity. While we cannot predict steel prices, we manage this risk by managing our inventory levels, including maintaining sufficient quantity on hand to meet demand, while reducing the risk of overstocking.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached hereto and a part of this report are financial statements and supplementary data listed in Item 15. “Exhibits and Financial Statement Schedules.”

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. As of December 31, 2016, with the participation of management, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer carried out an evaluation, pursuant to Rule 13a-15(b) of the Act, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Act). Based upon that evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of December 31, 2016.

Management’s Annual Report on Internal Control Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, management is required to provide the following report on our internal control over financial reporting:

- Management is responsible for establishing and maintaining adequate internal control over financial reporting.
- Management has evaluated the system of internal control using the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (“COSO 2013 framework”). Management has selected the COSO 2013 framework for its evaluation as it is a control framework recognized by the SEC and the Public Company Accounting Oversight Board that is free from bias, permits reasonably consistent qualitative and quantitative measurement of our internal controls, is sufficiently complete so that relevant controls are not omitted and is relevant to an evaluation of internal controls over financial reporting.
- Based on management’s evaluation under this framework, management has concluded that our internal controls over financial reporting were effective as of December 31, 2016. There are no material weaknesses in our internal control over financial reporting that have been identified by management.
- During 2016, the Company made one acquisition, Power Service, which represented approximately 3% of our consolidated revenues for the year ended December 31, 2016 and approximately 5% of our consolidated total assets as of December 31, 2016. For purposes of determining the effectiveness of the Company’s internal control over financial reporting, as disclosed in this report, management has excluded the internal controls of this acquisition from its evaluation.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, in the quarterly period ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Pursuant to section 302 of the Sarbanes-Oxley Act of 2002, our Chief Executive Officer and Chief Financial Officer have provided certain certifications to the Securities and Exchange Commission. These certifications are included herein as Exhibits 31.1 and 31.2.

The report from Ernst & Young LLP on its audit of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, is included on page 49 of this annual report and is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference to the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table sets forth information as of our fiscal year ended December 31, 2016, with respect to compensation plans under which our common stock may be issued:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (2)
Equity compensation plans approved by security holders	5,314,335	$ 26.83	8,624,375
Equity compensation plans not approved by security holders	–	$ –	–
Total	**5,314,335**	**$ 26.83**	**8,624,375**

(1) Includes 232,604 shares of issuable performance-based awards if specific targets are met, and 228,331 shares of RSU which have no exercise price. Therefore these shares are excluded for purposes of determining the weighted-average exercise prices of outstanding options, warrants and rights.

(2) Includes 8,624,375 shares issuable pursuant to the 2014 Plan in the form of stock options, restricted awards, RSUs, performance stock awards, or any combination of the foregoing.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference to the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference to the definitive Proxy Statement for the 2017 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements and Exhibits

The following financial statements are presented in response to Part II, Item 8:

(2) Financial Statement Schedule

All schedules are omitted because they are not applicable, not required or the information is included in the financial statements or notes thereto.

(3) Exhibits

2.1	Separation and Distribution Agreement between National Oilwell Varco, Inc. and NOW Inc. dated as of May 29, 2014 (1)
3.1	NOW Inc. Amended and Restated Certificate of Incorporation (1)
3.2	NOW Inc. Amended and Restated Bylaws (1)
10.1	Tax Matters Agreement between National Oilwell Varco, Inc. and NOW Inc. dated as of May 29, 2014 (1)
10.2	Employee Matters Agreement between National Oilwell Varco, Inc. and NOW Inc. dated as of May 29, 2014 (1)
10.3	Master Distributor Agreement between National Oilwell Varco, L.P. and DNOW L.P. dated as of May 29, 2014 (1)
10.4	Master Services Agreement between National Oilwell Varco, L.P. and DNOW L.P. dated as of May 29, 2014 (1)
10.5	Employment Agreement of Merrill A. Miller, Jr. dated May 30, 2014 (1)
10.6	Form of Employment Agreement for Executive Officers (1)
10.7	NOW Inc. 2014 Incentive Compensation Plan (2)
10.8	Credit Agreement among NOW Inc., Wells Fargo Bank, National Association, as Administrative Agent, and the lenders and other financial institutions named there in, dated as of April 18, 2014 (3)
10.9	Agreement and Amendment No. 1 to Credit Agreement among NOW Inc., and Wells Fargo Bank, National Association, as administrative agent, and the leaders and other financial institutions named thereto, dated as of January 20, 2016 (4)
10.10	Pledge and Security Agreement, dated as of January 20, 2016 (4)
10.11	Form of Restricted Stock Award Agreement (6 year cliff vest) (5)
10.12	Form of Nonqualified Stock Option Agreement (6)
10.13	Form of Restricted Stock Award Agreement (3 year cliff vest) (6)
10.14	Form of Performance Award Agreement (6)
10.15	Form of Amendment to Employment Agreement for Executive Officers (7)
21.1	Subsidiaries of Registrant
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on signature page hereto)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from our Annual Report on Form 10-K for the period ended December 31, 2016 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Stockholders' Equity and (vi) Notes to the Consolidated Financial Statements, tagged as block text (7)

(1) Filed as an Exhibit to our Current Report on Form 8-K filed on May 30, 2014
(2) Filed as an Exhibit to our Amendment No. 1 to Form 10, as amended, Registration Statement filed on April 8, 2014
(3) Filed as an Exhibit to our Amendment No. 2 to Form 10, as amended, Registration Statement filed on April 23, 2014
(4) Filed as an Exhibit to our Current Report on Form 8-K filed on January 21, 2016
(5) Filed as an Exhibit to our Current Report on Form 8-K, filed on November 19, 2014
(6) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on May 7, 2015
(7) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on November 2, 2016
(8) As provided in Rule 406T of Regulation S-T, this information is filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934

We hereby undertake, pursuant to Regulation S-K, Item 601(b), paragraph (4) (iii), to furnish to the U.S. Securities and Exchange Commission, upon request, all constituent instruments defining the rights of holders of our long-term debt not filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOW Inc.

Date: February 15, 2017

By: */s/ Robert R. Workman*
Robert R. Workman
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Each person whose signature appears below in so signing, constitutes and appoints Robert R. Workman and Daniel L. Molinaro, and each of them acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to execute and cause to be filed with the Securities and Exchange Commission any and all amendments to this report, and in each case to file the same, with all exhibits thereto and other documents in connection therewith, and hereby ratifies and confirms all that said attorney-in-fact or his substitute or substitutes may do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ Robert R. Workman Robert R. Workman	President, Chief Executive Officer and Director	February 15, 2017
/s/ Daniel L. Molinaro Daniel L. Molinaro	Senior Vice President and Chief Financial Officer	February 15, 2017
/s/ David A. Cherechinsky David A. Cherechinsky	Vice President, Corporate Controller and Chief Accounting Officer	February 15, 2017
/s/ Merrill A. Miller, Jr. Merrill A. Miller, Jr.	Chairman of the Board	February 15, 2017
/s/ Richard Alario Richard Alario	Director	February 15, 2017
/s/ Terry Bonno Terry Bonno	Director	February 15, 2017
/s/ Galen Cobb Galen Cobb	Director	February 15, 2017
/s/ James Crandell James Crandell	Director	February 15, 2017
/s/ Rodney Eads Rodney Eads	Director	February 15, 2017
/s/ Michael Frazier Michael Frazier	Director	February 15, 2017
/s/ J. Wayne Richards J. Wayne Richards	Director	February 15, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
NOW Inc.

We have audited the accompanying consolidated balance sheets of NOW Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NOW Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NOW Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 15, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 15, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
NOW Inc.

We have audited NOW Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). NOW Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the Power Service acquisition which is included in the 2016 consolidated financial statements of NOW Inc. and constituted 5% of total assets as of December 31, 2016 and 3% of revenues for the year then ended. Our audit of internal control over financial reporting of NOW Inc. also did not include an evaluation of the internal control over financial reporting of the Power Service acquisition.

In our opinion, NOW Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 of NOW Inc. and our report dated February 15, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 15, 2017

NOW INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	December 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 106	$ 90
Receivables, net	354	485
Inventories, net	483	693
Prepaid and other current assets	16	24
Total current assets	959	1,292
Property, plant and equipment, net	143	165
Deferred income taxes	1	4
Goodwill	311	205
Intangibles, net	184	161
Other assets	5	5
Total assets	$ 1,603	$ 1,832
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 246	$ 211
Accrued liabilities	100	94
Other current liabilities	1	2
Total current liabilities	347	307
Long-term debt	65	108
Deferred income taxes	7	11
Other long-term liabilities	1	3
Total liabilities	420	429
Commitments and contingencies		
Stockholders' equity:		
Preferred stock—par value $0.01; 20 million shares authorized; no shares issued and outstanding	—	—
Common stock - par value $0.01; 330 million shares authorized; 107,474,904 and 107,219,138 shares issued and outstanding at December 31, 2016 and 2015, respectively	1	1
Additional paid-in capital	2,002	1,980
Accumulated deficit	(678)	(444)
Accumulated other comprehensive loss	(142)	(134)
Total stockholders' equity	1,183	1,403
Total liabilities and stockholders' equity	$ 1,603	$ 1,832

See notes to consolidated financial statements.

NOW INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Year Ended December 31,		
	2016	2015	2014
Revenue	$ 2,107	$ 3,010	$ 4,105
Operating expenses:			
Cost of products	1,762	2,508	3,286
Warehousing, selling and administrative	567	619	638
Impairment of goodwill	—	393	—
Operating profit (loss)	(222)	(510)	181
Other expense	(8)	(8)	(3)
Income (loss) before income taxes	(230)	(518)	178
Income tax provision (benefit)	4	(16)	62
Net income (loss)	$ (234)	$ (502)	$ 116
Earnings (loss) per share:			
Basic earnings (loss) per common share	$ (2.18)	$ (4.68)	$ 1.07
Diluted earnings (loss) per common share	$ (2.18)	$ (4.68)	$ 1.06
Weighted-average common shares outstanding, basic	107	107	107
Weighted-average common shares outstanding, diluted	107	107	108

See notes to consolidated financial statements.

