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, 2020

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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01	DNOW	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

☒ Large accelerated filer	☐ Accelerated filer
☐ Non-accelerated filer	☐ Smaller reporting company
	☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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, 2020 was $0.9 billion. As of February 10, 2021, there were 109,951,610 shares of the Company's common stock (excluding 574,022 unvested restricted shares) outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement in connection with the 2021 Annual Meeting of Stockholders are incorporated in Part III of this report.

NOW INC.

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Note About Forward-Looking Statements

This report includes estimates, projections, statements relating to our business plans, objectives and expected operating results that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” 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 NOV Inc., formerly 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”. 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.

Overview

We are a global distributor to the oil and gas and industrial markets with a legacy of over 150 years. We operate primarily under the DistributionNOW and DNOW brands. Through a network of approximately 195 locations and approximately 2,500 employees worldwide, we offer a complementary suite of digital procurement channels, in conjunction with our locations, that provides products to the energy and industrial markets around the world.

Additionally, through our growing DigitalNOW® platform, customers can leverage world-class technology across ecommerce, data management and supply chain optimization applications to solve a wide array of complex operational and product sourcing challenges to assist in maximizing their return on assets.

Our energy product offering is consumed throughout all sectors of the energy industry – from upstream drilling and completion, exploration and production (“E&P”), midstream infrastructure development to downstream petroleum refining and petrochemicals – as well as in other industries, such as chemical processing, mining, utilities and renewables. The industrial distribution end markets include engineering and construction firms that perform capital and maintenance projects for their end user clients. We also provide supply chain and materials management solutions to the same markets where we sell products.

Our global product offering includes consumable maintenance, repair and operating (“MRO”) supplies, pipe, valves, fittings, flanges, gaskets, fasteners, electrical, instrumentation, artificial lift, pumping solutions, valve actuation and modular process, measurement and control equipment. We also offer procurement, warehouse and inventory management solutions as part of our supply chain and materials management offering. We have developed expertise in providing application systems, work processes, parts integration, optimization solutions and after-sales support.

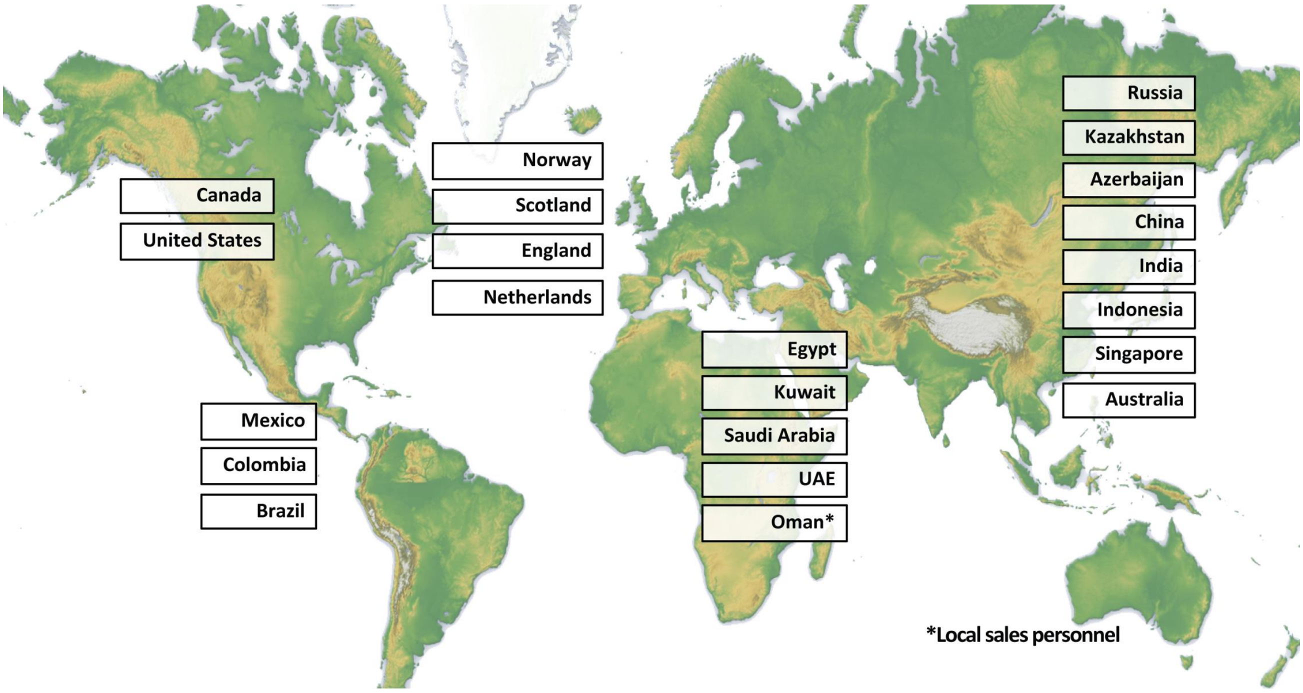
Our solutions include outsourcing portions or entire functions of our customers’ procurement, warehouse and inventory management, logistics, point of issue technology, project management, business process and performance metrics reporting. These solutions allow us to leverage the infrastructure of our SAP™ Enterprise Resource Planning (“ERP”) system and other technologies to streamline our customers' purchasing process, from requisition to procurement to payment, by digitally managing workflow, improving approval routing and providing robust reporting functionality.

We support land and offshore operations for the major oil and gas producing regions around the world through our network of 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 expansion upstream capital projects, midstream infrastructure and transmission and MRO consumables used in day-to-day production. We provide downstream energy and industrial products for petroleum refining, chemical processing, liquefied natural gas ("LNG") terminals, power generation utilities 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 are 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, warehouse and inventory management and logistics coordination to our customers around the globe. Having a common ERP platform allows immediate visibility into our inventory assets, operations and financials worldwide, enhancing decision making and efficiency.

Global Operations



Demand for our products is driven primarily by the level of oil and gas drilling, completions, servicing, production, transmission, refining and petrochemical activities. It is also influenced by the global supply and demand for energy, the economy in general and geopolitics. Several factors drive spending, such as investment in energy infrastructure, the North American conventional and shale plays, 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, Russia, Saudi Arabia, Scotland, Singapore, the United Arab Emirates ("UAE") 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 Consolidated Financial Statements (Part IV, Item 15 of this Form 10-K) is also presented on this basis.

United States

We have approximately 130 locations in the U.S., which are geographically positioned to best serve the upstream, midstream and downstream energy and industrial 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 and production equipment, fluid transfer products, measurement and controls, spoolable and coated steel-pipe and composite pipe, along with many other products required by our customers, which enable them to focus on their core business while we manage varying degrees of their supply chain. We also 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.

During 2020, in order to align with the updates to the operational and management structure, we combined the U.S. Supply Chain and U.S. Energy operating segments within the U.S. reportable segment.

Canada

We have a network of approximately 40 locations in the Canadian oilfield, predominately in the oil rich provinces of Alberta, Saskatchewan, Manitoba and other targeted locations across the country. Our Canada segment primarily serves 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 approximately 25 locations outside 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 North America, as our customers turn to us to provide products and supply chain solutions support closer to their drilling and exploration activities. Our long legacy of operating in many international regions, combined with significant expansion into several 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. As a distributor of energy and industrial markets, we offer a wide array of products and supply chain services.

We offer our products, services and supply chain solutions across the entire energy value chain, from onshore and offshore drilling of oil and gas, to the exploration and production of oil and gas, the separation, transfer, and disposal of produced water, to the midstream gathering, processing and transmission of oil, gas, water, natural gas liquids ("NGLs"), LNG, and refined petroleum products, to the downstream refining of oil, and the manufacturing of petrochemicals and specialty chemicals. In addition, we provide our products, services and supply chain solutions to other end markets including mining and minerals, municipal water and wastewater and industrial manufacturing.

We provide drilling products, MRO consumables, safety and original equipment manufacturer ("OEM") equipment for land drilling rigs, workover rigs and initial offshore drilling rig load outs. Once rigs are contracted, commissioned and deployed, we seek to replace material and inventory consumed during drilling operations. We couple the sale of products with supply chain services in the form of inventory planning, inventory management and warehouse management. We provide a full suite of process and production equipment, pumps and compressor packages, artificial lift, steel, fiberglass and composite pipe, valves and fittings ("PVF"), instrumentation and measurement, and safety and personal protective equipment ("PPE") in the exploration, production, separation, storage and gathering of oil and gas, as well as the separation, removal, storage and transfer of produced water.

To minimize air emissions, we provide vapor recovery systems to capture and transfer gas and volatile organic compounds during the separation and storage of oil, gas and water from operating reservoirs. For produced water, we provide fluid movement products that help our customers environmentally dispose of water. For oil streams, we provide products that measure the quality and quantity of oil and gas through the separation process and prior to distribution to the midstream sector. We offer a variety of fluid movement solutions ranging from standard to engineered pump packages and a wide variety of American Society of Mechanical Engineers ("ASME") fabricated process and production equipment to remove water and contaminants prior to the midstream transfer of oil, NGLs and other refined products within the midstream sector. For gas processing and gas conditioning, we offer a full suite of PVF and ASME coded fabricated process equipment to efficiently and economically process and condition gas for transfer to end markets. Many of the terminals and tank farms used in the midstream space to facilitate the storage and distribution of oil, gas, NGLs, LNG, and other hydrocarbon-based fluids utilize our products. Across many of the process industries where we provide valves, we offer low emission stem packing options to help reduce emissions. We provide PVF, pumps, safety, PPE, supply chain and safety services to the refining, petrochemical, chemical and industrial industries. Our products are consumed from industrial customer's daily MRO expenditures, customer capital projects in the form of existing plant expansions, new plant facilities, as well as planned and unplanned maintenance of processing units.

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 for our customers. 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, midstream and downstream 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. These branches serve a geographical radius and provide delivery of products and solutions. A number of locations that service these same customers provide a complementary and expanded set of supply chain services in conjunction with the sale of products.

The distribution channel includes sales and operations professionals 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. The primary product offering includes line pipe, valves, fabrication, valve actuation, fittings and flanges, pumps, OEM equipment, electrical products, mill supplies, tools, safety supplies, PPE, applied products and applications, such as artificial lift systems, coatings and miscellaneous expendable items. We couple the sale of products with supply chain services in the form of inventory planning, inventory management and warehouse management. Supply chain services can be customized to a customer's requirements and guided by a strategic framework to reduce direct material expenditures and 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 experts, technical professionals and licensed engineers who provide expertise related to pumps, compressors and fluid movement packages, fabricated liquid and gas measurement systems and process and production equipment. Process Solutions distributes OEM equipment including pumps, generator sets, air and gas compressors, dryers, blowers, mixers and valves. Within our process and production equipment category, we produce customer lease automatic custody transfer ("LACT") units, vapor recovery units, gas meter runs, ASME code vessels in the form of separators, heater treaters, gas conditioning systems, towers, reactors, condensate stabilizers, slug catchers and pressurized bullet tanks, pig launchers and receivers and water transfer and disposal units. After-market services include rental, machining and repair service from a team of field mechanics located throughout the central U.S.

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 design a modular tank battery that enables flexibility and scalability for current and future production, while expediting revenue generation by reducing the time to complete a tank battery and getting oil and gas into the pipeline earlier. This solution saves our customers time and expense related to well hookup and tank battery commissioning and reduces field incident exposures due to a reduced labor requirement for battery construction.

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. Customers can procure products through our direct branch model or through our ecommerce site, *http://shop.dnow.com*. 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.

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 and with online ecommerce sites, 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., MRC Global, Inc., Russel Metals, Inc., DXP Enterprises, Inc. and FloWorks International LLC. In the industrial market, some of the larger companies against whom we compete include Ferguson Enterprises, Inc., W.W. Grainger Inc., HD Supply, Inc., Wesco International 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.

Human Capital Resources

At December 31, 2020, we had approximately 2,500 employees, of which approximately 100 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 place a strong emphasis on employee growth and development and provide opportunities for valued contribution and innovation.

Training and Development Programs

The skills, knowledge and capabilities of our people are central to our success. We have developed training courses and programs, including a robust online learning platform providing our employees an opportunity for professional development.