NOW INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)

	Year Ended December 31,		
	2016	2015	2014
Net income (loss)	$ (234)	$ (502)	$ 116
Other comprehensive loss:			
Foreign currency translation adjustments	(8)	(89)	(45)
Comprehensive income (loss)	$ (242)	$ (591)	$ 71

See notes to consolidated financial statements.

NOW INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$ (234)	$ (502)	$ 116
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	53	38	21
Deferred income taxes	(2)	(6)	7
Stock-based compensation	23	27	18
Provision for doubtful accounts	17	27	4
Provision for inventory	36	54	8
Impairment of goodwill	—	393	—
Other, net	—	(7)	—
Change in operating assets and liabilities, net of acquisitions:			
Receivables	102	414	(200)
Inventories	190	258	(116)
Prepaid and other current assets	4	12	(1)
Accounts payable and accrued liabilities	22	(367)	261
Income taxes receivable, net	25	(18)	(6)
Other assets / liabilities, net	(1)	1	(4)
Net cash provided by operating activities	235	324	108
Cash flows from investing activities:			
Purchases of property, plant and equipment	(4)	(11)	(39)
Business acquisitions, net of cash acquired	(175)	(515)	(36)
Purchases of intangible assets	(7)	—	—
Other, net	3	3	8
Net cash used in investing activities	(183)	(523)	(67)
Cash flows from financing activities:			
Net contributions from National Oilwell Varco, Inc.	—	—	67
Borrowing under the revolving credit facility	253	435	—
Repayments under the revolving credit facility	(296)	(327)	—
Other	(4)	(2)	(1)
Net cash provided by (used in) financing activities	(47)	106	66
Effect of exchange rates on cash and cash equivalents	11	(12)	(13)
Net change in cash and cash equivalents	16	(105)	94
Cash and cash equivalents, beginning of period	90	195	101
Cash and cash equivalents, end of period	$ 106	$ 90	$ 195
Supplemental disclosures of cash flow information:			
Income taxes paid (refunded), net	$ (23)	$ 10	$ 65
Interest paid	$ 4	$ 2	$ —
Non-cash investing and financing activities:			
Contributed property, plant and equipment, net	$ —	$ —	$ 4
Accrued purchases of property, plant and equipment	$ —	$ —	$ 1

See notes to consolidated financial statements.

NOW INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
($ In millions)

	Common Stock						
	Shares Outstanding *(in thousands)*	Par Value	Additional Paid-In Capital	Retained Earnings (Deficit)	NOV Net Investment	Accum. Other Comprehensive Loss	Total Stockholders' Equity
January 1, 2014	—	—	—	—	1,802	—	1,802
Net income	—	—	—	58	58	—	116
Net transfers from NOV	—	—	—	—	75	—	75
Stock-based compensation	—	—	13	—	5	—	18
Reclassification of NOV net investment to additional paid-in capital	—	—	1,940	—	(1,940)	—	—
Exercise of stock options	14	—	—	—	—	—	—
Issuance of common stock at Separation	107,053	1	(1)	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(45)	(45)
December 31, 2014	107,067	1	1,952	58	—	(45)	1,966
Net loss	—	—	—	(502)	—	—	(502)
Adjustment to income tax from spin-off	—	—	3	—	—	—	3
Stock-based compensation	—	—	27	—	—	—	27
Exercise of stock options	15	—	—	—	—	—	—
Vesting of restricted stock	200	—	—	—	—	—	—
Shares withheld for taxes	(63)	—	(2)	—	—	—	(2)
Other comprehensive loss	—	—	—	—	—	(89)	(89)
December 31, 2015	107,219	$ 1	$ 1,980	$ (444)	$ —	$ (134)	$ 1,403
Net loss	—	—	—	(234)	—	—	(234)
Stock-based compensation	—	—	23	—	—	—	23
Exercise of stock options	20	—	—	—	—	—	—
Vesting of restricted stock	341	—	—	—	—	—	—
Shares withheld for taxes	(105)	—	(1)	—	—	—	(1)
Other comprehensive loss	—	—	—	—	—	(8)	(8)
December 31, 2016	107,475	$ 1	$ 2,002	$ (678)	$ —	$ (142)	$ 1,183

See notes to consolidated financial statements.

NOW INC.
Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

Nature of Operations

NOW Inc. ("NOW" or the "Company") is a holding company headquartered in Houston, Texas that was incorporated in Delaware on November 22, 2013. NOW operates primarily under the DistributionNOW and Wilson Export brands. NOW is a global distributor of energy products as well as products for industrial applications through its locations in the U.S., Canada and internationally which are geographically positioned to serve the energy and industrial markets in approximately 80 countries. NOW's energy product offerings are used in the oil and gas industry including upstream drilling and completion, exploration and production, midstream infrastructure development and downstream petroleum refining – as well as in other industries, such as chemical processing, power generation and industrial manufacturing operations. The industrial distribution portion of NOW's business targets a diverse range of manufacturing and facilities across numerous industries and end markets. NOW also provides supply chain management to drilling contractors, E&P operators, midstream operators, downstream energy and industrial manufacturing companies. NOW's supplier network consists of thousands of vendors in approximately 40 countries.

The Separation

On May 1, 2014, the National Oilwell Varco, Inc. ("NOV") Board of Directors approved the Spin-Off (the "Spin-Off" or "Separation") 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. 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 ("SEC") 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 balance sheet as of December 31, 2016 and December 31, 2015 are presented on a consolidated basis.
- 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 statement of cash flows 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 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.

Reclassification

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported operating profit (loss), income (loss) before income taxes or net income (loss).

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 affects any entity using GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in *Revenue Recognition* (Topic 605), and most industry-specific guidance. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of *Property, Plant, and Equipment* (Topic 360), and intangible assets within the scope of *Intangibles—Goodwill and Other* (Topic 350)) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. The ASU provides two transition methods: (i) retrospectively to each prior reporting period presented or (ii) retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. In August 2015, the FASB proposed the effective date to be the annual reporting periods beginning after December 15, 2017, and interim periods therein. In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients* (Topic 606), which clarifies implementation guidance on assessing collectability, presentation of sales tax, noncash consideration and completed contracts and contract modifications at transition. The Company established a project steering committee and cross-functional implementation team to identify potential differences that would result from applying the requirements of the new standard to the Company's revenue contracts. In addition, the implementation team is also responsible for identifying and implementing changes to business processes, systems and controls, if any, to support recognition and disclosure under the new standard. The Company plans to adopt Topic 606 in the first quarter of fiscal year 2018 pursuant to the aforementioned adoption method (ii). While the Company is currently assessing the impact of the new standard, the revenue is primarily generated from the sale of finished product to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. These are largely un-impacted by the new standard. Based on the Company's preliminary assessment, which are subject to change, the Company does not expect this new guidance to have a material impact on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (Subtopic 205-40). Under ASU 2014-15, management is to assess, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern and provide related disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard as of December 31, 2016, with no impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* (Topic 330). Under ASU 2015-11, inventory will be measured at the "lower of cost and net realizable value." ASU 2015-11 defines net realizable value as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." ASU 2015-11 is effective for annual and interim periods in fiscal years beginning after December 15, 2016. The Company plans to adopt this standard in the first quarter of fiscal year 2017 prospectively and does not expect a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company is currently assessing the impact of ASU 2016-02 on its consolidated financial statements. The Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon the adoption of ASU 2016-02, which will increase the total assets and total liabilities that are reported relative to such amounts prior to adoption.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (Topic 718), which simplifies the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual and interim periods in fiscal years beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard as of December 31, 2016, with no impact to its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326), which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. ASU 2016-13 requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. ASU 2016-13 is effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted as of December 15, 2018, and requires modified retrospective transition method. The Company is currently assessing the impact of ASU 2016-13 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (Topic 230), to provide guidance on specific cash inflows and outflows. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted and requires retrospective application of these amendments unless not practicable, in which case amendments would be applied prospectively as of the earliest date practicable. The Company adopted this standard as of December 31, 2016, with no impact to its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Asset Transfers of Assets Other than Inventory* (Topic 740), to recognize the income tax consequences of intra-entity transfers of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual and interim periods in fiscal years beginning after December 15, 2017 with early adoption permitted in the first interim period of fiscal year 2017. Upon adoption, any deferred charge established upon the intra-company transfer would be recorded as a cumulative-effect adjustment to retained earnings. At December 31, 2016, the Company had a deferred charge of $1 million included in prepaid and other current assets in the accompanying consolidated balance sheets. However, due to the Company's full valuation allowance in the U.S, no deferred charge will be recorded as a cumulative-effect adjustment to accumulated deficit. The Company plans to adopt this standard in the first quarter of fiscal year 2017.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* (Topic 350), which eliminates Step 2 from the goodwill impairment test. ASU 2017-04 is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017 and should be applied prospectively. The Company plans to adopt this standard in the first quarter of fiscal year 2017 and does not expect a material impact on its consolidated financial statements.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and Cash Equivalents consist of all highly liquid investments with maturities of three months or less at the date of purchase.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables and payables approximated fair value because of the relatively short maturity of these instruments. See Note 13 "Derivative Financial Instruments" for the fair value of derivative financial instruments.

Inventories

Inventories consist primarily of oilfield and industrial finished goods. Inventories are stated at the lower of cost or market and using average cost methods. Allowances for excess and obsolete inventories are determined based on the Company's historical usage of inventory on hand as well as its future expectations.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for major improvements that extend the lives of property and equipment are capitalized while minor replacements, maintenance and repairs are charged to expense as incurred. Disposals are removed at cost less accumulated depreciation with any resulting gain or loss reflected in the results of operations for the respective period. Depreciation is provided using the straight-line method over the estimated useful lives of individual items.