We recognize that the advancement and empowerment of our workforce drives a better quality of work and life for our employees, ultimately resulting in the delivery of exceptional service to our customers. As such, we have designed a range of professional and leadership development programs focused on helping our employees reach their career goals.

Recognizing Employees

Recognition of individual achievements and contributions is an important part of our culture. Our Customer Priority One program encourages customers, peers and leaders to recognize DNOW employees, customers or vendors who exemplify DNOW's commitment to customer service. We also award Milestone Service Awards to employees for their years of service and dedication of time to our Company, which recognize employees at each five-year service anniversary.

Workforce Diversity and Inclusion

We are committed to advancing an inclusive environment where diversity is appreciated and encouraged, and everyone has a sense of belonging throughout our organization. We recognize the opportunity to drive diversity in our workforce through talent acquisition and retention because we know that one of our greatest strengths is the diversity of our team. We recognize that having a team with a broad range of experience, cultural characteristics and varying perspectives fortifies our brand. We believe in advocating for diversity within our workforce by employing women and men of varying cultures, nationalities and backgrounds to work together to achieve a common goal.

To find the best employees, we must have a diverse pipeline of talent. We have expanded recruiting efforts with diverse organizations so we can reach a broader pool of candidates. We create a culture where all employees can strive to be their best, to achieve company goals and to deliver superior service to our customers. As of December 31, 2020, our U.S. workforce was comprised of approximately 25% female and 31% racial minorities.

We recognize that we are an integral part of the communities in which we operate. By directly engaging people in the communities we serve, we create a transparent dialogue to try and listen and learn from alternative views in how we conduct our business. The strengthening of minority- and women-owned businesses contributes to the overall economic growth of DNOW and the expansion of our markets.

Workforce Health and Safety

Safety is at the center of our actions. Simply put, we act with high priority on health and safety in our workplace and in the communities where we operate. Our safety culture is driven through our health, safety and environment ("HSE") management system beginning with our HSE Policy Statement, which sets the tone for our company's commitment to safety. A one-page, top-level document, expressly approved by our senior management team, the HSE Policy Statement outlines our expectations for all employees, vendors, customers, contractors, subcontractors and third parties. This HSE Policy Statement, combined with our HSE guiding principles, corporate policies and procedures and our business level HSE policies and procedures, makes up our management system, which is overseen both with corporate supervision and field level management to ensure emphasis is consistent on proper and safe behaviors.

Sustainability

We can assist in reducing emissions of greenhouse gases in our operations by creating a more efficient supply chain. An efficient supply chain can help reduce the carbon footprint of deliveries to our distribution centers and branches and, ultimately to our customers. Use of our large centralized and regional distribution centers allow us to aggregate product across multiple suppliers and customers, which, in turn, prevents each customer from separately creating duplicative supply chains that require fuel for deliveries and resources to manage.

As a distributor, we perform minimal manufacturing operations. We do not utilize large amounts of water. Our energy inputs are primarily electricity for lighting, heating and office and warehouse equipment, natural gas for heating and gasoline for company sales and delivery vehicles. We strive to make our operations more efficient, and in turn try to work to reduce use of these resources and resulting emissions. We have recycling programs to try and reduce waste from used cardboard, office paper and other recyclables. However, recycling programs are sometimes limited by the unavailability of users, haulers or purchasers for recyclable materials at reasonable costs.

We are a distributor of products that contain and control the movement of gases and fluids in an efficient and sustainable manner. The products we sell are designed by the manufacturers of those products to prevent and minimize accidental leaks of hydrocarbons. Additionally, we offer product lines that further aid in the mitigation of environmental impact. Examples of such products include: domestically produced goods; low emission rated valves; steel piping products produced from recycled scrap; and pipe produced using wind power, recycled water, and wood pellet inputs.

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.dnow.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. These risks 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 Risk and the consolidated financial statements and related notes included in this Form 10-K.

Risks Relating to Our Business

The COVID-19 pandemic has adversely affected our business, and the ultimate effect on our operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic has adversely affected the global economy, disrupted global supply chains and created significant volatility in the financial markets. In addition, the pandemic has resulted in travel restrictions, business closures and the institution of quarantining and other restrictions on movement in many communities. As a result, there has been a significant reduction in demand for and prices of crude oil, natural gas and natural gas liquids ("NGLs"). If the reduced demand for and prices of crude oil, natural gas and NGLs continue for a prolonged period, our operations, financial condition and cash flows may be materially and adversely affected. Our operations also may be adversely affected if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. We have already implemented workplace restrictions, including guidance for our employees to work remotely if able, in our offices and work sites for health and safety reasons and are continuing to monitor national, state and local government directives where we have operations or offices. The extent to which the COVID-19 pandemic adversely affects our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, the resurgence of cases, stay-at-home orders and other similar restrictions.

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. In addition, after a well is drilled, there can be a lag between when the well is drilled and when it is completed, which causes a delay in the demand for some of our products. 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") and certain non-OPEC countries, such as Russia, to maintain price stability through voluntary production limits, the level of production by other non-OPEC countries, such as the United States, and worldwide demand for oil and gas;
- the impact of public health crises, such as the COVID-19 pandemic, on worldwide demand for oil and gas;
- the level of production from known reserves;
- the cost of exploring for and producing oil and gas;
- limits on access to capital and investor demands for capital discipline;
- the level of drilling activity and drilling rig day rates;
- worldwide economic activity;
- national government political requirements;

- changes in governmental regulations;
- 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 the 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. 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 over capacity 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, battery power, 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 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 and non-OPEC countries, such as Russia, 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;
- public health crises, such as the COVID-19 pandemic that began in 2020;
- environmental regulation;
- import duties and tariffs;

- 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 decreased from 796 rigs on January 3, 2020 to 351 rigs on December 31, 2020. U.S. rig count averaged 436 rigs in 2020. U.S. rig count at January 22, 2021 was 378 rigs. The price for West Texas Intermediate crude was $47.47 per barrel at January 4, 2021, $61.17 per barrel on January 2, 2020 and $46.31 per barrel on January 2, 2019. 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 public health crises, interest rates, recession, inflation, deflation, customer credit availability, consumer credit availability, consumer debt levels, performance of housing markets, energy costs, tariffs, 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 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. 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 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.

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. If our information systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to manage inventories or process transactions, which could result in lost sales, inability to process purchase orders and/or a potential loss of customer loyalty, which could adversely affect our results of operations. 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.

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 four primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our Company's image, financial loss 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. Our security measures may be undermined due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data systems and misappropriate business and personal information. Our systems are subject to repeated attempts by third parties to access information or to disrupt our systems. Such disruptions or misappropriations and the resulting repercussions, including reputational damage and legal claims or proceedings, may adversely affect our results of operations, cash flows and financial condition, and the trading price of our common stock.

Privacy concerns relating to our personal and business information being potentially breached could damage our reputation and deter current and potential users or customers from using our products and services.

We have security measures and controls to protect personal and business information and continue to make investments to secure access to our information technology network. These measures may be undermined, however, due to the actions of outside parties, employee error, internal or external malfeasance, or otherwise, and, as a result an unauthorized party may obtain access to our data systems and misappropriate business and personal information. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques, timely discover or counter them, or implement adequate preventative measures. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and potentially have an adverse effect on our business and results of operations.

Certain of our borrowings based on the London Interbank Offered Rate ("LIBOR") may be adversely impacted by the scheduled phase out of LIBOR.

The Financial Conduct Authority, which regulates LIBOR, has announced that it will not compel panel banks to contribute to LIBOR after 2021. It is likely that banks will not continue to provide submissions for the calculation of LIBOR after 2021 and possibly prior to then. Similarly, it is not possible to know whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may have on the financial markets for LIBOR-linked financial instruments.

Borrowings under our revolving credit facility bear an interest rate at the Company's option, which includes LIBOR. There may be alternatives to this benchmark, but there are no assurances they will be available to the Company. The usage of interest rates other than LIBOR could result in increased borrowing costs to the Company.

Risks Relating to Our Supply Chain and International Trade Policies

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, or trade wars. 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.

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.

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 pipe 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 steel-related products could put pressure on the prices we receive for such 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.

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 pipe and on other imports of certain steel products that we sell. If these tariffs and duties are lifted or reduced, 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 there would be increased supplies of these products which would drive down prices and affect our margins on our domestic or other alternate products that compete with the new imports that have tariffs or duties removed. If prices of these products were to decrease significantly, we might not be able to profitably sell these products we have in our inventory and the value would decline. In addition, significant price decreases could result in a significantly longer holding period for some of our inventory.

Changes in trade policies, including the imposition of additional tariffs, could negatively impact our business, financial condition and results of operations.

The current United States administration has signaled support for implementing, and in some instances, has already proposed or taken action with respect to, major changes to certain trade policies, such as the imposition of additional tariffs on imported products and the withdrawal from or renegotiation of certain trade agreements, including the North American Free Trade Agreement. On March 8, 2018, the President of the United States signed an order to impose a tariff of 25% on steel imported from certain countries under the Section 232 rule. The tariff did result in an increase in our cost of sales, and if removed could trigger a decrease in our cost of sales and inventory value. The U.S. has also imposed tariffs on China under section 301 that has affected the cost of certain products. These tariffs are subject to change as trade negotiations continue. If these tariffs were removed, it could drive down the costs of certain products and affect our inventory value which could affect our margin negatively. There can be no assurance that we will be able to pass any of the increases in raw material costs directly resulting from the tariffs to our customers.

In addition, there could be additional tariffs imposed by the United States and these could also result in additional retaliatory actions by the United States' trade partners. Given that we procure many of the raw materials that we use to create our products directly or indirectly from outside of the United States, the imposition of tariffs and other potential changes in U.S. trade policy could increase the cost or limit the availability of such raw materials, which could hurt our competitive position and adversely impact our business, financial condition and results of operations. In addition, we sell a significant proportion of our products to customers outside of the

United States. Retaliatory actions by other countries could result in increases in the price of our products, which could limit demand for such products, hurt our global competitive position and have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Legal and Regulatory Matters

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 (also known as "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.

In December 2015, over 190 countries, including the United States, reached an agreement to reduce global greenhouse gas emissions (the "Paris Agreement"). The Paris Agreement entered into force in November 2016 after more than 70 nations, including the United States, ratified or otherwise indicated their intent to be bound by the agreement. In November 2019, the United States formally initiated the process for withdrawing from the Paris Agreement and the withdrawal was effective November 4, 2020. President Joe Biden has stated that he intends to rejoin the Paris Agreement. The terms on which the United States will re-enter the Paris Agreement are uncertain at this time. However, after rejoining the United States will likely need to submit updated emission reduction targets. To the extent that the United States implements this agreement or imposes other climate change regulations on the oil and natural gas industry, or that investors insist on compliance regardless of legal requirements, it could have an adverse effect on our business.

The energy business has benefited from the Trump Administration's de-regulatory push. The Biden administration is expected to aggressively seek to regulate the energy industry and seek to eliminate in time the use of fossil fuels. This regulatory push will be magnified as the Democrats also control both houses of Congress. 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 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).

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.

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 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 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, 2020, our three reporting segments, the United States, Canada and International, had approximately 130, 40 and 25 locations, respectively. International countries include: Australia, Azerbaijan, Brazil, China, Colombia, Egypt, England, India, Indonesia, Kazakhstan, Kuwait, Mexico, Netherlands, Norway, Oman, Russia, Saudi Arabia, Scotland, Singapore and UAE. Our properties are comprised of offices, distribution centers and branches, approximately 85% of which are leased. One owned facility is pledged as collateral under our senior secured revolving credit facility discussed in Note 10 “Debt” of the Notes to Consolidated Financial Statements (Part IV, Item 15 of this Form 10-K); all other 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 12 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements (Part IV, Item 15 of this Form 10-K) for additional information.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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".

Our board of directors has not declared any dividends during 2018, 2019 or 2020 and currently has no intention to declare dividends.

As of January 31, 2021, there were 1,888 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.