Long-Lived Assets, Including Goodwill and Other Acquired Intangible Assets

The Company evaluates the recoverability of property, plant and equipment and amortizable intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. The Company has not recorded any such impairment charge during the years presented.

The Company conducts impairment testing for goodwill annually in the fourth quarter of its fiscal year and more frequently, on an interim basis, when an event occurs or circumstances change that indicate that the fair value of a reporting unit may have declined below its carrying value. Events or circumstances which could indicate a probable impairment include, but are not limited to, a significant reduction in worldwide oil and gas prices or drilling; a significant reduction in profitability or cash flow of oil and gas companies or drilling contractors; a significant reduction in worldwide well remediation activity; a significant reduction in capital investment by other oilfield service companies; or a significant increase in worldwide inventories of oil or gas.

The Company tests goodwill at the reporting unit level, which is defined as an operating segment or one level below an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. The Company determined that it has five reporting units for this purpose—United States Energy, United States Supply Chain, United States Process Solutions, Canada and International. Before testing goodwill, the Company considers whether or not to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount and whether the two-step impairment test is required.

The goodwill impairment test is a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination (i.e., the fair value of the reporting unit is allocated to all the assets and liabilities, including any unrecognized intangible assets, as if the reporting unit were acquired in a business combination).

When performing goodwill impairment testing, the fair values of reporting units are determined based on valuation techniques using the best available information, including discounted cash flow projections. The discounted cash flow is based on management's short-term and long-term forecast of operating performance for each reporting unit. The two main assumptions used in measuring goodwill impairment, which bear the risk of change and could impact the Company's goodwill impairment analysis, include the cash flow from operations from each of the Company's individual business units and the discount rate. The starting point for each of the reporting unit's cash flow from operations is the detailed annual plan or updated forecast. The detailed planning and forecasting process takes into consideration a multitude of factors including worldwide rig activity, inflationary forces, pricing strategies, customer analysis, operational issues, competitor analysis, capital spending requirements, working capital requirements and customer needs among other items which impact the individual reporting unit projections. Cash flows beyond the specific operating plans were estimated using a terminal value calculation, which incorporated historical and forecasted financial cyclical trends for each reporting unit and considered long-term earnings growth rates. The financial and credit market volatility impacts the fair value measurement by adjusting the discount rate. During times of volatility, significant judgment must be applied to determine whether credit changes are a short-term or long-term trend. The Company makes significant assumptions and estimates about the extent and timing of future cash flows, growth rates, and discount rates all of which represent unobservable inputs into valuation methodologies and are classified as level 3 inputs under the fair value hierarchy. In evaluating the reasonableness of the Company's fair value estimates, the Company considers, among other factors, the relationship between the market capitalization of the Company and the estimated fair value of its reporting units.

In addition to the recoverability assessment, the Company routinely reviews the remaining estimated useful lives of property, plant and equipment and amortizable intangible assets. If the Company reduces the estimated useful life assumption for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life.

Foreign Currency

The functional currency for most of the Company's foreign operations is the local currency. Certain foreign operations use the U.S. dollar as the functional currency. For those that have local currency as functional the cumulative effects of translating the balance sheet accounts from the functional currency into the U.S. dollar at current exchange rates are included in accumulated other comprehensive income (loss). Revenues and expenses are translated at average exchange rates in effect during the period. Accordingly, financial statements of these foreign subsidiaries are remeasured to U.S. dollars for consolidation purposes using current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets and related elements of expense. Revenue and expense elements are remeasured at rates that approximate the rates in effect on the transaction dates. For all operations, gains or losses, from remeasuring foreign currency transactions into the reporting currency, are included in other expense. Net foreign currency transaction losses were $1 million, $3 million and $2 million for the years ending December 31, 2016, 2015 and 2014, respectively, and are included in other expense in the accompanying consolidated statements of operations.

Revenue Recognition

The Company sells products through store fronts, on-site and eCommerce. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Generally, across every channel, these conditions are met when the product is shipped, delivered, or picked up by the customer. Revenues are presented net of return allowances and include freight charges billed to customers. Sales tax collected from customers is excluded from revenue in the accompanying consolidated statements of operations.

Cost of Products

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 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.

Vendor Consideration

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction of inventory when purchased and once these goods are sold to third parties the associated amount is credited to cost of products. The Company develops accrual rates for vendor consideration based on the provisions of the arrangements in place, historical trends, purchases and future expectations. Due to the complexity and diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Income Taxes

The liability method is used to account for income taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more-likely-than-not to be realized.

Concentration of Credit Risk

The Company grants credit to its customers, which operate primarily in the energy, industrial and manufacturing markets. Concentrations of credit risk are limited because the Company has a large number of geographically diverse customers, thus spreading trade credit risk. The Company controls credit risk through credit evaluations, credit limits and monitoring procedures. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral, but may require letters of credit for certain sales. Credit losses are provided for in the financial statements. Allowances for doubtful accounts are determined based on a continuous process of assessing the Company's portfolio on an individual customer basis taking into account current market conditions and trends. This process consists of a thorough review of historical collection experience, current aging status of the customer accounts, and financial condition of the Company's customers. Based on a review of these factors, the Company will establish or adjust allowances for specific customers. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the allowance and a credit to receivables. No single customer represents more than 10% of the Company's revenue. The Company's top 30 customers in aggregate represent approximately one-third of the Company's revenue.

Stock-Based Compensation

Compensation expense for the Company's stock-based compensation plans is measured using the fair value method required by ASC Topic 718 "Compensation—Stock Compensation". Under this guidance the fair value of stock option grants and restricted stock is amortized to expense using the straight-line method over the shorter of the vesting period or the remaining employee service period. The Company provides compensation benefits to employees and non-employee directors under share-based payment arrangements. The Company settles stock option exercises with newly issued shares of stock.

Environmental Liabilities

When environmental assessments or remediations are probable and the costs can be reasonably estimated, remediation liabilities are recorded on an undiscounted basis and are adjusted as further information develops or circumstances change.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported and contingent amounts of assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contingencies

The Company accrues for costs relating to litigation claims and other contingent matters, when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Revisions to contingent liabilities are reflected in income in the period in which different facts or information become known or circumstances change that affect the Company's previous judgments with respect to the likelihood or amount of loss. Amounts paid upon the ultimate resolution of contingent liabilities may be materially different from previous estimates and could require adjustments to the estimated reserves to be recognized in the period such new information becomes known.

In circumstances where the most likely outcome of a contingency can be reasonably estimated, the Company accrues a liability for that amount. Where the most likely outcome cannot be estimated, a range of potential losses is established and if no one amount in that range is more likely than others, the low end of the range is accrued.

3. Receivables, net

Receivables are recorded and carried at the original invoiced amount less an allowance for doubtful accounts.

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. Activity in the allowance for doubtful accounts was as follows (in millions):

	Year Ended December 31, 2016	2015	2014
Allowance for doubtful accounts			
Beginning balance	$ 38	$ 19	$ 22
Additions charged to costs and expenses	17	27	4
Charge-offs and other	(21)	(8)	(7)
Ending balance	$ 34	$ 38	$ 19

4. Inventories, net

Inventories consist primarily of (in millions):

	December 31, 2016	2015	2014
Finished goods and other	$ 531	$ 737	$ 988
Less: inventory reserves	(48)	(44)	(39)
Total	$ 483	$ 693	$ 949
Inventory reserves:			
Beginning balance	$ 44	$ 39	$ 31
Additions charged to expenses	36	54	8
Charge-offs and other	(32)	(49)	—
Ending balance	$ 48	$ 44	$ 39

5. Property, Plant and Equipment, net

Property, plant and equipment consist of ($ in millions):

	Estimated Useful Lives	December 31, 2016	2015
Information technology assets	1-7 Years	$ 47	$ 48
Operating equipment	2-15 Years	93	84
Buildings and land [(1)]	5-35 Years	95	98
Construction in progress		1	—
Total property, plant and equipment		236	230
Less: accumulated depreciation		(93)	(65)
Property, plant and equipment, net		$ 143	$ 165

(1) Land has an indefinite life.

Depreciation expense was $32 million, $25 million and $16 million for the years ended December 31, 2016, 2015 and 2014, respectively.

6. Accrued Liabilities

Accrued liabilities consist of (in millions):

	December 31, 2016	December 31, 2015
Compensation and other related expenses	$ 25	$ 26
Customer credits and prepayments	27	21
Taxes (non income)	17	18
Other	31	29
Total	$ 100	$ 94

7. Goodwill

Goodwill is identified by segment as follows (in millions):

	United States	Canada	International	Total
Balance at December 31, 2014	$ 220	$ 101	$ 25	$ 346
Additions	173	4	99	276
Impairment	(393)	—	—	(393)
Currency translation adjustments and other	—	(17)	(7)	(24)
Balance at December 31, 2015	—	88	117	205
Additions	$ 117	—	—	117
Currency translation adjustments and other	—	$ 3	$ (14)	(11)
Balance at December 31, 2016	$ 117	$ 91	$ 103	$ 311

In connection with the Power Service acquisition (see Note 20 “Acquisitions”) and the related changes in the management structure, the Company established a new reporting unit, U.S. Process Solutions, under the United States reportable segment. The U.S. Process Solutions reporting unit primarily consists of the Power Service business and the Odessa Pumps business (formally a U.S. Energy component with zero goodwill value). The U.S. Process Solutions reporting unit has a goodwill balance of $117 million, as a result of the fair value measurement of the net assets acquired in the Power Service acquisition.

During the fourth quarter of 2016, the Company performed its annual goodwill impairment test resulting in no impairment. The calculated fair values of all of the Company’s reporting units were in excess of the respective reporting unit’s carrying value.