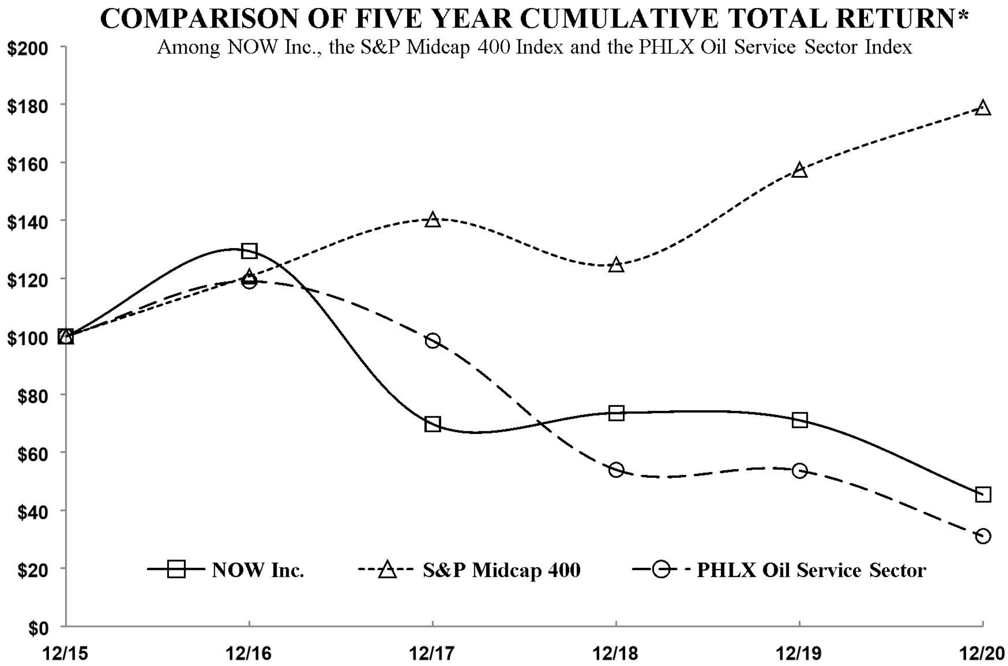
The following table presents a summary of share repurchases made during the three months ended December 31, 2020:

Period	Total number of shares (or units) purchased (a)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
October 1 - 31	—	$ —	$ —	$ —
November 1 - 30	219,825	5.67	—	—
December 1 - 31	2,476	6.69	—	—
	222,301	**$ 5.68**	**$ —**	**$ —**

(a) During the three months ended December 31, 2020, 223,301 shares of the Company's common stock were withheld and retired from the vesting of shares to employees in connection with the settlement of tax withholding obligations arising from vesting in restricted stock grants.

Performance Graph

The graph below compares the cumulative five year total return provided shareholders on NOW Inc.'s common stock relative to the cumulative total returns of the S&P Midcap 400 index and the PHLX Oil Service Sector index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on December 31, 2015 and its relative performance is tracked through December 31, 2020.



*$100 invested on 12/31/15 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/15	12/16	12/17	12/18	12/19	12/20
NOW Inc.	$ 100	$ 129	$ 70	$ 74	$ 71	$ 45
S&P Midcap 400	$ 100	$ 121	$ 140	$ 125	$ 157	$ 179
PHLX Oil Service Sector	$ 100	$ 119	$ 99	$ 54	$ 54	$ 31

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

None.

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

Basis of Presentation

The accompanying consolidated financial information include the accounts of the Company and its consolidated subsidiaries. All significant intercompany transactions and accounts have been eliminated.

General Overview

We are a global distributor to the oil and gas and industrial markets with a legacy of over 150 years. We operate primarily under the DistributionNOW and DNOW brands. Through our network of approximately 195 locations and approximately 2,500 employees worldwide, we stock and sell a comprehensive offering of energy products as well as a selection of products for industrial applications. Our energy product offering is consumed throughout all sectors of the oil and gas industry – from upstream drilling and completion, E&P, midstream infrastructure development to downstream petrochemical and petroleum refining – as well as in other industries, such as chemical processing, mining, utilities and renewables. The industrial distribution end markets include refineries and engineering and construction firms. We also provide supply chain and materials management solutions to the same markets where we sell products.

Our global product offering includes consumable MRO supplies, pipe, valves, fittings, flanges, gaskets, fasteners, electrical, instrumentation, artificial lift, pumping solutions, valve actuation and modular process, measurement and control equipment. We also offer procurement, warehouse and inventory management solutions as part of our supply chain and materials management offering. We have developed expertise in providing application systems, work processes, parts integration, optimization solutions and after-sales support.

Our solutions include outsourcing portions or entire functions of our customers' procurement, warehouse and inventory management, logistics, point of issue technology, project management, 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 process, from requisition to procurement to payment, by digitally managing workflow, improving approval routing and providing robust reporting functionality.

We support land and offshore operations for all the major oil and gas producing regions around the world through our network of 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 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 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, warehouse and inventory management and logistics coordination to our customers around the globe. Having a common ERP platform allows immediate visibility into our inventory assets, operations and financials 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 Item 1. "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.

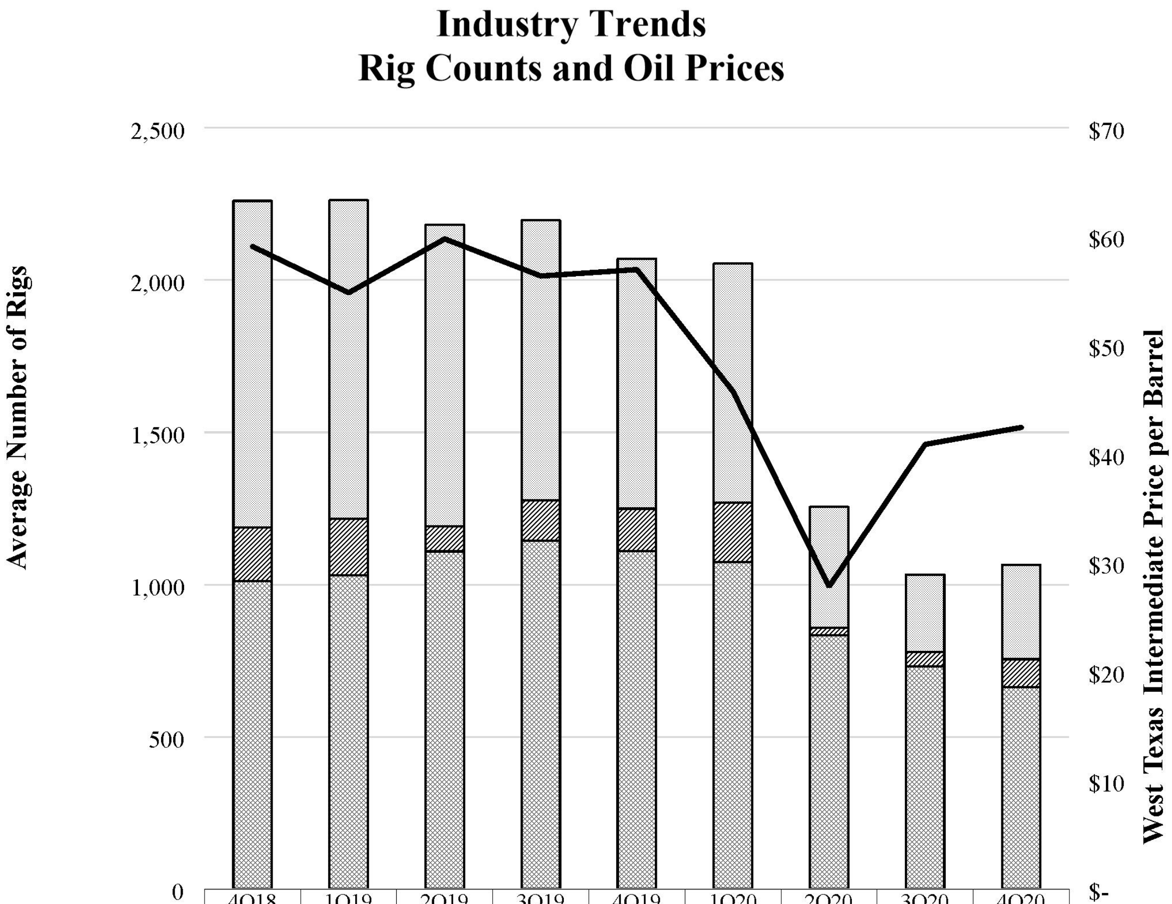
Operating Environment Overview

Our results are dependent on, among other things, the level of worldwide oil and gas drilling and completions, 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:

		2020*		2019*	% 2020 v 2019		2018*	% 2020 v 2018
Active Drilling Rigs:								
U.S.		436		944	(53.8%)		1,032	(57.8%)
Canada		90		135	(33.3%)		191	(52.9%)
International		826		1,098	(24.8%)		988	(16.4%)
Worldwide		1,352		2,177	(37.9%)		2,211	(38.9%)
West Texas Intermediate Crude Prices (per barrel)	$	39.23	$	56.98	(31.2%)	$	64.94	(39.6%)
Natural Gas Prices ($/MMBtu)	$	2.04	$	2.57	(20.6%)	$	3.17	(35.6%)
Hot-Rolled Coil Prices (steel) ($/short ton)	$	574.67	$	620.53	(7.4%)	$	827.25	(30.5%)

* 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, 2020:



	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
U.S.	1,072	1,046	989	920	821	785	396	254	310
Canada	177	186	83	132	139	195	25	48	92
International	1,011	1,030	1,109	1,144	1,110	1,074	834	731	663
Worldwide	2,260	2,262	2,181	2,196	2,070	2,054	1,255	1,033	1,065
WTI	$59.08	$54.83	$59.78	$56.37	$56.96	$45.76	$27.81	$40.89	$42.45

Sources: Rig count: Baker Hughes, Inc. (www.bakerhughes.com); Effective June 2019, the Baker Hughes International Rig Count now includes the number of active drilling rigs in the country of Ukraine and the historical periods will not be updated; West Texas Intermediate Crude and Natural Gas Prices: Department of Energy, Energy Information Administration (www.eia.doe.gov); Hot-Rolled Coil Prices: SteelBenchmarker™ Hot Roll Coil USA (www.steelbenchmarker.com).

The worldwide average rig count declined 37.9% (from 2,177 rigs to 1,352 rigs) and the U.S. declined 53.8% (from 944 rigs to 436 rigs) in 2020 compared to 2019. The average price of WTI crude declined 31.2% (from $56.98 per barrel to $39.23 per barrel), and natural gas prices declined 20.6% (from $2.57 per MMBtu to $2.04 per MMBtu) in 2020 compared to 2019. The average price of Hot-Rolled Coil declined 7.4% (from $620.53 per short ton to $574.67 per short ton) in 2020 compared to 2019.

U.S. rig count at January 22, 2021 was 378 rigs, down 58 rigs from the 2020 average. The price for WTI crude was $52.28 per barrel at January 22, 2021, up 33.3% from the 2020 average. The price for natural gas was $2.45 per MMBtu at January 22, 2021, up 20.1% from the 2020 average. The price for Hot-Rolled Coil was $1,037.00 per short ton at January 25, 2021, up 80.5% from the 2020 average.

Executive Summary

For the year ended December 31, 2020, the Company generated a net loss of $427 million, or $(3.91) per fully diluted share on $1,619 million in revenue. Net loss worsened for the year ended December 31, 2020 by $330 million when compared to the corresponding period of 2019. Revenue decreased for the year ended December 31, 2020 by $1,332 million, or 45.1%, when compared to the corresponding period of 2019. For the year ended December 31, 2020, operating loss was $420 million compared to operating loss of $83 million for the corresponding period of 2019.

For the fourth quarter ended December 31, 2020, the Company generated a net loss of $44 million, or $(0.40) per fully diluted share on $319 million in revenue. Net loss improved for the fourth quarter ended December 31, 2020 by $95 million when compared to the corresponding period of 2019. Revenue decreased for the fourth quarter ended December 31, 2020 by $320 million, or 50.1%, when compared to the corresponding period of 2019. For the fourth quarter ended December 31, 2020, operating loss was $37 million, compared to operating loss of $137 million for the corresponding period of 2019.

Outlook

Our outlook for the Company remains tied to crude oil and natural gas commodity prices, global oil and gas drilling and completions activity, oil and gas spending, and global demand for oil, its refined petroleum products, crude oil, natural gas liquids and natural gas production and decline rates. Crude oil prices and natural gas as well as crude oil and natural gas storage levels are primary catalysts determining customer activity.