During the third quarter of 2015, the Company considered the sustained decline in worldwide oil and gas prices and rig counts as well as the decline in the market value of the Company’s stock, as indicators that the fair value of the Company’s reporting units’ goodwill could have fallen below their carrying value. As a result, the Company performed a goodwill impairment test as of September 30, 2015, and recognized an estimated impairment of $255 million in U.S. Energy and International reporting units. Subsequently, in the fourth quarter of 2015 the Company completed its interim test and recognized an incremental loss of $138 million. As a result, a total of $393 million goodwill impairment (U.S. Energy and U.S. Supply Chain) were recognized for the year ended December 31, 2015. The international reporting unit showed impairment indicators during the step 1 goodwill impairment calculation. However, no impairment was recognized as a result of the step 2 analysis. The Company recorded a valuation allowance against the full value of its deferred tax assets in the United States, therefore, no tax benefit was reported on its goodwill impairment for the year ended December 31, 2015. See Note 9 “Income Taxes” for a discussion of the valuation allowance recorded at December 31, 2015.

8. Intangibles

Identified intangible assets with determinable lives consist primarily of customer relationships, tradenames, trademarks and patents, and non-compete agreements acquired in acquisitions, and are being amortized on a straight-line basis over the estimated useful lives of 1-20 years.

Identified intangible assets by major classification consist of the following (in millions):

	Gross	Accumulated Amortization	Net Book Value
December 31, 2014:			
Trademarks and patents	$ 61	$ (9)	$ 52
Customer relationships	24	(4)	20
Other (covenant not to compete)	5	(4)	1
Total identified intangibles	$ 90	$ (17)	$ 73
December 31, 2015:			
Trademarks and patents	$ 85	$ (14)	$ 71
Customer relationships	103	(12)	91
Other (covenant not to compete)	5	(4)	1
Currency translation adjustments and other	(2)	—	(2)
Total identified intangibles	$ 191	$ (30)	$ 161
December 31, 2016:			
Trademarks and patents	$ 105	$ (20)	$ 85
Customer relationships	125	(22)	103
Other (covenant not to compete)	11	(6)	5
Currency translation adjustments and other	(11)	2	(9)
Total identified intangibles	$ 230	$ (46)	$ 184

Amortization expense was $21 million, $13 million and $5 million for the years ended December 31, 2016, 2015, and 2014, respectively. The following table represents the total estimated amortization of intangible assets for the five succeeding years (in millions):

For the Year Ending December 31	Estimated Amortization Expense
2017	$ 22
2018	19
2019	18
2020	18
2021	18

9. Income Taxes

In connection with the Separation, the Company and NOV entered into a Tax Matters Agreement, dated as of May 29, 2014 (the "Tax Matters Agreement"). The Tax Matters Agreement sets forth the Company and NOV's rights and obligations related to the allocation of federal, state, local and foreign taxes for periods before and after the Spin-Off, as well as taxes attributable to the Spin-Off, and related matters such as the filing of tax returns and the conduct of IRS and other audits. Pursuant to the Tax Matters Agreement, NOV has prepared and filed the consolidated federal income tax return, and any other tax returns that include both NOV and the Company for all the liability periods ended on or prior to May 30, 2014. The income tax provision (benefit) for periods prior to the Separation has been computed as if NOW were a stand-alone company. NOV will indemnify and hold harmless the Company for any income tax liability for periods before the Separation date. The Company will prepare and file all tax returns that include solely the Company for all taxable periods ending after that date. Settlements of tax payments between NOV and the Company were generally treated as contributions from or distributions to NOV in periods prior to the Separation date.

The domestic and foreign components of income (loss) before income taxes were as follows (in millions):

	Year Ended December 31,		
	2016	2015	2014
United States	$ (206)	$ (524)	$ 101
Foreign	(24)	6	77
Income (loss) before income taxes	$ (230)	$ (518)	$ 178

The provision (benefit) for income taxes for 2016, 2015 and 2014 consisted of the following (in millions):

	2016	2015	2014
U.S. Federal:			
Current	$ 2	$ (14)	$ 38
Deferred	(1)	(2)	3
	1	(16)	41
U.S. State:			
Current	—	(1)	4
Deferred	—	—	—
	—	(1)	4
Foreign			
Current	3	5	18
Deferred	—	(4)	(1)
	3	1	17
Income tax provision (benefit)	$ 4	$ (16)	$ 62

The reconciliation between the Company’s effective tax rate on income (loss) from continuing operations and the statutory tax rate is as follows (in millions):

	Year Ended December 31,		
	2016	2015	2014
Income tax provision (benefit) at federal statutory rate	$ (81)	$ (181)	$ 62
Foreign tax rate differential	2	(1)	(6)
State income tax provision (benefit), net of federal benefit	(3)	(8)	3
Nondeductible expenses	8	3	2
Foreign tax credits	(2)	(3)	—
Nondeductible goodwill impairment	—	42	—
Change in valuation allowance	78	129	—
Change in contingency reserve and other	2	3	1
Income tax provision (benefit)	$ 4	$ (16)	$ 62
Effective tax rate	(1.6)%	3.0%	34.9%

In 2015, the effective tax rate was impacted by nondeductible goodwill impairments and a valuation allowance recorded against the Company’s deferred tax assets in the United States. In 2016, the effective tax rate continues to be impacted by a valuation allowance recorded against the Company’s deferred tax assets in the United States, Canada and other foreign jurisdictions. The change in valuation allowance excludes intercompany transactions as they do not impact consolidated income (loss) from continuing operations.

Significant components of the Company's deferred tax assets and liabilities were as follows (in millions):

	Year Ended December 31,		
	2016	2015	2014
Deferred tax assets:			
Allowances and operating liabilities	$ 8	$ 9	$ 2
Net operating loss carryforwards	78	13	1
Foreign tax credit carryforwards	5	3	—
Trade credit	3	4	4
Allowance for doubtful accounts	10	12	3
Inventory reserve	18	11	9
Stock-based compensation	19	19	12
Intangible assets	53	56	—
Other	6	1	3
Total deferred tax assets	200	128	34
Deferred tax liabilities:			
Tax over book depreciation	(4)	(6)	(2)
Intangible assets	—	—	(18)
Total deferred tax liabilities	(4)	(6)	(20)
Net deferred tax assets before valuation allowance	196	122	14
Valuation allowance	(202)	(129)	—
Net deferred tax assets (liability)	$ (6)	$ (7)	$ 14

The Company records a valuation allowance when it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. If the Company was to determine that it would be able to realize the deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

Based upon the significant level of cumulative recent losses, management believes that it is not more-likely-than-not that the Company would be able to realize the benefits of the deferred tax assets in the U.S., Canada and other foreign jurisdictions and accordingly recognized a valuation allowance for the year ended December 31, 2016. The change during the year in the valuation allowance was $64 million, $7 million, and $2 million, for the U.S., Canada and other foreign jurisdictions.

During the second quarter of 2016, the Company acquired Power Service (see Note 20 "Acquisitions") and recorded a deferred tax liability of $19 million related to basis differences between U.S. GAAP and U.S. Tax associated with the acquisition and step-up to fair value of certain assets, primarily intangible assets. As a result of the additional deferred tax liability, a corresponding reduction in the Company's valuation allowance was recorded against deferred tax assets in the U.S. The Company and the former shareholders of Power Service, Inc. came to an agreement to make an election under Internal Revenue Code Section 338(h)(10) to treat the acquisition of Power Service, Inc. as an asset acquisition for U.S. tax purposes during the fourth quarter of 2016. As a result, the Company recorded a step-up in the tax basis of the assets acquired from Power Service, Inc. and reversed $18 million of the deferred tax liability and the corresponding reduction in the valuation allowance recorded in the second quarter of 2016. Overall, the Company's net deferred tax liability increased and valuation allowance decreased by $1 million during the year ended December 31, 2016 as a result of the Power Service acquisition.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	2016	2015	2014
Unrecognized tax benefit at January 1	$ 1	$ —	$ —
Gross increases - tax positions in prior period	—	—	—
Gross decreases - tax positions in prior period	—	—	—
Gross increases - tax positions in current period	—	1	—
Settlement	—	—	—
Lapse of statute of limitations	—	—	—
Unrecognized tax benefit at December 31	$ 1	$ 1	$ —

The balance of unrecognized tax benefits at December 31, 2016 and 2015 was $1 million and $1 million, respectively. These unrecognized tax benefits are included as a reduction to deferred tax assets in the consolidated balance sheet at December 31, 2016 and 2015. If the $1 million of unrecognized tax benefits are ultimately realized, $1 million would be recorded as a reduction of income tax expense. The Company does not anticipate that the total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statutes of limitation within 12 months of this reporting date.

To the extent penalties and interest would be assessed on any underpayment of income tax, such accrued amounts are classified as a component of income tax provision (benefit) in the financial statements consistent with the Company’s policy. During the year ended December 31, 2016, the Company did not record any income tax expense for interest and penalties related to uncertain tax positions.

The Company is subject to taxation in the United States, various states and foreign jurisdictions. The Company has significant operations in the United States and Canada and to a lesser extent in various other international jurisdictions. Tax years that remain subject to examination vary by legal entity, but are generally open in the U.S. for the tax years ending after 2012 and outside the U.S. for the tax years ending after 2010. The Company is indemnified for any income tax expense exposures related to periods prior to the Separation under the Tax Matters Agreement with NOV.

In the United States, the Company has $194 million and $30 million of net operating loss carryforwards as of December 31, 2016 and December 31, 2015, which will expire in 2036 and 2035, respectively. The potential benefit of $68 million has been reduced by a $68 million valuation allowance. Future income tax payments will be reduced in the event the Company ultimately realizes the benefit of these net operating losses. In addition to future income tax expense, future income tax payments will also be reduced in the event the Company ultimately realizes the benefit of these net operating losses.

The Company has $105 million and $35 million of state net operating loss carryforwards as of December 31, 2016 and December 31, 2015, which will expire between 2020 through 2036. The potential benefit of $4 million has been reduced by a $4 million valuation allowance.