Throughout the year 2020, the macro environment changed rapidly and dramatically. The rising global oil supply and sudden demand shock from the COVID-19 pandemic drove significant reduced global demand of oil resulting in declines in oil prices and significant builds of oil inventory. Continuing to the date of this filing, levels of uncertainty still exist concerning the duration of the COVID-19 pandemic and the magnitude of its impact on the global economy and global oil and gas demand. The outlook for oil and gas demand and supply appears equally uncertain and is expected to largely be driven by the pace of approved vaccines produced and administered on a global basis, which will impact the magnitude, pace and timing of an economic recovery from the COVID-19 pandemic.

Amid these dynamics, we will continue to optimize our operations, advance our strategic goals and manage the Company based on market conditions. To navigate this challenging environment, we have taken decisive actions to cut costs, accelerate structural changes and deploy various technologies to optimize processes, increase productivity and grow revenue through expanding digital channels. We have prioritized cost transformation and warehousing, selling and administrative expense reductions as a key response to declining activity. We will continue to optimize our operations and adapt to market activity as appropriate to position DNOW for the challenges ahead.

Results of Operations

Consolidated Results

Years Ended December 31, 2020 and December 31, 2019

A summary of the Company’s revenue and operating loss by segment in 2020 and 2019 follows (*in millions*):

	Year Ended December 31,		Variance
	2020	2019	$
Revenue:			
United States	$ 1,153	$ 2,240	$ (1,087)
Canada	209	319	(110)
International	257	392	(135)
Total revenue	$ 1,619	$ 2,951	$ (1,332)
Operating loss:			
United States	$ (281)	$ (6)	$ (275)
Canada	(60)	(19)	(41)
International	(79)	(58)	(21)
Total operating loss	$ (420)	$ (83)	$ (337)

United States

Revenue was $1,153 million for the year ended December 31, 2020, a decline of $1,087 million or 48.5% compared to the year ended December 31, 2019. The decrease in the period was primarily driven by the decline in U.S. drilling and completions activity.

Operating loss was $281 million for the year ended December 31, 2020, a decline of $275 million compared to operating loss of $6 million for the year ended December 31, 2019. Operating loss worsened in 2020 primarily due to an increase of $146 million in impairment charges compared to 2019, coupled with the decline in revenue discussed above, partially offset by a reduction in operating expenses.

Canada

Revenue was $209 million for the year ended December 31, 2020, a decline of $110 million or 34.5% compared to the year ended December 31, 2019. The decrease in the period was primarily driven by a decline in Canadian rig count.

Our Canadian revenue was approximately 13% of total revenue in 2020, similar to 2019. 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.

Operating loss was $60 million for the year ended December 31, 2020, a decline of $41 million compared to operating loss of $19 million for the year ended December 31, 2019. Operating losses worsened in 2020 primarily due to an increase of $33 million in impairment charges compared to 2019, coupled with the decline in revenue discussed above, partially offset by a reduction in operating expenses which was favorably impacted by the Canada Emergency Wage Subsidy.

International

Revenue was $257 million for the year ended December 31, 2020, a decline of $135 million or 34.4% compared to the year ended December 31, 2019. The decrease was primarily driven by a depressed market generally and softer project activity.

Our international revenue was approximately 16% of total revenue in 2020, similar to 2019. 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 was unfavorably impacted by approximately $4 million due to changes in foreign currency exchange rates over the prior year.

Operating loss was $79 million for the year ended December 31, 2020, a decline of $21 million compared to operating loss of $58 million for the year ended December 31, 2019. Operating loss worsened in 2020 primarily due to an increase of $14 million in impairment charges compared to 2019, coupled with the decline in revenue discussed above, partially offset by a reduction in operating expenses which was unfavorably impacted by an increase in bad debt charges.

Cost of products

Cost of products was $1,327 million for the year ended December 31, 2020 compared to $2,365 million for the year ended December 31, 2019, a decrease of $1,038 million. The decrease was primarily due to lower revenue 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. Cost of products included inventory charges of $54 million in 2020 due to discontinued product lines and overall decline in market demand.

Warehousing, selling and administrative expenses

Warehousing, selling and administrative expenses were $391 million for the year ended December 31, 2020 compared to $541 million for the year ended December 31, 2019, a decrease of $150 million. The decrease was primarily due to improved operating efficiencies and workforce reductions. Warehousing, selling and administrative expenses 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 charges

Impairment charges were $321 million for the year ended December 31, 2020 compared to $128 million for the year ended December 31, 2019. The Company recognized $230 million of goodwill impairment, $84 million of intangible asset impairment, $6 million of impairment for other long-lived assets and $1 million of loss related to business divestitures.

Other expense

Other expense was $10 million for the years ended December 31, 2020 and 2019. These charges for the year ended December 31, 2020 were mainly attributable to expenses related to our pension plans and fees associated with our credit facility, partially offset by favorable impact from foreign currency exchange rate fluctuations.

Provision for income taxes

The effective tax rate for the years ended December 31, 2020, and December 31, 2019 was 0.6% and (4.4%), respectively. The effective tax rate is affected by recurring items, such as differing tax rates on income earned in foreign jurisdictions, nondeductible expenses and state income taxes. The effective tax rate for the year ended December 31, 2020, was impacted by changes in the valuation allowance in the United States and other foreign jurisdictions and nondeductible goodwill impairment. For the year ended December 31, 2019, the effective tax rate was impacted by changes in the valuation allowance in the United States, Canada and other foreign jurisdictions, nondeductible goodwill impairment and the recognition of deferred taxes related to outside basis differences in subsidiaries classified as held for sale.

Consolidated Results

Years Ended December 31, 2019 and December 31, 2018

For discussion related to the results of operations and changes in financial condition for the year ended December 31, 2019 compared to the year ended December 31, 2018 refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2019 Form 10-K, which was filed with the United States Securities and Exchange Commission on February 19, 2020.

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,		
	2020	**2019**	**2018**
GAAP net income (loss) (1)	$ (427)	$ (97)	$ 52
Interest, net	—	4	8
Income tax provision (benefit)	(3)	4	6
Depreciation and amortization	28	41	41
Other costs (2)	345	135	2
EBITDA excluding other costs	$ (57)	$ 87	$ 109
EBITDA % excluding other costs (3)	(3.5%)	2.9%	3.5%

(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 for 2020 included $321 million of impairment charges and $18 million in net separation and transaction-related expenses, which are included in operating loss. Other costs for 2020 also included $6 million in pension expense related to the de-risking of our defined benefit plans which is included in other expense. Other costs for 2019 included $128 million of impairment charges and $7 million in separation expenses and transaction costs, approximately half of which are related to the CEO departure, which are included in operating loss. Other costs for 2018 primarily included separation expenses and transaction costs associated with acquisitions, which are included in operating profit.

(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, 2020 and 2019, we had cash and cash equivalents of $387 million and $183 million, respectively. As of December 31, 2020, $86 million of our cash and cash equivalents was maintained in the accounts of our various foreign subsidiaries. With the exception of the Company's earnings in Canada and the United Kingdom, the Company's foreign earnings continue to be indefinitely reinvested. The Company makes a determination each period concerning its intent and ability to indefinitely reinvest the cash held by its foreign subsidiaries. For the year ended December 31, 2020, we repatriated $34 million from our Canadian operations. No additional income taxes have been provided for other foreign earnings as these amounts continue to be indefinitely reinvested. Future changes to our indefinite reinvestment assertion could result in additional U.S. federal and state taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable in various foreign jurisdictions, where applicable.

As of December 31, 2020, we had no borrowings against our revolving credit facility, and had $197 million in availability (as defined in the Credit Agreement) resulting in the excess availability (as defined in the Credit Agreement) of 97%, subject to certain restrictions. Borrowings that result in the excess availability dropping below the greater of 12.5% of the borrowing base or $60 million 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, 2020, we were in compliance with all covenants. We continuously monitor compliance with debt covenants. A default, if not waived or amended, may prevent us from taking certain actions, such as incurring additional debt.

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Net cash provided by (used in) operating activities	$ 189	$ 224	$ 73
Net cash provided by (used in) investing activities	22	(22)	(9)
Net cash provided by (used in) financing activities	(8)	(138)	(37)

Fiscal Year 2020 Compared to Fiscal Year 2019

Net cash provided by operating activities was $189 million in 2020 compared to net cash provided by operating activities of $224 million in 2019. In 2020, net cash provided by operating activities was primarily driven by net loss of $427 million offset by $446 million of reconciling adjustments to net loss, which included $321 million of impairment charges, and net increase of $170 million from changes in working capital. In 2019, net cash provided by operating activities was primarily driven by net loss of $97 million offset by $223 million of reconciling adjustments to net loss, which included $128 million of impairment charges, and net increase of $98 million from changes in working capital.

Net cash provided by investing activities was $22 million in 2020 compared to net cash used in investing activities of $22 million in 2019. In 2020, net cash provided by investing activities was primarily attributed to proceeds received of $26 million related to business divestitures compared to in 2019, net cash used in investing activities was related to $8 million in business acquisitions.

Net cash used in financing activities was $8 million in 2020 compared to net cash used in financing activities of $138 million in 2019. In 2020, net cash used in financing activities was primarily attributed to payments relating to finance leases. In 2019, net cash used in financing activities was primarily attributed to net repayments under the revolving credit facility.

Effect of the Change in Exchange Rates

The effect of the change in exchange rates on cash flows was an increase of $1 million and $3 million for the years ended December 31, 2020 and 2019, 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 2021 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 standby letters of credit and performance bonds and guarantees 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, 2020 (*in millions*):

		Payment Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Contractual obligations:					
Operating leases	$ 46	$ 19	$ 23	$ 3	$ 1
Financing leases	13	6	5	—	2
Total contractual obligations	$ 59	$ 25	$ 28	$ 3	$ 3

Critical Accounting Policies and Estimates

In preparing the financial statements, the Company makes assumptions, estimates and judgments that affect the amounts reported. The Company periodically evaluates its estimates and judgments that are most critical in nature, which are related to allowance for doubtful accounts, inventory reserves, goodwill and long-lived assets, purchase price allocation of acquisitions, vendor consideration, stock-based compensation and income taxes. Its estimates are based on historical experience and on its future expectations that the Company believes 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

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 or prepayments for certain sales. Allowances for doubtful accounts are established based on an evaluation of accounts receivable aging, and, where applicable, specific reserves on a customer-by-customer basis. With the adoption of ASU 2016-13 on January 1, 2020, the estimated allowance for doubtful accounts ("AFDA") reflects the Company's immediate recognition of current expected credit losses by incorporating the historical loss experience, as well as current and future market conditions that are reasonably available. Judgments in the estimate of AFDA include global economic and business conditions, oil and gas industry and market conditions, customer's financial conditions and accounts receivable past due. At December 31, 2020 and 2019, allowance for doubtful accounts totaled $28 million and $16 million, or 12.4% and 4.1% of gross accounts receivable, respectively.

Inventory Reserves

Inventories consist primarily of oilfield and industrial finished goods. Inventories are stated at the lower of cost or net realizable value 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. The Company's estimated carrying value of inventory therefore depends upon demand driven by oil and gas spending 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 inventory items the Company stocks, among other factors. At December 31, 2020 and 2019, inventory reserves totaled $39 million and $26 million, or 13.0% and 5.3% of gross inventory, respectively. Changes in our estimates can be material under different market conditions.

Goodwill and Long-lived Assets

The Company has no goodwill as of December 31, 2020. 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. The Company conducts goodwill impairment testing annually in the fourth quarter of each fiscal year, and more frequently on an interim basis, when an event occurs or changes in circumstances 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 completion and remediation activity; a significant reduction in capital investment by other oilfield service companies; or a significant increase in worldwide inventories of oil or gas.

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 recorded based on that difference up to the total amount of goodwill for that reporting unit. During 2020, to align with the updates to the operational and management structure, the Company combined two reporting units within the U.S. reportable segment, U.S. Energy and U.S. Supply Chain, each with goodwill of zero prior to and after the combination. As of December 31, 2020, the Company has four reporting units; U.S. Energy, U.S. Process Solutions, Canada and International.

Long-lived assets other than goodwill include property, plant and equipment, operating right-of-use assets and intangible assets. The Company evaluates the recoverability of long-lived assets other than goodwill 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 fair values of reporting units are determined based on valuation techniques using the best available information, primarily discounted cash flow projections and multiple-based market approach for comparable companies, where applicable. 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 and other long-lived asset impairment, which bear the risk of change and could impact the 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 the reporting unit’s projected 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 also consider 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.

During the first quarter of 2020, the Company’s market capitalization declined significantly driven by current macroeconomic and geopolitical conditions including the collapse of oil prices caused by both surplus production and supply as well as the decrease in demand caused by the COVID-19 pandemic. In addition, the uncertainty related to oil demand continues to have a significant impact on the investment and operating plans of our primary customers. Based on these events, the Company concluded that it was more likely than not that the fair values of certain of its reporting units were less than their carrying values. Therefore, the Company performed an interim goodwill impairment test and recognized impairment of $125 million, $60 million and $45 million for the U.S., Canada and International reporting units, respectively, which were included in impairment charges in the consolidated statements of operations.

During the first quarter of 2020, the results of the Company's test for impairment of goodwill and the other negative market indicators described above were a triggering event that indicated that its long-lived assets, including property, plant and equipment, operating right-of-use assets and intangible assets, were possibly impaired. As a result, the Company performed a recoverability test and recognized $90 million of impairments of long-lived assets for the quarter ended March 31, 2020 and the year ended December 31, 2020 which were included in impairment charges in the consolidated statements of operations. No triggering events were identified subsequently in 2020 to indicate that the remaining carrying value of long-lived assets were not recoverable.

During the fourth quarter of 2019, the Company performed its annual goodwill impairment test and determined the fair values of the Canada and International reporting units were below their carrying values. As a result, the Company recognized $54 million and $27 million of goodwill impairment for the International and Canada reporting units, respectively, which was included in impairment charges in the consolidated statements of operations. The impairment charges were primarily the result of actual declines in customer and rig activity and downward revisions to forecasted rig and customer spend activity occurring in the fourth quarter of 2019, which we incorporated into our outlook and forecasted results of operations.

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.

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 the award is measured on the grant date and amortized to expense using the straight-line method over the shorter of the vesting period or the remaining requisite service period. Forfeitures are recognized as they occur.

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 it would be able to realize its 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.

The Company remains in a three-year cumulative loss position at the end of 2020. As a result, 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, 2020. The change during the year in the valuation allowance was $58 million in the U.S. and $3 million in other foreign jurisdictions.

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.

As of December 31, 2020, the amount of undistributed earnings of foreign subsidiaries was approximately $12 million. With the exception of the Company’s earnings in Canada and the United Kingdom, the Company’s foreign earnings continue to be indefinitely reinvested. 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 March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-04, Reference Rate Reform (Topic 848), which provides optional expedients and exceptions to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Entities that elect the relief are required to disclose the nature of the optional expedients and exceptions that are adopted and the reasons for the adoptions. The guidance is effective upon issuance and the expedients and exceptions may be applied prospectively through December 31, 2022. The Company is currently assessing the impact of ASU 2020-04 on its consolidated financial statements.

Recently Adopted Accounting Standards

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. On January 1, 2020, the Company adopted ASC Topic 326 using the modified retrospective basis and began to recognize AFDA based on the estimated lifetime expected credit loss related to trade receivables. The adoption of ASC Topic 326 resulted in a cumulative-effect adjustment of $6 million (net of income taxes) to its opening accumulated deficit and AFDA in the consolidated balance sheets. See Note 2 “Summary of Significant Accounting Policies” and Note 4 “Receivables, net” of the Notes to Consolidated Financial Statements (Part IV, Item 15 of this Form 10-K) for additional information.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820), which modified the disclosure requirements on fair value measurements. On January 1, 2020, the Company adopted this standard and expanded its fair value disclosures to address the quantitative and qualitative requirements of this standard. See Note 2 “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements (Part IV, Item 15 of this Form 10-K) for fair value disclosures relating to the impairment of goodwill and other long-lived assets.

In August 2018, the FASB issued ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Topic 350-40), which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement service contract with the capitalization requirements of costs to develop or obtain internal-use software licenses. On January 1, 2020, the Company adopted this standard using the prospective transition approach, with no material impact in 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” of the Notes to Consolidated Financial Statements (Part IV, Item 15 of this Form 10-K) for additional information.

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 30% of our 2020 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, 2020, our most significant foreign currency exposure was to the Canadian dollar, followed by the British pound, with less significant foreign currency exposure to the Australian dollar.

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 consolidated statements of comprehensive income (loss). During 2020, we experienced a net foreign currency translation loss totaling $17 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, 2020, 2019 and 2018, we reported a net foreign currency transaction gain of $2 million, a loss of $1 million and a loss of $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 2020 compared to the average for 2019 decreased by approximately 1% compared to the U.S. dollar based on the aggregated weighted average revenue of our foreign currency denominated foreign operations. 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 2020 of the U.S. dollar relative to foreign currencies that affected the Company would have resulted in less than $1 million change in net loss for 2020.

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, 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 Exchange Act of 1934), 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, 2020, 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 Exchange Act of 1934, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act of 1934). 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, 2020.

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, 2020. There are no material weaknesses in our internal control over financial reporting that have been identified by management.

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, 2020, 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, 2020 is included in 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 2021 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the definitive Proxy Statement for the 2021 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 2021 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, 2020, 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	4,761,765	$ 17.93	6,659,510
Equity compensation plans not approved by security holders	–	$ –	–
Total	4,761,765	$ 17.93	6,659,510

(1) Includes 315,075 shares of issuable performance-based awards if specific targets are met, and 60,247 shares of Restricted Stock Units and Phantom Shares (collectively, "RSUs") 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 6,659,510 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 2021 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the definitive Proxy Statement for the 2021 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, 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 (8)
3.2	NOW Inc. Amended and Restated Bylaws (8)
4.1	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities and Exchange Act of 1934
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	Form of Employment Agreement for Executive Officers (1)
10.6	NOW Inc. 2014 Incentive Compensation Plan (2)
10.7	Form of Restricted Stock Award Agreement (6 year cliff vest) (3)
10.8	Form of Nonqualified Stock Option Agreement (4)
10.9	Form of Restricted Stock Award Agreement (3 year cliff vest) (4)
10.10	Form of Performance Award Agreement (4)
10.11	Form of Amendment to Employment Agreement for Executive Officers (5)
10.12	Credit Agreement dated as of April 30, 2018, among the Borrowers, the lenders that are parties thereto and Wells Fargo Bank, National Association as administrative agent, an issuing lender and swing lender (6)
10.13	Employment Agreement between NOW Inc. and Richard Alario (7)
10.14	Phantom Share Agreement between NOW Inc. and Richard Alario (7)
10.15	Employment Agreement between NOW Inc. and Chief Executive Officer David Cherechinsky (9)
10.16	Employment Agreement between NOW Inc. and Chief Financial Officer Mark Johnson (9)
10.17	Amendment to Employment Agreement between NOW Inc. and Richard Alario (9)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on signature page hereto)
31.1	Certification of Interim 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 Interim 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.INS	Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(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 Current Report on Form 8-K, filed on November 19, 2014
(4) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on May 7, 2015
(5) Filed as an Exhibit to our Quarterly Report on Form 10-Q filed on November 2, 2016
(6) Filed as an Exhibit to our Current Report on Form 8-K filed on May 1, 2018
(7) Filed as an Exhibit to our Current Report on Form 8-K filed on November 21, 2019
(8) Filed as an Exhibit to our Current Report on Form 8-K filed on May 21, 2020
(9) Filed as an Exhibit to our Current Report on Form 8-K filed on June 2, 2020

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 17, 2021

By: */s/ David A. Cherechinsky*
David A. Cherechinsky
President, Chief Executive Officer and Director

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 David A. Cherechinsky and Mark B. Johnson, and each of them acting alone, his or her true and lawful attorney-in-fact and agent, with full power of substitution, for him or her and in his or her 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/ David A. Cherechinsky David A. Cherechinsky	President, Chief Executive Officer and Director	February 17, 2021
/s/ Mark B. Johnson Mark B. Johnson	Senior Vice President and Chief Financial Officer	February 17, 2021
/s/ J. Wayne Richards J. Wayne Richards	Chairman of the Board	February 17, 2021
/s/ Richard J. Alario Richard J. Alario	Director	February 17, 2021
/s/ Terry Bonno Terry Bonno	Director	February 17, 2021
/s/ Galen Cobb Galen Cobb	Director	February 17, 2021
/s/ Paul Coppinger Paul Coppinger	Director	February 17, 2021
/s/ James Crandell James Crandell	Director	February 17, 2021
/s/ Rodney Eads Rodney Eads	Director	February 17, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of NOW Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of NOW Inc. (the Company) as of December 31, 2020 and 2019, 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, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, 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 17, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

	Valuation of Goodwill
Description of the Matter	As discussed in Note 2 and 7 to the consolidated financial statements, goodwill is tested for impairment annually at the reporting unit level or more frequently if indicators of impairment exist. The Company evaluates the recoverability of goodwill by comparing the fair value of each reporting unit to its carrying value. Fair value is determined using a discounted cash flow analysis based upon projected financial information. Given the significance of the events described in Note 7, qualitative indicators of impairment existed resulting in an interim test of impairment during the first quarter of the year. The Company recorded goodwill impairment charges of $230 million. Auditing management's goodwill impairment test is complex, involved subjective auditor judgment and required the involvement of specialists due to the significant estimation required to determine the fair value of the reporting units. In particular, the fair value estimates of the reporting units were sensitive to assumptions such as changes in the revenue growth rates and the discount rate, which are affected by expectations about future market or economic conditions, and industry and company-specific qualitative factors.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above. This included evaluating controls over the Company's forecasting process used to develop the estimated future cash flows and management's review of the discount rate. To test the estimated fair value of the Company's reporting units, we performed audit procedures that included, among others, assessing valuation methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. We compared the projected cash flows to the Company's historical cash flows and revenue growth rates to available industry data including forecasted rig count information. We involved our valuation specialists in reviewing the valuation methodology and evaluating the discount rate. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of the reporting units that would result from changes in the assumptions. In addition, we tested management's reconciliation of the fair value of the reporting units to the market capitalization of the Company.

Impairment Assessment and Valuation of Long-lived Assets

Description of the Matter	As more fully described in Notes 2, 5, 8 and 11 to the consolidated financial statements, in the first quarter of 2020, the Company identified impairment indicators, which resulted in the Company evaluating its long-lived assets including intangible assets for recoverability. The Company compared the estimated undiscounted future cash flows of each long-lived asset group to its carrying value. If the long-lived asset group's carrying amount exceeds its estimated undiscounted future cash flows, the fair value of the long-lived asset group is then estimated by management and compared to its carrying amount. An impairment charge is recognized on these long-lived asset groups when the carrying amount exceeds the fair value. The Company determined that certain long-lived assets, including finite-lived intangibles, property, plant and equipment and right of use assets were not recoverable. As a result, the Company recognized $84 million of intangible asset impairment, $4 million of property, plant and equipment impairment and $2 million of right-of-use asset impairment charges. Auditing management's evaluation of long-lived asset groups for impairment was complex and involved subjectivity due to the significant estimation required to determine the estimated undiscounted future cash flows and fair values of the long-lived asset groups where indicators of impairment were determined to be present. In particular, the future cash flows and fair value estimates were sensitive to significant assumptions including the estimation of the revenue growth rates and discount rates, which are affected by expectations about future market or economic conditions, and industry and company-specific qualitative factors.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to evaluate the asset groups for impairment, including controls over management's review of the significant assumptions described above. To test the Company's evaluation of the long-lived asset groups for impairment, we performed audit procedures that included, among others, assessing the methodologies used to estimate future cashflows and estimate fair values, testing the significant assumptions discussed above and testing the completeness and accuracy of the underlying data used by the Company in its analysis. We compared the projected cash flows to the Company's historical cash flows and revenue growth rates to available industry data including forecasted rig count information. We involved our valuation specialists in reviewing the methodologies and key assumptions. We assessed the historical accuracy of management's estimates and where appropriate, assessed whether the assumptions used were consistent with those used in the goodwill impairment analysis.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2013.

Houston, Texas

February 17, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of NOW Inc.