Outside the United States, the Company has $26 million and $7 million of net operating loss carryforwards as of December 31, 2016 and December 31, 2015, of which $9 million have no expiration and $17 million will expire in future years through 2026. The potential benefit of $7 million has been reduced by a $7 million valuation allowance.

Also in the United States, the Company has $5 million and $3 million of excess foreign tax credits as of December 31, 2016 and December 31, 2015. The potential benefit of $5 million has been reduced by a $5 million valuation allowance. In addition to future income tax expense, future income tax payments will also be reduced in the event the Company ultimately realizes the benefit of these foreign tax credits.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of December 31, 2016, the amount of undistributed earnings of foreign subsidiaries was approximately $140 million. The Company has not, nor does it anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with domestic debt service requirements. These earnings are considered to be permanently reinvested and no provision for U.S. federal and state income taxes has been made. Distribution of these earnings in the form of dividends or otherwise could result in U.S. federal taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable in various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical; however, unrecognized foreign tax credit carryforwards would be available to reduce some portion of the U.S. liability.

Because of the number of tax jurisdictions in which the Company operates, its effective tax rate can fluctuate as operations and the local country tax rates fluctuate. The Company is also subject to audits by federal, state and foreign jurisdictions which may result in proposed assessments. The Company’s future tax provision will reflect any favorable or unfavorable adjustments to its estimated tax liabilities when resolved. The Company is unable to predict the outcome of these matters. However, the Company believes that none of these matters will have a material adverse effect on the results of operations or financial position of the Company.

10. Debt

On April 18, 2014, the Company entered into a five-year senior unsecured revolving credit facility with a syndicate of lenders, including Wells Fargo Bank, National Association, as the administrative agent. The credit facility became available to the Company on June 2, 2014 as a result of the satisfaction of customary conditions, including the consummation of the Separation. The credit facility is for an aggregate principal amount of up to $750 million with sub-facilities for standby letters of credit and swingline loans, each with a sublimit of $150 million and $50 million, respectively. The Company has the right, subject to certain conditions, to increase the aggregate principal amount of commitments under the credit facility by $250 million. Borrowings under the credit facility will bear interest at a base rate (as defined in the credit agreement) plus an applicable interest margin based on the Company's capitalization ratio. The base rate is calculated as the highest of (a) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of 1%, (b) the prime commercial lending rate of the administrative agent, as established from time to time at its principal U.S. office, and (c) the Daily One-Month LIBOR (as defined in the credit agreement) plus 1%. The Company also has the option for its borrowings under the credit facility to bear interest based on LIBOR (as defined in the credit agreement). The credit facility is unsecured and guaranteed by the Company's domestic subsidiaries. The credit agreement also provides for customary fees, including administrative agent fees, commitment fees, fees in respect of letters of credit and other fees. The annual commitment fee ranges from 25 to 35 basis points of the unused portion of the credit facility. The line of credit expires in April 2019, unless extended.

The credit facility contained usual and customary affirmative and negative covenants for credit facilities of this type including financial covenants consisting of (a) a maximum capitalization ratio (as defined in the credit agreement) of 50% and (b) a minimum interest coverage ratio (as defined in the credit agreement) of no less than 3:1.

On January 20, 2016, the Company entered into an amendment (the "Amendment") to its credit facility dated as of April 18, 2014 (the "Credit Agreement"). The Amendment, among other things, (i) suspends, until the Company elects otherwise, the Credit Agreement's minimum interest coverage ratio effective as of December 30, 2015, (ii) adds a minimum asset coverage ratio (as defined in the Credit Agreement), which requires that the ratio of the value of the Company's eligible assets (value of qualified cash, eligible inventory and eligible accounts receivable) to the amount of its outstanding obligations under the Credit Agreement is no less than 1.50 to 1.00, (iii) reduces the maximum capitalization ratio (as defined in the Credit Agreement) from 50% to 45%, (iv) increases the applicable interest margin on current borrowings by 75 basis points and the current commitment fee by 5 basis points and (v) reduces sub-facilities for standby letters of credit and swingline loans to $40 million and $25 million, respectively. In connection with the Amendment, the Company also entered into a Security Agreement dated as of January 20, 2016 (the "Security Agreement") pursuant to which it granted the lenders under the Credit Agreement customary security interests in substantially all of the Company's U.S. assets and in approximately 65% of the equity interests of the Company's first-tier foreign subsidiaries.

As of December 31, 2016, the Company had borrowed $65 million against its senior secured revolving credit facility, and had $446 million in availability (as defined in the Credit Agreement) resulting in the excess availability (as defined in the Credit Agreement) of 87%, subject to certain restrictions. Borrowings that result in the excess availability dropping below 25% are conditioned upon compliance with or waiver of a minimum fixed charge ratio (as defined in the Credit Agreement). The Company was not obligated to pay back the borrowing against the senior secured revolving credit facility until the expiration date of April 18, 2019, as such the outstanding borrowing is classified as long term. As of December 31, 2016, the Company was in compliance with all financial covenants in the credit facility. Total commitments under the amended credit facility remain at $750 million. The amended credit facility continues to include the $250 million accordion feature and still expires on April 18, 2019, subject to certain conditions.

11. Commitments and Contingencies

The Company is involved in various claims, regulatory agency audits and pending or threatened legal actions involving a variety of matters. The Company has also assessed the potential for additional losses above the amounts accrued as well as potential losses for matters that are not probable but are reasonably possible. The total potential loss on these matters cannot be determined; however, in the Company's opinion, any ultimate liability, to the extent not otherwise recorded or accrued for, will not materially affect the Company's financial position, cash flow or results of operations. These estimated liabilities are based on the Company's assessment of the nature of these matters, their progress toward resolution, the advice of legal counsel and outside experts as well as management's intention and experience.

The Company's business is affected both directly and indirectly by governmental laws and regulations relating to the oilfield service industry in general, as well as by environmental and safety regulations that specifically apply to the Company's business. Although the Company has not incurred material costs in connection with its compliance with such laws, there can be no assurance that other developments, such as new environmental laws, regulations and enforcement policies hereunder may not result in additional, presently unquantifiable, costs or liabilities to the Company.

The Company does not accrue for contingent losses that, in its judgment, are considered to be reasonably possible, but not probable. Estimating reasonably possible losses also requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. NOW's management currently estimates a range of loss for reasonably possible losses for which an estimate can be made is between zero and $18 million in the international segment primarily attributable to accounts receivable with one customer. The Company has accrued its best estimate for loss as of December 31, 2016. Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

The Company maintains credit arrangements with several banks providing for short-term borrowing capacity, overdraft protection and other bonding requirements. As of December 31, 2016, these credit arrangements totaled approximately $44 million, of which the Company was contingently liable for approximately $12 million of outstanding standby letters of credit, including bid and performance related bonds and surety bonds. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid.

The Company leases certain facilities and equipment under operating leases that expire at various dates through 2029. These leases generally contain renewal options and require the lessee to pay maintenance, insurance, taxes and other operating expenses in addition to the minimum annual rentals. Rental expense related to operating leases approximated $50 million, $51 million and $61 million in 2016, 2015 and 2014, respectively.

In connection with 2016 and 2015 acquisitions, the Company entered into leases with former owners of acquired entities for premises utilized by the acquired entities in the performance of their operations. Most of these leases are renewable at the Company's option and contain clauses for payment of real estate taxes, maintenance, insurance and certain other operating expenses of the properties. The aggregated rental expense was approximately $3 million and $2 million for the years ended December 31, 2016 and 2015, respectively. Total future commitments related to these operating leases is approximately $11 million through 2023.

Future minimum lease commitments under noncancellable operating leases with initial or remaining terms of one year or more as of December 31, 2016, are payable as follows (in millions):

2017	$	39
2018		28
2019		18
2020		13
2021		9
Thereafter		18
Total future lease commitments	$	125

12. Related Party Transactions and Net Parent Company Investment

Related Party Transactions

In connection with the Spin-Off, the Company and NOV entered into a Separation and Distribution Agreement, Tax Matters Agreement, Employee Matters Agreement, and Transition Service Agreement each dated May 29, 2014.

The Separation and Distribution Agreement contains the key provisions related to the separation from NOV and the distribution of the Company's common stock to NOV shareholders. The Separation and Distribution Agreement separated the assets related to the Company's business from NOV, along with liabilities related to such assets, which now reside with the Company. In general, the Company agrees to indemnify NOV from liabilities arising from the Company's business and assets, and NOV agrees to indemnify the Company from liabilities arising from NOV's business and assets (that remained with NOV), except as otherwise provided in such agreement.

The Tax Matters Agreement governs the respective rights, responsibilities and obligations of each party with respect to taxes and tax benefits, the filing of tax returns, the control of audits, restrictions to preserve the tax-free status of the Spin-Off and other tax matters.

The Employee Matters Agreement governs the Company and NOV's compensation and employee benefit obligations with respect to current and former employees of each company, and generally allocates liabilities and responsibilities relating to employee compensation and benefit plans and programs. This agreement also provides the adjustment mechanisms to be applied as a result of the Spin-Off to convert outstanding NOV equity awards held by Company employees to Company awards.

The Transition Service Agreement provides for transitional services in the areas of information technology, tax, accounting, finance and employee benefits and are initially short-term in nature. The charges under these transition service agreements will be at cost-based rates. For the period from May 31 through September 30, 2014, the net amount of less than $1 million incurred by the Company under this agreement was recognized in warehousing, selling and administrative in the consolidated statements of operations. No amounts were reflected in the consolidated statements of operations prior to May 31, 2014, as the Transition Service Agreement was not effective prior to the Spin-Off.

Allocation of General Corporate Expenses

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 may have been incurred if the Company had been a stand-alone public company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

During 2014, NOW Inc. was allocated $6 million of general corporate expenses incurred by NOV which was included within warehousing, selling and administrative expenses in the consolidated statements of operations. Allocations from NOV discontinued as of May 30, 2014.

NOV Net Investment

Prior to the Spin-Off, net contributions from NOV invested equity were included within NOV net investment on the consolidated balance sheets and statements of cash flows.

As a result of the separation and distribution, certain adjustments were made to true-up the differences between the book basis and the tax basis of certain assets and liabilities as well as liabilities assumed by NOV, which resulted in a $3 million adjustment to deferred tax balances with an offsetting reduction to additional paid-in capital for the years ended December 31, 2015.

	Year Ended December 31,	
(In millions)	2015	2014
Net contribution from (distributions to) NOV per the consolidated statements of stockholders' equity	$ 3	$ 138
Non-cash adjustments:		
Stock-based compensation	—	(5)
Net transfer of assets and liabilities from NOV	—	(8)
Adjustment to income tax from spin-off	(3)	—
Less: Net income (loss) attributable to NOV net investment prior to the Spin-off	—	(58)
Net contributions from (distributions to) NOV per the consolidated statements of cash flows	—	$ 67

13. Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is foreign currency exchange rate risk. The Company has entered into certain financial derivative instruments to manage this risk.

The derivative financial instruments the Company has entered into are forward exchange contracts which have terms of less than a year to economically hedge foreign currency exchange rate risk on recognized nonfunctional currency monetary accounts. The purpose of the Company's foreign currency economic hedging activities is to economically hedge the Company's risk from changes in the fair value of non-functional currency denominated monetary accounts.

The Company records all derivative financial instruments at their fair value in its consolidated balance sheets. None of the derivative financial instruments that the Company holds are designated as either a fair value hedge or cash flow hedge and the gain or loss on the derivative instrument is recorded in earnings. The Company has determined that the fair value of its derivative financial instruments are computed using level 2 inputs (inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability) in the fair value hierarchy as the fair value is based on publicly available foreign exchange rates at each financial reporting date.

The table below provides data about the fair value of the derivative instruments that are recorded in the consolidated balance sheets (in millions):

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts[1]	$ 1	$ —	$ 2	$ 2

(1) Included in other current liabilities and other current assets in the consolidated balance sheets. The total notional amount of the forward foreign exchange contracts was approximately $76 million and $187 million at December 31, 2016 and 2015, respectively.

The table below provides the gains and (losses) recognized in other income in the accompanying consolidated statements of operations related to the Company's derivative instruments (in millions):

	Years Ended December 31,		
	2016	2015	2014
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts	$ 12	$ (4)	$ —

As of December 31, 2016, the Company's financial instruments do not contain any credit-risk-related or other contingent features that could cause accelerated payments when the Company's financial instruments are in net liability positions. The Company does not use derivative financial instruments for trading or speculative purposes.

14. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows (in millions):

	Foreign Currency Translation Adjustments
Balance at December 31, 2015	(134)
Other comprehensive loss	(8)
Balance at December 31, 2016	(142)

The Company's reporting currency is the U.S. dollar. A majority of the Company's international entities in which there is a substantial investment have the local currency as their functional currency. As a result, foreign currency translation adjustments resulting from the process of translating the entities' financial statements into the reporting currency are reported in other comprehensive income (loss) in accordance with ASC Topic 830 "Foreign Currency Matters".

15. Business Segments

The Company has five operating segments, which are (1) United States Energy, (2) United States Supply Chain, (3) United States Process Solutions, (4) Canada and (5) International. These operating segments were determined based primarily on the geographical markets and secondarily on the distribution channel of the products and services offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief executive officer has been identified as the chief operating decision maker. The Company's chief operating decision maker directs the allocation of resources to operating segments based on various metrics of each respective operating segment. The allocation of resources across the operating segments is dependent upon, among other factors, the operating segment's historical operating margins; the operating segment's historical or future expected return on capital; outlook within a specific market; opportunities to grow profitability; new products or new customer accounts; confidence in management; and competitive landscape and intensity.

The Company has determined that there are three reportable segments: (1) United States, (2) Canada and (3) International. The United States Energy, United States Supply Chain and United States Process Solutions operating segments were not separately reported as they exhibit similar long term economic characteristics, the nature of the products offered are similar, purchase many identical products from outside vendors, have similar customers, sell products directly to end-users and operate in similar regulatory environments. They have been aggregated in to the United States reportable segment. Total assets for each reportable segment are those owned or allocated to each segment by the Company's internal management reporting systems and include inter-segment assets that were eliminated for the presentation of total assets in the accompanying Consolidated Balance Sheets.

United States

The Company has more than 200 locations in the U.S., which are geographically positioned to serve the upstream, midstream and downstream energy and industrial markets.

Canada

The Company has a network of more than 55 locations in the Canadian oilfield, predominantly in the oil rich provinces of Alberta and Saskatchewan in Western Canada. The Company's Canadian segment primarily serves the energy exploration, production, drilling and midstream business.

International

The Company operates in approximately 20 countries and serves the needs of its international customers from more than 35 locations outside of the U.S. and Canada, all of which are strategically located in major oil and gas development areas. The Company's International segment primarily serves the energy exploration, production and drilling business.

The following table presents financial information for each of the Company's reportable segments as of and for the year ended December 31 (in millions):

	United States	Canada	International	Total
2016				
Revenue	$ 1,445	$ 258	$ 404	$ 2,107
Operating loss	(192)	(18)	(12)	(222)
Depreciation and amortization	40	3	10	53
Property, plant and equipment, net	104	15	24	143
Total assets	1,112	306	185	1,603
2015				
Revenue	$ 2,027	$ 378	$ 605	$ 3,010
Operating profit (loss)	(515)	(1)	6	(510)
Impairment of goodwill	(393)	—	—	(393)
Depreciation and amortization	26	3	9	38
Property, plant and equipment, net	119	16	30	165
Total assets	1,266	300	266	1,832
2014				
Revenue	$ 2,793	$ 669	$ 643	$ 4,105
Operating profit	89	47	45	181
Depreciation and amortization	16	3	2	21
Property, plant and equipment, net	101	20	3	124
Total assets	1,733	500	363	2,596

The following table presents a comparison of the approximate sales mix in the principal product categories (in millions):

	Year Ended December 31,		
	2016	2015	2014
Product Category			
Drilling and production	$ 496	$ 632	$ 991
Pipe	287	509	723
Valves	374	538	801
Fittings and flanges	350	448	667
Mill tool, MRO, safety and other	600	883	923
Total	$ 2,107	$ 3,010	$ 4,105

16. Earnings (Loss) Per Share ("EPS")

In conjunction with the Spin-Off, NOV distributed to its stockholders all 107,053,031 shares of common stock of NOW Inc. after the market closed on May 30, 2014. 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 May 30, 2014. On June 2, 2014, NOW Inc. stock began trading the "regular-way" on the New York Stock Exchange under the symbol "DNOW".

Basic earnings per share is based on net income attributable to the Company's earnings and is calculated based upon the daily weighted-average number of common shares outstanding during the periods presented. Also, this calculation includes fully vested stock and unit awards that have not yet been issued as common stock. Diluted EPS includes the above, plus unvested stock, unit or option awards granted and vested unexercised stock options, but only to the extent these instruments dilute earnings per share.

For comparative purposes, and to provide a more meaningful calculation of weighted-average shares outstanding, the Company has assumed the 107,053,031 shares of common stock of NOW Inc. that was distributed on May 30, 2014 to be outstanding as of the beginning of each period prior to the Spin-Off presented in the calculation of weighted-average shares. In addition, the Company has assumed the dilutive securities outstanding at May 30, 2014, were also outstanding for each of the periods prior to the Spin-Off presented.

For the years ended December 31, 2016 and 2015, a total of approximately 7 million and 6 million potentially dilutive shares were excluded from the computation of diluted earnings (loss) per share due to the Company recognizing a net loss for the period. For the year ended December 31, 2014, a total of approximately 3 million potentially dilutive shares were excluded from the computation of diluted earnings (loss) per share due to their antidilutive effect. See Note 17 "Stock-based Compensation and Outstanding Awards" for a description of the terms and conditions of these securities.

Basic and diluted earnings (loss) per share follows (in millions, except share data):

	Year Ended December 31,		
	2016	2015	2014
Numerator for basic and diluted net income (loss) per share attributable to the Company's stockholders:			
Net income (loss) attributable to the Company	$ (234)	$ (502)	$ 116
Less: net income attributable to nonvested shares[1]	—	—	(1)
Net income (loss) attributable to the Company's stockholders	$ (234)	$ (502)	$ 115
Denominator for basic earnings (loss) per share attributable to the Company's stockholders:			
Weighted average common shares outstanding	107,416,181	107,173,972	107,058,843
Effect of dilutive securities:			
Dilutive effect of stock based compensation	—	—	497,301
Denominator for diluted earnings (loss) per share attributable to the Company's stockholders:	107,416,181	107,173,972	107,556,144
Earnings (loss) per share attributable to the Company's stockholders:			
Basic	$ (2.18)	$ (4.68)	$ 1.07
Diluted	$ (2.18)	$ (4.68)	$ 1.06

(1) ASC Topic 260, "Earnings Per Share" requires companies with unvested participating securities to utilize a two-class method for the computation of net income attributable to the Company per share. The two-class method requires a portion of net income attributable to the Company to be allocated to participating securities, which are unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, if declared. Net losses are not allocated to nonvested shares in periods that the Company determines that those shares are not obligated to participate in losses. For the periods that the Company recognized net income, net income attributable to the Company allocated to these participating securities was excluded from net income attributable to the Company's stockholders in the numerator of the earnings per share computation.