Opinion on Internal Control over Financial Reporting

We have audited NOW Inc.'s internal control over financial reporting as of December 31, 2020, 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). In our opinion, NOW Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2020 consolidated financial statements of the Company and our report dated February 17, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Houston, Texas

February 17, 2021

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

	December 31,	
	2020	**2019**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 387	$ 183
Receivables, net	198	370
Inventories, net	262	465
Assets held-for-sale	—	34
Prepaid and other current assets	14	15
Total current assets	861	1,067
Property, plant and equipment, net	98	120
Deferred income taxes	1	2
Goodwill	—	245
Intangibles, net	—	90
Other assets	48	67
Total assets	$ 1,008	$ 1,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 172	$ 255
Accrued liabilities	95	127
Liabilities held-for-sale	—	6
Other current liabilities	5	8
Total current liabilities	272	396
Long-term operating lease liabilities	25	34
Deferred income taxes	—	4
Other long-term liabilities	12	13
Total liabilities	309	447
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; 109,951,610 and 109,207,678 shares issued and outstanding at December 31, 2020 and 2019, respectively	1	1
Additional paid-in capital	2,051	2,046
Accumulated deficit	(1,208)	(775)
Accumulated other comprehensive loss	(145)	(128)
Total stockholders' equity	699	1,144
Total liabilities and stockholders' equity	$ 1,008	$ 1,591

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Revenue	$ 1,619	$ 2,951	$ 3,127
Operating expenses:			
Cost of products	1,327	2,365	2,497
Warehousing, selling and administrative	391	541	557
Impairment charges	321	128	—
Operating profit (loss)	(420)	(83)	73
Other expense	(10)	(10)	(15)
Income (loss) before income taxes	(430)	(93)	58
Income tax provision (benefit)	(3)	4	6
Net income (loss)	$ (427)	$ (97)	$ 52
Earnings (loss) per share:			
Basic earnings (loss) per common share	$ (3.91)	$ (0.89)	$ 0.47
Diluted earnings (loss) per common share	$ (3.91)	$ (0.89)	$ 0.47
Weighted-average common shares outstanding, basic	109	109	108
Weighted-average common shares outstanding, diluted	109	109	109

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Net income (loss)	$ (427)	$ (97)	$ 52
Other comprehensive income (loss):			
Foreign currency translation adjustments	(17)	15	(38)
Comprehensive income (loss)	$ (444)	$ (82)	$ 14

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net income (loss)	$ (427)	$ (97)	$ 52
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	28	41	41
Provision for doubtful accounts	9	(2)	2
Provision for inventory	54	13	8
Impairment charges	321	128	—
Other, net	34	43	16
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Receivables	157	98	(69)
Inventories	148	109	(30)
Accounts payable and accrued liabilities	(134)	(110)	54
Other, net	(1)	1	(1)
Net cash provided by (used in) operating activities	189	224	73
Cash flows from investing activities:			
Purchases of property, plant and equipment	(8)	(12)	(11)
Business acquisitions, net of cash acquired	—	(8)	—
Net proceeds from sale of business	26	—	—
Other, net	4	(2)	2
Net cash provided by (used in) investing activities	22	(22)	(9)
Cash flows from financing activities:			
Borrowings under the revolving credit facility	—	268	503
Repayments under the revolving credit facility	—	(400)	(533)
Other, net	(8)	(6)	(7)
Net cash provided by (used in) financing activities	(8)	(138)	(37)
Effect of exchange rates on cash and cash equivalents	1	3	(9)
Net change in cash and cash equivalents	204	67	18
Cash and cash equivalents, beginning of period	183	116	98
Cash and cash equivalents, end of period	$ 387	$ 183	$ 116
Supplemental disclosures of cash flow information:			
Income taxes paid, net	$ 2	$ 7	$ 6
Interest paid	$ —	$ 5	$ 9
Non-cash investing and financing activities:			
Accrued purchases of property, plant and equipment	$ —	$ 3	$ —

See notes to consolidated financial statements.

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

	Common Stock					
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accum. Other Comprehensive Income (Loss)	Total Stockholders' Equity
December 31, 2017	108	$ 1	$ 2,019	$ (730)	$ (105)	$ 1,185
Net income	—	—	—	52	—	52
Stock-based compensation	—	—	16	—	—	16
Exercise of stock options	—	—	1	—	—	1
Shares withheld for taxes	—	—	(2)	—	—	(2)
Other comprehensive income	—	—	—	—	(38)	(38)
December 31, 2018	108	$ 1	$ 2,034	$ (678)	$ (143)	$ 1,214
Net loss	—	—	—	(97)	—	(97)
Stock-based compensation	—	—	13	—	—	13
Exercise of stock options	—	—	2	—	—	2
Vesting of restricted stock	1	—	—	—	—	—
Shares withheld for taxes	—	—	(3)	—	—	(3)
Other comprehensive income	—	—	—	—	15	15
December 31, 2019	109	$ 1	$ 2,046	$ (775)	$ (128)	$ 1,144
Cumulative effect of accounting change		—	—	(6)	—	(6)
Net loss	—	—	—	(427)	—	(427)
Stock-based compensation	—	—	6	—	—	6
Vesting of restricted stock	1	—	—	—	—	—
Shares withheld for taxes	—	—	(1)	—	—	(1)
Other comprehensive loss	—	—	—	—	(17)	(17)
December 31, 2020	110	$ 1	$ 2,051	$ (1,208)	$ (145)	$ 699

See 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 DNOW brands. NOW is a global distributor of energy products as well as products for industrial applications through its locations in the United States ("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 and downstream energy companies. NOW's supplier network consists of thousands of vendors in approximately 40 countries.

Basis of Presentation

The accompanying consolidated financial information include the accounts of the Company and its consolidated subsidiaries. All significant intercompany transactions and accounts have been eliminated.

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 results of operations.

Recently Issued Accounting Standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, Reference Rate Reform (Topic 848), which provides optional expedients and exceptions to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Entities that elect the relief are required to disclose the nature of the optional expedients and exceptions that are adopted and the reasons for the adoptions. The guidance is effective upon issuance and the expedients and exceptions may be applied prospectively through December 31, 2022. The Company is currently assessing the impact of ASU 2020-04 on its consolidated financial statements.

Recently Adopted Accounting Standards

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 accounting principles generally accepted in the United States ("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. On January 1, 2020, the Company adopted ASC Topic 326 using the modified retrospective basis and began to recognize allowance for doubtful accounts ("AFDA") based on the estimated lifetime expected credit loss related to trade receivables. The adoption of ASC Topic 326 resulted in a cumulative-effect adjustment of $6 million (net of income taxes) to its opening accumulated deficit and AFDA in the consolidated balance sheets. See Note 2 "Summary of Significant Accounting Policies" and Note 4 "Receivables, net" for additional information.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820), which modified the disclosure requirements on fair value measurements. On January 1, 2020, the Company adopted this standard and expanded its fair value disclosures to address the quantitative and qualitative requirements of this standard. See Note 2 "Summary of Significant Accounting Policies" for fair value disclosures relating to the impairment of goodwill and other long-lived assets.

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Topic 350-40), which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement service contract with the capitalization requirements of costs to develop or obtain internal-use software licenses. On January 1, 2020, the Company adopted this standard using the prospective transition approach, with no material impact in 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 net realizable value 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. As of December 31, 2020 and 2019, the Company reported inventory of $262 million and $465 million, respectively (net of inventory reserves of $39 million and $26 million, respectively).

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

Long-lived assets other than goodwill include property, plant and equipment, operating right-of-use assets and intangible assets. The Company evaluates the recoverability of long-lived assets other than goodwill 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. If such review indicates that the carrying amount of long-lived assets other than goodwill is not recoverable, the carrying amount of such assets is reduced to fair value.

In addition to the recoverability assessment, the Company routinely reviews the remaining estimated useful lives of long-lived assets other than goodwill. If the Company changes the estimated useful life assumption for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life.

The Company conducts goodwill impairment testing annually in the fourth quarter of each fiscal year, and more frequently on an interim basis, when an event occurs or changes in circumstances 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 completion and 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 had no goodwill as of December 31, 2020.

The Company evaluates goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below that constitutes a business for which financial information is available and is regularly reviewed by management. In 2020, to align with the updates to the operational and management structure, the Company combined two reporting units within the U.S. reportable segment, U.S. Energy and U.S. Supply Chain, each with goodwill of zero prior to and after the combination. As a result, the Company had four reporting units – U.S. Energy, U.S. Process Solutions, Canada and International. Prior to 2020, the Company had five reporting units for this purpose – U.S. Energy, U.S. Supply Chain, U.S. Process Solutions, Canada and International.

The Company tests goodwill for impairment by comparing the fair value of a reporting unit to its carrying value. If the carrying amount exceeds the fair value of a reporting unit, an impairment loss is recognized in an amount equal to that excess, but not to exceed the total amount of goodwill allocated to that reporting unit.

The Company determines the fair value of both goodwill and other long-lived assets primarily using the discounted cash flow method and in the case of goodwill, a multiples-based market approach for comparable companies when applicable. The starting point for each reporting unit's projected 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 also considered long-term earnings growth rates. The financial and credit market volatility impacts the fair value measurement by adjusting the discount rate. 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 total estimated fair value of its reporting units less debt. Given the current volatile market environment, the Company utilizes third-party valuation advisors to assist with these valuations. These analyses include significant judgments as mentioned above, including management's short-term and long-term forecast of operating performance, discount rates based on the weighted average cost of capital, revenue growth rates, profitability margins, capital expenditures, the timing of future cash flows based on an eventual recovery of the oil and gas industry, and in the case of long-lived assets, the remaining useful life and service potential of the asset, all of which were classified as level 3 inputs under the fair value hierarchy. Discount rates utilized to value the reporting units were in a range from 11.5% to 12.8% during the fair value valuation in the first quarter of 2020.

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 transactions were a gain of $2 million, a loss of $1 million and a loss of $2 million for the years ended December 31, 2020, 2019 and 2018, respectively, and were included in other expense in the accompanying consolidated statements of operations.

Revenue Recognition

The Company's primary source of revenue is the sale of energy products and an extensive selection of products for industrial applications based upon purchase orders or contracts with customers. The majority of revenue is recognized at a point in time once the Company has determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the product is shipped, delivered or picked up by the customer. The Company does not grant extended payment terms. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to proper government authorities. Shipping and handling costs for product shipments occur prior to the customer obtaining control of the goods and are recorded in cost of products.

The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for products sold. Revenue is recorded at the transaction price net of estimates of variable consideration, which may include product returns, trade discounts and allowances. The Company accrues for variable consideration using the expected value method. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

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 expenses include branch, distribution center and regional expenses (including costs such as compensation, benefits and rent), depreciation and corporate general 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 or prepayments for certain sales. Allowances for doubtful accounts are established based on an evaluation of accounts receivable aging, and where applicable, specific reserves on an individual customer basis. With the adoption of ASU 2016-13 the estimated AFDA reflects the Company's immediate recognition of current expected credit losses by incorporating the historical loss experience, as well as current and future market conditions that are reasonably available. Judgments in the estimate of AFDA include global economic and business conditions, oil and gas industry and market conditions, customers' financial conditions and account receivables past due. Balances that remain outstanding after the Company has used reasonable collection efforts are written off. No single customer represents more than 10% 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 the award is measured on the grant date and amortized to expense using the straight-line method over the shorter of the vesting period or the remaining requisite service period. Forfeitures are recognized as they occur.

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. The Company periodically evaluates its estimates and judgments that are most critical in nature, which are related to allowance for doubtful accounts, inventory reserves, impairment of goodwill and other long-lived assets, purchase price allocation of acquisitions, vendor consideration, stock-based compensation, pension plan obligations and income taxes. On an ongoing basis, the Company evaluates such estimates by comparing to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

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. Revenue

Remaining Performance Obligations

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed on contracts with an original expected duration of more than one year. The Company's contracts are predominantly short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC Topic 606 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations when the performance obligation is part of a contract that has an original expected duration of one year or less.

Receivables

Receivables are recorded when the Company has an unconditional right to consideration.