17. Stock-based Compensation and Outstanding Awards

Prior to the Spin-Off, the Company participated in NOV's stock-based compensation plan known as the National Oilwell Varco, Inc. Long-Term Incentive Plan (the "NOV Plan") and the Company's employees were issued NOV equity awards. Under the NOV Plan, the Company's employees were granted stock options, RSUs, PSAs and/or RSAs. In connection with the Spin-Off, the Company established the NOW Inc. Long-Term Incentive Plan (the "Plan"). The Plan was adopted by the Company's board of directors and approved by NOV, as the Company's sole stockholder, on May 1, 2014. Under the terms of the Plan, 16 million shares of Company common stock were authorized for grant and the Company's employees are eligible to be granted stock options, RSAs, RSUs and PSAs. As a result of the Spin-Off, stock-based compensation awards granted under the NOV Plan and held by Company employees as of May 30, 2014, were adjusted or substituted as follows:

- Stock option awards held by Company employees were replaced with substitute awards to purchase NOW common stock.
- Unvested RSAs and RSUs under the NOV plan were replaced with adjusted, substitute awards for NOW RSAs or RSUs, as applicable.
- PSAs received were replaced entirely with substitute NOW RSAs.

These adjustments were intended to preserve the intrinsic value of the awards on May 30, 2014. Adjustment and substitution of the awards did not result in additional compensation expense.

The determination of fair value of share-based payment awards on the date of grant using option-pricing models is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise activity, risk-free interest rate, expected dividends and expected term.

Stock-based compensation expense recognized for the years ended December 31, 2016, 2015 and 2014 totaled $23 million, $27 million and $18 million, respectively. Tax benefit recognized from this expense for the years ended December 31, 2016, 2015 and 2014 was $6 million, $7 million and $5 million, respectively. Forfeitures are recognized as they occur.

As of December 31, 2016, the Company has granted stock options, RSAs, RSUs and PSAs to its employees which are described in more detail below.

Stock Options

The goal of the stock option program is to provide a compensation program that is competitive within the industry while directly linking a significant portion of the employee's compensation to the enhancement of stockholder value. The ultimate value of any stock option is based solely on the increase in value of the shares of the Company's common stock over the grant price. Accordingly, stock options have value only if the Company's stock price appreciates from the date of grant. Additionally, the option holder must remain employed during the period required for the option to "vest", thus providing an incentive for an option holder to remain employed by the Company. This at-risk component of compensation focuses executives on the creation of stockholder value over the long-term and is therefore inherently performance-based compensation.

Stock option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. Stock option awards generally have either a 7-year or a 10-year contractual term and vest over a 3-year period from the grant date on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. The grant-date fair value of stock options is determined using the Black-Scholes framework. Additionally, the Company's stock options provide for full vesting of unvested outstanding options, in the event of a change of control of the Company and a change in the holder's responsibilities following a change in control of the Company.

For the stock options granted in 2016 and 2015, the fair value of each option award was estimated on the date of grant using the Black-Scholes framework that uses the assumptions noted in the table below. The expected volatility was based on the implied volatility on the Company's stock, historical volatility of the Company's stock, and the historical volatility of other, similar companies. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant for the period consistent with the expected term. The expected dividends were based on the Company's history and expectation of dividend payouts. The expected term was based on the average of the vesting period and contractual term.

For the stock options granted in 2014, the fair value of each option award was estimated on the date of grant using the Black-Scholes framework that uses the assumptions noted in the table below. The expected volatility was based on NOV's actual volatility for traded options for the past 10 years prior to grant date. The risk-free rate was based on observed interest rates appropriate for the term of the employee stock options. The expected dividends were based on NOV's history and expectation of dividend payouts. The expected term was based on NOV's actual employee exercise activity for the past ten years.

	Year Ended December 31,		
	2016	2015	2014
Valuation Assumptions:			
Expected volatility	44.0%	41.2%	50.0%
Risk-free interest rate	1.3%	1.4%	0.9%
Expected dividends (per share)	$ —	$ —	$ 0.75
Expected term (in years)	4.5	4.5	3.4

The following table summarizes award activity for stock options:

Stock Options[(1)]	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2015	3,990	$ 29.81		
Granted	978	14.02		
Forfeited	(95)	22.75		
Exercised or settled	(20)	14.06		
Outstanding as of December 31, 2016	4,853	$ 26.83	5.7	$ 7
Exercisable at December 31, 2016	3,225	$ 30.58	5.5	$ 1

(1) All stock option awards presented in this table are for NOW stock only.

The weighted-average grant-date fair value of options granted for the years ended December 31, 2016 and 2015 was $5.29 and $8.06, respectively. The total intrinsic value of options exercised for the years ended December 31, 2016, 2015, and 2014 was less than $1 million. As of December 31, 2016, unrecognized compensation cost related to stock option awards was $6 million, which is expected to be recognized over a weighted average period of 1.5 years.

Restricted Stock Awards and Restricted Stock Units

The goal of time-based restricted stock grants is to serve as a key retention tool for the Company to retain its executives and key employees. Restricted stock will have value to the executive even if the Company's stock price falls below the price on the date of grant, provided that the executive remain employed during the period required for the award to "vest."

Restricted stock generally cliff vests after 1, 3, 4 or 6 years. The grant-date fair value of restricted stock grants is determined using the closing quoted market price on the grant date. Additionally, the Company's restricted stock agreements provide for full vesting of restricted stock in the event of a change of control of the Company and a change in the holder's responsibilities following a change in control of the Company.

The following table summarizes award activity for restricted stock awards and restricted stock units:

RSAs / RSUs[(1)]	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested as of December 31, 2015	2,384	$ 29.31
Granted	295	14.71
Vested[(2)]	(341)	28.23
Forfeited	(27)	25.52
Nonvested as of December 31, 2016	2,311	$ 27.66

(1) All RSUs and RSAs presented in this table are for NOW stock only.
(2) 105 thousand shares were withheld and retired from the vesting of shares to employees to satisfy minimum tax withholding.

The weighted average grant-date fair value was $14.71, $22.59, and $29.02 for RSA and RSU granted for the years ended December 31, 2016, 2015, and 2014, respectively. As of December 31, 2016, unrecognized compensation cost related to RSAs and RSUs was $31 million, which is expected to be recognized over a weighted average period of 2.6 years. The total vest-date fair value of shares vested for the years ended December 31, 2016, 2015, and 2014 was $6 million, $4 million, and $0, respectively.

Performance Stock Awards

The goal of the performance-based share award program is to provide a compensation program that is also competitive within the industry while directly linking a significant portion of the executive's compensation to the financial performance of the Company. The performance-based share awards received by the executives have value only if the Company's designated financial performance objectives are met and exceeded. Additionally, the holder must also remain employed during the period required for the award to "vest", thus providing an additional incentive for the award holder to remain employed by the Company. This at-risk component of compensation focuses executives on achieving strong financial performance for the Company over the long-term.

Performance stock awards generally have a 3-year vesting period from the grant date and vest at the end of the vesting period. The grant-date fair value of market-condition performance stock grants is determined using a Monte Carlo simulation probabilistic model. The grant-date fair value of performance-condition performance stock grants is determined using the closing quoted market price on the grant date. Additionally, the Company's performance award agreements provide for full vesting of performance awards in the event of a change of control of the Company and a change in the holder's responsibilities following a change in control of the Company.

For the year ended December 31, 2016, the Company granted PSAs to senior management employees with potential payouts varying from zero to 318,722 shares. The PSAs can be earned over a three-year performance period, based on three equal, independent parts that are subject to three separate performance metrics: (i) one-third of the PSAs have a Total Shareholder Return (TSR) metric (market-condition), (ii) one-third of the PSAs have an EBITDA metric (performance-condition), and (iii) one-third of the PSAs have a Working Capital (WC) metric (performance-condition).

Performance against the TSR metric is determined by comparing the performance of the Company's TSR with the TSR performance of designated peer companies for the three year performance period. Performance against the EBITDA metric is determined by comparing the performance of the Company's actual EBITDA average for each of the three-years of the performance period against the EBITDA metrics set by the Company's Compensation Committee of the Board of Directors. Performance against the WC metric is determined by comparing the performance of the Company's actual WC average for each of the three-years of the performance period against the WC metrics set by the Company's Compensation Committee of the Board of Directors.

The following table summarizes award activity for performance stock awards:

PSAs	Shares *(in thousands)*	Weighted-Average Grant-Date Fair Value
Nonvested as of December 31, 2015	73	$ 24.34
Granted	169	16.47
Vested	—	—
Forfeited	(9)	19.83
Nonvested as of December 31, 2016	233	$ 18.81

The weighted- average grant-date fair value of PSAs granted for the years 2016 and 2015 was $16.47 and $24.34, respectively. As of December 31, 2016, unrecognized compensation cost related to PSAs was $2 million, which is expected to be recognized over a weighted average period of 1.8 years.

18. Quarterly Financial Data (Unaudited)

Summarized quarterly results, were as follows (in millions, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 2016				
Revenue	$ 548	$ 501	$ 520	$ 538
Operating expenses				
Cost of products	461	418	433	450
Warehousing, selling and administrative	152	140	140	135
Operating loss	(65)	(57)	(53)	(47)
Other expense	(2)	(2)	(3)	(1)
Loss before income taxes	(67)	(59)	(56)	(48)
Income tax provision (benefit)	(4)	(15)	—	23
Net loss	$ (63)	$ (44)	$ (56)	$ (71)
Loss per share:				
Basic loss per common share	$ (0.59)	$ (0.40)	$ (0.53)	$ (0.66)
Diluted loss per common share	$ (0.59)	$ (0.40)	$ (0.53)	$ (0.66)
Weighted-average common shares outstanding, basic	107	107	107	107
Weighted-average common shares outstanding, diluted	107	107	107	107
Year ended December 31, 2015				
Revenue	$ 863	$ 750	$ 753	$ 644
Operating expenses				
Cost of products	708	626	636	538
Warehousing, selling and administrative	163	151	153	152
Impairment of goodwill	—	—	255	138
Operating loss	(8)	(27)	(291)	(184)
Other expense	(4)	(2)	—	(2)
Loss before income taxes	(12)	(29)	(291)	(186)
Income tax provision (benefit)	(2)	(10)	(67)	63
Net loss	$ (10)	$ (19)	$ (224)	$ (249)
Loss per share:				
Basic loss per common share	$ (0.09)	$ (0.18)	$ (2.09)	$ (2.33)
Diluted loss per common share	$ (0.09)	$ (0.18)	$ (2.09)	$ (2.33)
Weighted-average common shares outstanding, basic	107	107	107	107
Weighted-average common shares outstanding, diluted	107	107	107	107

19. Employee Bargaining Agreements and Benefit Plans

Collective bargaining agreements

At December 31, 2016 the Company had approximately 4,500 employees, of which approximately 300 were temporary employees. Some of the Company's employees in various foreign locations are subject to collective bargaining agreements. Less than one percent of the Company's employees in the U.S. are subject to collective bargaining agreements.

Benefit plans

The Company has benefit plans covering substantially all of its employees. Defined contribution benefit plans cover most of the U.S. and Canadian employees, and benefits are based on years of service, a percentage of current earnings and matching of employee contributions. For the years ended December 31, 2016, 2015 and 2014, employer contributions for defined contribution plans were $13 million, $14 million, and $13 million, respectively, and all funding is current.

Defined Benefit Pension Plans

The company sponsors two defined benefit plans in the UK which are frozen.

Net periodic benefit cost for the Company's defined benefit plans aggregated less than $1 million each year for the years ended December 31, 2016, 2015 and 2014.

The change in benefit obligation, plan assets and the funded status of the defined benefit pension plans in the United Kingdom using a measurement date of December 31, 2016 and 2015, are as follows (in millions):

	Pension Benefits	
At year end	**2016**	**2015**
Benefit obligation at beginning of year	$ 16	$ 4
Interest cost	1	1
Actuarial loss (gain)	3	(1)
Benefits paid	(1)	—
Plan settlements	(3)	—
Foreign currency exchange rate changes	(3)	(1)
Acquisitions (disposals)	—	13
Benefit obligation at end of year	13	16
Fair value of plan assets at beginning of year	$ 18	$ 5
Actual return	2	(1)
Benefits paid	(1)	—
Company contributions	1	1
Plan settlements	(3)	—
Foreign currency exchange rate changes	(2)	—
Acquisitions (disposals)	—	13
Fair value of plan assets at end of year	15	18
Funded status	2	2
Accumulated benefit obligation at end of year	13	16

The net asset is presented within other assets on the consolidated balance sheet.

Assumed long-term rates of return on plan assets and discount rates vary for the different plans according to the local economic conditions. The assumption rates used for benefit obligations are as follows:

	Years Ended December 31,	
	2016	**2015**
Discount rate:	2.70%	3.70%

The assumption rates used for net periodic benefit costs are as follows:

	Years Ended December 31,		
	2016	**2015**	**2014**
Discount rate:	3.70%	3.10% - 3.90%	3.90% - 4.40%
Expected return on assets:	4.04% - 4.50%	2.13% - 5.50%	5.50%

In determining the overall expected long-term rate of return for plan assets, the Company takes into consideration the historical experience as well as future expectations of the asset mix involved. As different investments yield different returns, each asset category is reviewed individually and then weighted for significance in relation to the total portfolio.

Both plans have plan assets in excess of projected benefit obligations.

The Company expects to pay future benefit amounts on its defined benefit plans of less than $1 million for each of the next five years and in the aggregate $3 million for the five years thereafter. The Company expects to contribute less than $1 million to its pension plans in 2017.

Plan Assets

The Company and its investment advisers collaboratively reviewed market opportunities using historic and statistical data, as well as the actuarial valuation reports for the plans, to ensure that the levels of acceptable return and risk are well-defined and monitored. Currently, the Company's management believes that there are no significant concentrations of risk associated with plan assets.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets carried at fair value (in millions):

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
December 31, 2015:				
Equity securities	$ 10	$ 10	$ —	$ —
Fixed Income Securities	3	3	—	—
Other	5	—	5	—
Total Fair Value Measurements	$ 18	$ 13	$ 5	$ —
December 31, 2016:				
Equity securities	$ 8	$ 8	$ —	$ —
Fixed Income Securities	3	3	—	—
Other	4	—	4	—
Total Fair Value Measurements	$ 15	$ 11	$ 4	$ —

20. Acquisitions

2016 Acquisition

On June 1, 2016, the Company acquired Power Service, Inc., Industrial Tool & Repair, Inc. and Power Transportation LLC (collectively, "Power Service") for a purchase price consideration of $178 million, including $175 million cash paid and $3 million accrual which was subsequently paid in January 2017. Power Service is known as a premier one-stop shop for modularized well hook-ups. This acquisition primarily expands NOW's market in the western United States. The Company has included the financial results of the acquisition in its consolidated financial statements from the date of the acquisition.

As of December 31, 2016, the Company completed its preliminary valuations of this acquisition as of the acquisition date and recognized goodwill of $117 million and intangible assets of $45 million which is subject to change. If additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the date of acquisition), the Company will refine its estimate of fair value to allocate the purchase price more accurately; any such revisions are not expected to be significant.

The measurement period adjustments are shown below, primarily as a result of making an election under Internal Revenue Code Section 338(h)(10) to treat the acquisition of Power Service, Inc. as an asset acquisition for U.S. tax purposes during the fourth quarter of 2016 (see Note 9 "Income Taxes"). Following is the purchase price allocation detail and the measurement period adjustments (in millions):

	As initially reported	Measurement period adjustments	December 31, 2016 (as adjusted)
Net purchase price	$ 176	$ 2	$ 178
Fair value of net assets acquired:			
Current assets other than cash	26	(1)	25
Property, plant and equipment	12	—	12
Trade names (estimated useful lives of 20 years)	21	(1)	20
Customer relationships (estimated useful lives of 10 years)	25	—	25
Current liabilities	(19)	(1)	(20)
Deferred tax liabilities	(19)	18	(1)
Total fair value of net assets acquired	$ 46	$ 15	$ 61
Goodwill[1]	$ 130	$ (13)	$ 117

(1) The amount of goodwill represents the excess of its purchase price over the fair value of net assets acquired. Goodwill includes the expected benefits that the Company believes will result from combining its operations with those of businesses acquired. The amount of goodwill recognized that is expected to be deductible for income tax purposes is $114 million.

The Purchase Agreement with Power Service contains non-compete agreements with certain employees. The Company identified these agreements as a separate transaction and recognized a non-compete intangible asset of $7 million with a two-year life. Amortization expense for these agreements recognized for the year ended December 31, 2016 was approximately $2 million.

The Company recognized $2 million in acquisition-related costs for the year ended December 31, 2016. The Company has not presented supplemental pro forma information because the acquired operations did not materially impact the Company's consolidated operating results.

2015 Acquisitions

For the year ended December 31, 2015, the Company completed eight acquisitions for an aggregate purchase price consideration of approximately $544 million in cash. These acquisitions primarily expand NOW's market in Australia, Canada, Mexico, Norway, the Philippines, the United Kingdom and the United States. The Company has included the financial results of the acquisitions in its consolidated financial statements from the date of acquisition. In connection with one of the acquisitions, the Company agreed to make contingent consideration payments of up to $6 million upon the attainment of certain profitability milestones. At the acquisition date, the Company estimated the fair value for contingent consideration to be approximately $4 million by using a Monte Carlo simulation using level 3 inputs because the fair value was derived using significant unobservable inputs, which include discount rates and probability-weighted cash flows. Changes in fair value of the contingent consideration liability subsequent to the acquisition date, such as changes in the probability assessment, are recognized in the period when the change in estimated fair value occurs. For the year ended December 31, 2016, the Company recognized less than $1 million gain in warehousing, selling and administrative in the accompanying consolidated statements of operations.

The Company completed its valuations as of the applicable acquisition dates of the acquired net assets and recognized goodwill of $276 million and intangible assets of $103 million. An aggregated working capital adjustment of $6 million was recognized during the measurement period for the year ended December 31, 2015.

The following table summarizes the consideration paid for the eight acquisitions and the assets acquired and liabilities assumed recognized (in millions):

	As of December 31, 2015	
Purchase price including contingent consideration		$ 544
Less: cash acquired		(29)
Net purchase price		515
Fair value of net assets acquired:		
Current assets other than cash	181	
Property, plant and equipment	59	
Trade names (estimated useful lives of 1-20 years)	24	
Customer relationships (estimated useful lives of 6-10 years)	79	
Current liabilities	(72)	
Deferred tax liabilities	(31)	
Other non-current liability	(1)	
Total fair value of net assets acquired		239
Goodwill [(1)]		276

(1) The amount of goodwill represents the excess of its purchase price over the fair value of net assets acquired. Goodwill includes the expected benefits that the Company believes will result from combining its operations with those of businesses acquired. An immaterial amount of the goodwill recognized is expected to be deductible for income tax purposes.

For the year ended December 31, 2015, the Company recognized $6 million in acquisition-related costs. Actual results included in the consolidated statements of operations for the Company's acquisitions consist of approximately $341 million revenues and $171 million net loss for the year ended December 31, 2015.

Pro Forma Financial Information (unaudited)

The following unaudited pro forma information has been presented as if the acquisitions occurred on January 1, 2014. This information is based on historical results of operations, adjusted to give effect to pro forma events that are directly attributable to the acquisitions and factually supportable. Additionally, certain pro forma adjustments have been made to the historical results in order to (i) present them in U.S. dollars; (ii) align accounting periods; (iii) conform their statutory income tax rates to those applied by the Company; (iv) reflect the increase of cost of goods sold, depreciation and amortization from the fair value step-up as if the acquisitions had occurred on January 1, 2014.

The pro forma information is for informational purposes only and is not indicative of the results of operations that would have been achieved had the acquisitions occurred at the beginning of fiscal year 2014 (in millions).

	Year Ended December 31,	
	2015	2014
Revenue	$ 3,255	$ 4,847
Net loss	$ (482)	$ (131)

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