Contract Assets and Liabilities

Contract assets primarily consist of retainage amounts held as a form of security by customers until the Company satisfies its remaining performance obligations. As of December 31, 2020 and 2019, contracts assets were $1 million and $3 million, respectively, and were included in receivables, net in the consolidated balance sheets. The Company generally accounts for the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have been recognized is one year or less. These expenses were not material for the years ended December 31, 2020 and 2019.

Contract liabilities primarily consist of deferred revenues recorded when customer payments are received or due in advance of satisfying performance obligations, including amounts which are refundable, and other accrued customer liabilities. Revenue recognition is deferred to a future period until the Company completes its obligations contractually agreed with customers. As of December 31, 2020 and 2019, contract liabilities were $19 million and $34 million, respectively, and were included in accrued liabilities in the consolidated balance sheets. The decrease in contract liabilities for the year ended December 31, 2020 was primarily related to recognizing revenue of approximately $18 million that was deferred as of December 31, 2019, partially offset by net current year customer deposits and credits of approximately $3 million.

See Note 15 “Business Segments” for the disaggregation of revenue by reporting segments. The Company believes this disaggregation best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

4. Receivables, net

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

Activity in the allowance for doubtful accounts was as follows (*in millions*):

	December 31, 2020	December 31, 2019	December 31, 2018
Allowance for doubtful accounts			
Beginning balance	$ 16	$ 27	$ 29
Cumulative effect of accounting change	6	—	—
Additions (deductions) charged to expenses	9	(2)	2
Charge-offs and other	(3)	(9)	(4)
Ending balance	$ 28	$ 16	$ 27

5. Property, Plant and Equipment, net

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

	Estimated Useful Lives	December 31, 2020	December 31, 2019
Information technology assets	1-7 Years	$ 49	$ 46
Operating equipment (1)	2-15 Years	101	109
Buildings and land (2)	5-35 Years	102	100
Construction in progress		1	10
Total property, plant and equipment		253	265
Less: accumulated depreciation		(155)	(145)
Property, plant and equipment, net		$ 98	$ 120

(1) Includes finance right-of-use assets.

(2) Land has an indefinite life

Depreciation expense was $24 million, $22 million and $21 million for the years ended December 31, 2020, 2019 and 2018, respectively.

During the year ended December 31, 2020, the Company recognized $4 million impairment of property, plant and equipment, net which was included in impairment charges in the consolidated statements of operations. See Note 8 “Intangibles, net” for additional information.

6. Accrued Liabilities

Accrued liabilities consist of (*in millions*):

	December 31, 2020	December 31, 2019
Compensation and other related expenses	$ 27	$ 31
Contract liabilities	19	34
Taxes (non-income)	10	12
Current portion of operating lease liabilities	17	21
Other	22	29
Total	$ 95	$ 127

7. Goodwill

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

	United States	Canada	International	Total
Balance at December 31, 2018 (1)	$ 119	$ 90	$ 105	$ 314
Additions	6	—	—	6
Impairment	—	(27)	(54)	(81)
Foreign currency translation adjustments	—	4	2	6
Balance at December 31, 2019	$ 125	$ 67	$ 53	$ 245
Impairment	(125)	(60)	(45)	(230)
Foreign currency translation adjustments	—	(7)	(8)	(15)
Balance at December 31, 2020	$ —	$ —	$ —	$ —

(1) The United States segment is net of prior years accumulated impairment of $393 million.

During the first quarter of 2020, the Company's market capitalization declined significantly driven by macroeconomic and geopolitical conditions including the collapse of oil prices caused by both surplus production and supply as well as the decrease in demand caused by the COVID-19 pandemic. In addition, the uncertainty related to oil demand continues to have a significant impact on the investment and operating plans of our primary customers. Based on these events, the Company concluded that it was more likely than not that the fair values of certain of its reporting units were less than their carrying values. Therefore, the Company performed an interim goodwill impairment test. As a result, for the quarter ended March 31, 2020 and the year ended December 31, 2020, the Company recognized $230 million goodwill impairment for both periods which was included in impairment charges in the consolidated statements of operations. The Company had no goodwill as of December 31, 2020.

The Company performed its annual goodwill impairment test during the fourth quarter of 2019 and determined the fair value of the Canada and International reporting units was below their carrying value. As a result, the Company recognized $81 million of goodwill impairment which was included in impairment charges in the consolidated statements of operations. The impairment charges were primarily the result of actual declines in customer and rig activity and downward revisions to forecasted rig and customer spend activity occurring in the fourth quarter of 2019, which we incorporated into our outlook and forecasted results of operations.

No tax benefit was reported on the Company's goodwill impairment for the years ended December 31, 2020 and 2019, as the goodwill impairment was either nondeductible for tax purposes or was subject to a valuation allowance. For the year ended December 31, 2018 no goodwill impairments were recognized as the fair value of each reporting unit exceeded its carrying value.

8. Intangibles, net

Identified intangible assets with determinable lives consist primarily of customer relationships, trade names, trademarks and patents, and non-compete agreements acquired in acquisitions, and are being amortized on a straight-line basis over the estimated useful lives. Intangible assets that are fully amortized are removed from the disclosures.

During the first quarter of 2020, the results of the Company's test for impairment of goodwill and the other negative market indicators described in Note 7 "Goodwill" were a triggering event that indicated that its long-lived assets, including property, plant and equipment, operating right-of-use assets and intangible assets, were possibly impaired. Therefore, the Company performed a recoverability test and the results indicated that long-lived assets associated with three reporting units were not recoverable. Further, the estimated fair value of these assets was determined to be below their carrying value. As a result, the Company recognized $90 million of impairments of long-lived assets for the quarter ended March 31, 2020 and the year ended December 31, 2020, which were included in impairment charges in the consolidated statements of operations. A tax benefit of $4 million was also recognized related to the long-lived asset impairments. No triggering events were identified subsequently in 2020 to indicate that the remaining carrying value of long-lived assets were not recoverable.

The impairment of long-lived assets recognized in the first quarter and year ended 2020 is shown as follows *(in millions)*:

	United States	International	Total
Intangibles, net	$ (62)	$ (22)	$ (84)
Property, plant and equipment, net	—	(4)	(4)
Operating right-of-use assets	(1)	(1)	(2)
Total impairment	$ (63)	$ (27)	$ (90)

During the fourth quarter of 2019, the Company made strategic decisions to discontinue the use of certain acquired trade names in order to eliminate branding dilution in the market and align the Company's marketing around its DNOW brands. As of December 31, 2019, the Company completed the disposals of these trade names by abandonment and recognized impairment charges of $34 million in the U.S. reporting segment and $4 million in the International reporting segment. Such impairment was included in impairment charges in the consolidated statements of operations, representing the remaining carrying values of these specifically acquired intangible assets. The Company did not record impairment for intangible assets for the year ended December 31, 2018.

As of December 31, 2019, identified intangible assets by major classification, affected by the fluctuation of foreign currency rates, consist of the following (*in millions*):

	Gross	Accumulated Amortization	Net Book Value
December 31, 2019:			
Trademarks and patents	$ 38	$ (9)	$ 29
Customer relationships	116	(57)	59
Other	2	—	2
Total identified intangibles	$ 156	$ (66)	$ 90

As of December 31, 2020, identified intangible assets were less than $1 million. Amortization expense was $4 million, $19 million and $20 million for the years ended December 31, 2020, 2019, and 2018, respectively.

9. Income Taxes

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

	Year Ended December 31,		
	2020	2019	2018
United States	$ (289)	$ (12)	$ 39
Foreign	(141)	(81)	19
Income (loss) before income taxes	$ (430)	$ (93)	$ 58

The provision (benefit) for income taxes for 2020, 2019 and 2018 consisted of the following (*in millions*):

	Year Ended December 31,		
	2020	2019	2018
U.S. Federal:			
Current	$ —	$ —	$ —
Deferred	—	—	—
	—	—	—
U.S. State:			
Current	—	1	1
Deferred	—	—	—
	—	1	1
Foreign:			
Current	1	5	6
Deferred	(4)	(2)	(1)
	(3)	3	5
Income tax provision (benefit)	$ (3)	$ 4	$ 6

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,		
	2020	2019	2018
Income tax provision (benefit) at federal statutory rate	$ (90)	$ (19)	$ 12
Foreign tax rate differential	1	2	2
State income tax provision (benefit), net of federal benefit	(4)	—	3
Nondeductible expenses	2	3	9
Foreign tax credits	—	1	21
Benefit of net operating loss	—	—	(14)
One-time transition tax	—	—	1
Investment in subsidiaries	—	(9)	—
Nondeductible goodwill impairment	25	16	—
Change in valuation allowance	61	9	(28)
Change in contingency reserve and other	2	1	—
Income tax provision (benefit)	$ (3)	$ 4	$ 6
Effective tax rate	0.6%	(4.4)%	10.7%

For the year ended December 31, 2020, the effective tax rate was impacted by a valuation allowance recorded against the Company's deferred tax assets in the U.S. and other foreign jurisdictions and nondeductible goodwill impairment. For the year ended December 31, 2019, the effective tax rate was impacted by a valuation allowance in the U.S., Canada and other foreign jurisdictions, nondeductible goodwill impairment and recognition of deferred taxes related to outside basis differences in subsidiaries classified as held for sale. For the year ended December 31, 2018, the effective tax rate was impacted by a valuation allowance recorded against the Company's deferred tax assets in the U.S., Canada and other foreign jurisdictions and utilization of foreign tax credits related to earnings of foreign subsidiaries that were previously deferred.

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act contains several tax law changes for corporations, including modifications for net operating loss carrybacks, the refundability of prior-year minimum tax liability, limitations on business interest and limitations on charitable contribution deductions. These benefits did not impact the Company's provision for income taxes for the year ended December 31, 2020.

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

	December 31, 2020	December 31, 2019	December 31, 2018
Deferred tax assets:			
Allowances and operating liabilities	$ 3	$ 5	$ 8
Net operating loss carryforwards	79	56	56
Foreign tax credit carryforwards	7	7	8
Allowance for doubtful accounts	5	2	6
Inventory reserve	13	9	10
Stock-based compensation	6	8	8
Intangible assets	66	28	24
Assets held-for-sale	—	4	—
Investment in subsidiaries	—	9	—
Capital Loss Carryforward	11	—	—
Book over tax depreciation	5	4	2
Other	5	4	3
Total deferred tax assets	$ 200	$ 136	$ 125
Deferred tax liabilities:			
Total deferred tax liabilities	$ —	$ —	$ —
Net deferred tax assets before valuation allowance	200	136	125
Valuation allowance	(199)	(138)	(129)
Net deferred tax assets (liabilities)	$ 1	$ (2)	$ (4)

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.

The Company remains in a three year cumulative loss position at the end of 2020. As a result, 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, 2020. The change during the year in the valuation allowance was $58 million in the U.S. and $3 million in other foreign jurisdictions.

There are no uncertain tax positions as of any of the periods presented. 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. For the year ended December 31, 2020, 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 U.S., various states and foreign jurisdictions. The Company has significant operations in the U.S. 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 2016 and outside the U.S. for the tax years ending after 2014.

In the U.S., the Company has $315 million of federal net operating loss carryforwards as of December 31, 2020, $218 million will expire between 2036 through 2037 and $97 million have no expiration. The potential tax benefit of $66 million has been reduced by a $66 million valuation allowance. In addition to a reduction in 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 $181 million of state net operating loss carryforwards as of December 31, 2020, which will expire between 2021 through 2040, with the majority expiring after 2034. The potential tax benefit of $10 million has been reduced by a $10 million valuation allowance. Outside the U.S., the Company has $15 million of net operating loss carryforwards as of December 31, 2020, of which $12 million have no expiration and $3 million will expire between 2021 and 2040. The potential tax benefit of $3 million has been reduced by a $3 million valuation allowance. As of December 31, 2020, the Company has $7 million of excess foreign tax credits in the U.S. The foreign tax credits will expire between 2024 and 2027. The potential tax benefit of $7 million has been reduced by a $7 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.

As of December 31, 2020, the amount of undistributed earnings of foreign subsidiaries was approximately $12 million. With the exception of the Company's earnings in Canada and the United Kingdom, the Company's foreign earnings continue to be indefinitely reinvested. 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. No additional income taxes have been provided for any additional outside basis differences inherent in the Company's foreign subsidiaries, as these amounts continue to be indefinitely reinvested. Determining the amount of unrecognized deferred tax liability related to any additional outside basis differences in these entities is not practicable.

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 30, 2018, the Company replaced its existing senior secured revolving credit facility and entered into a senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with Wells Fargo Bank, National Association, serving as the administrative agent. The five-year Credit Facility provides for a $750 million global revolving credit facility (with a letter of credit sub-facility of $60 million, and a swing line sub-facility of 10% of the facility amount), of which up to $100 million is available for the Company's Canadian subsidiaries and $40 million is available for the Company's UK subsidiaries. The Company has the right, subject to certain conditions, to increase the aggregate principal amount of commitments under the credit facility by $250 million. The obligations under the Credit Facility are secured by substantially all the assets of the Company and its subsidiaries. The Credit Facility contains customary covenants, representations and warranties and events of default. The Company will be required to maintain a fixed charge coverage ratio of at least 1.00:1.00 as of the end of each fiscal quarter if excess availability under the Credit Facility falls below the greater of 12.5% of the borrowing base or $60 million.

Borrowings under the Credit Facility will bear an interest rate at the Company's option, at (i) the base rate plus an applicable margin based on the Company's fixed charge coverage ratio (and if applicable, the Company's leverage ratio); or (ii) the greater of LIBOR for the applicable interest period and zero, plus an applicable margin based on the Company's fixed charge coverage ratio (and if applicable, the Company's leverage ratio). The Credit Facility includes a commitment fee on the unused portion of commitments that ranges from 25 to 37.5 basis points. Commitment fees incurred during the period were included in other expense in the consolidated statements of operations.

Availability under the Credit Facility is determined by a borrowing base comprised of eligible receivables and eligible inventory in the U.S and Canada. As of December 31, 2020, the Company had no borrowings against the Credit Facility and had approximately $197 million in availability (as defined in the Credit Facility) resulting in the excess availability (as defined in the Credit Facility) of 97% subject to certain limitations. The Company is not obligated to pay back borrowings against the current Credit Facility until the expiration date.

The Company issued $7 million in letters of credit under the Credit Facility primarily for casualty insurance expiring in July 2021.

11. Leases

The Company leases certain facilities, vehicles and equipment. The Company determines if an arrangement contains a lease at contract inception and recognizes ROU assets and lease liabilities for leases with terms greater than twelve months. Leases with an initial term of twelve months or less are accounted for as short-term leases and are not recognized in the balance sheet. Operating fixed lease expenses and finance lease depreciation expense are recognized on a straight-line basis over the lease term. Variable lease payments which cannot be determined at the lease commencement date, such as reimbursement of lessor expenses, were not included in the ROU assets or lease liabilities.

Many leases include both lease and non-lease components which are primarily related to management services provided by lessors for the underlying assets. The Company elected the practical expedient to account for lease and non-lease components as a single lease component for all leases as well as the practical expedient that allows the Company to carry forward the historical lease classifications. For all new and modified leases entered into after the adoption of ASC 842, the Company reassesses the lease classification and lease term on the effective date of modification. Lease term includes renewal periods if the Company is reasonably certain to exercise any renewal options per the lease contract. The Company's leases do not contain any material residual value guarantees or restrictive covenants. The Company subleases certain real estate to third parties; however, this activity is not material.

As most leases do not have readily determinable implicit rates, the Company estimates the incremental borrowing rates based on prevailing financial market conditions, comparable companies and credit analysis and management judgments to determine the present values of its lease payments. The Company also applies the portfolio approach to account for leases with similar terms. As of December 31, 2020, the weighted-average remaining lease terms were approximately 3 years for operating leases and 5 years for finance leases, and the weighted-average discount rates were 6.5% for operating leases and 5.6% for finance leases.

During the year ended December 31, 2020, the Company recognized $2 million impairment of operating right-of-use assets which was included in impairment charges in the consolidated statements of operations. See Note 8 "Intangibles, net" for additional information.

Supplemental balance sheet information is as follows (*in millions*):

	Classification	December 31, 2020	December 31, 2019
Assets			
Operating	Other assets	$ 41	$ 56
Finance	Property, plant and equipment, net	10	16
Total ROU assets		$ 51	$ 72
Liabilities			
Current			
Operating	Accrued liabilities	$ 17	$ 21
Finance	Other current liabilities	5	7
Long-term			
Operating	Long-term operating lease liabilities	25	34
Finance	Other long-term liabilities	6	10
Total lease liabilities		$ 53	$ 72

Components of lease expense is as follows (*in millions*):

	Classification	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating lease cost (1)	Warehousing, selling and administrative	$ 26	$ 31
Finance lease ROU asset depreciation (2)	Warehousing, selling and administrative	7	5
Short-term lease cost	Warehousing, selling and administrative	6	7
Variable lease cost	Warehousing, selling and administrative	2	3

(1) Included in other, net adjustment to reconcile net income to net cash provided by (used in) operating activities in the consolidated statement of cash flows.
(2) Included in depreciation and amortization in the consolidated statement of cash flows. Interest on finance lease liabilities is approximately $1 million.

Rental expense related to operating leases approximated $48 million for the year ended December 31, 2018.

Supplemental cash flow information is as follows (in millions):

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 27	$ 31
Financing cash flows from finance leases (1)	7	5
ROU assets obtained in exchange for new lease liabilities		
Operating	$ 10	$ 17
Finance	2	20

(1) Interest payments from finance lease liabilities is approximately $1 million.

Maturity of lease liabilities as of December 31, 2020 were as follows (*in millions*):

	Operating Lease	Finance Lease
2021	$ 19	$ 6
2022	14	4
2023	9	1
2024	3	—
2025	—	—
Thereafter	1	2
Total future lease payments	46	13
Less: interest	(4)	(2)
Present value of lease liabilities	$ 42	$ 11

The Company assumed leases with certain 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 $2 million, $2 million and $3 million for the years ended December 31, 2020, 2019, and 2018, respectively. Total future commitments related to these operating leases is approximately $4 million through 2023.

12. 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.

The Company maintains credit arrangements with several banks providing for standby letters of credit, including bid and performance bonds, and other bonding requirements. As of December 31, 2020, the Company was contingently liable for approximately $12 million of outstanding standby letters of credit 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.

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 one 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 nonfunctional 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. As of December 31, 2020 and 2019, the fair value of the Company's foreign currency forward contracts totaled an asset of less than $1 million and a liability of less than $1 million in both periods. The Company's foreign currency forward contract assets were included in prepaid and other current assets in the consolidated balance sheets and the Company's foreign currency forward contract liabilities were included in other current liabilities in the consolidated balance sheets.

For the years ended December 31, 2020, 2019 and 2018, the Company recorded a gain of $1 million, loss of $1 million and loss of $1 million, respectively, related to changes in fair value. All gains and losses were included in other expense in the consolidated statements of operations. The notional principal associated with those contracts was $8 million, $15 million and $20 million as of December 31, 2020, 2019 and 2018, respectively.

As of December 31, 2020, 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, 2019	$ (128)
Other comprehensive loss	(17)
Balance at December 31, 2020	$ (145)

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

As of December 31, 2020, the Company had four operating segments – U.S. Energy, U.S. Process Solutions, Canada and International. During 2020, to align with the updates to the operational and management structure, the Company combined two operating segments within the U.S. reportable segment, U.S. Energy and U.S. Supply Chain, each with goodwill of zero prior to and after the combination. 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 or future expected 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 U.S. Energy and U.S. 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 into the United States reportable segment.

United States

The Company has approximately 130 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 approximately 40 locations in the Canadian oilfield, predominantly in the oil rich provinces of Alberta, Saskatchewan, Manitoba and other targeted locations across the country. 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 approximately 25 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
2020				
Revenue	$ 1,153	$ 209	$ 257	$ 1,619
Operating loss	(281)	(60)	(79)	(420)
Impairment charges	189	60	72	321
Depreciation and amortization	23	2	3	28
Property, plant and equipment, net	70	12	16	98
Total assets (1)	714	141	153	1,008
2019				
Revenue	$ 2,240	$ 319	$ 392	$ 2,951
Operating loss	(6)	(19)	(58)	(83)
Impairment charges	43	27	58	128
Depreciation and amortization	30	2	9	41
Property, plant and equipment, net	84	14	22	120
Total assets (1)	1,034	259	298	1,591
2018				
Revenue	$ 2,371	$ 358	$ 398	$ 3,127
Operating profit	57	14	2	73
Depreciation and amortization	30	2	9	41
Property, plant and equipment, net	73	12	21	106
Total assets (1)	1,148	294	353	1,795

(1) Beginning in 2020, due to asset impairments and declining market conditions, reporting segment assets excluded inter-segment adjustments that were eliminated in the total assets in the consolidated balance sheets. Prior periods have been reclassified to conform with the current period presentation.

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

	Year Ended December 31,		
	2020	2019	2018
Product Category			
Drilling and production	$ 428	$ 711	$ 691
Pipe	228	473	587
Valves	326	608	664
Fittings and flanges	287	524	523
Mill tool, MRO, safety and other	350	635	662
Total	$ 1,619	$ 2,951	$ 3,127

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

Basic EPS is based on net income (loss) 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 (loss) per share.

For the year ended December 31, 2020, 2019 and 2018, a total of approximately 6 million, 8 million and 5 million, respectively, of potentially dilutive shares were excluded from the computation of diluted earnings per share due to their antidilutive effect or due to the Company recognizing a net loss for the period.

Basic and diluted EPS are as follows (*in millions*, except share data):

	Year Ended December 31,		
	2020	2019	2018
Numerator:			
Net income (loss) attributable to the Company	$ (427)	$ (97)	$ 52
Less: net income attributable to participating securities	—	—	(1)
Net income (loss) attributable to the Company's stockholders	$ (427)	$ (97)	$ 51
Denominator:			
Weighted average basic common shares outstanding	109,406,079	108,779,891	108,296,155
Effect of dilutive securities	—	—	341,489
Weighted average diluted common shares outstanding	109,406,079	108,779,891	108,637,644
Earnings (loss) per share attributable to the Company's stockholders:			
Basic	$ (3.91)	$ (0.89)	$ 0.47
Diluted	$ (3.91)	$ (0.89)	$ 0.47

Under ASC Topic 260, "Earnings 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 loss is not allocated to nonvested awards in periods 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

Under the terms of the NOW Inc. Long Term Incentive Plan (the "Plan"), 16 million shares of the Company's common stock were authorized for grant to employees, non-employee directors and other persons. The Plan provides for the grant of stock options, restricted stock awards, restricted stock units, phantom shares and performance stock awards.

Stock-based compensation expense recognized for the years ended December 31, 2020, 2019 and 2018 totaled $6 million, $13 million and $16 million, respectively. The tax effected benefit for share-based compensation arrangements was $1 million, $3 million, and $3 million for the years ended December 31, 2020, 2019 and 2018, respectively. Unvested stocks and awards associated with certain management employees retiring were allowed to continue to vest after retirement for a period less than one year during the term in which such employees served as consultants to the Company, for which the Company accounted as a Type III modification under ASC Topic 718 since the expectation of the award vesting changed from improbable to probable. Therefore, the stock-based compensation expense recognized was based on the modification-date fair value resulting in a reduction of stock-based compensation expense for the year ended December 31, 2020.

Each of the stock-based compensation arrangements are discussed below.

Stock Options

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 2020, 2019 and 2018, 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:

	December 31,		
	2020	2019	2018
Valuation Assumptions:			
Expected volatility	43.7%	43.7%	44.2%
Risk-free interest rate	1.4%	2.5%	2.7%
Expected dividends (per share)	$ —	$ —	$ —
Expected term (in years)	4.5	4.5	4.5

The following table summarizes award activity for stock options:

Stock Options	Shares *(in thousands)*	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term *(in years)*	Aggregate Intrinsic Value *(in millions)*
Outstanding as of December 31, 2019	5,126	$ 20.11		
Granted	697	9.53		
Forfeited and expired	(1,437)	21.61		
Exercised	—	—		
Outstanding as of December 31, 2020	4,386	$ 17.93	3.39	$ —
Exercisable at December 31, 2020	3,166	$ 20.70	2.64	$ —

The weighted average grant-date fair value of options granted for the years ended December 31, 2020, 2019 and 2018 was $3.59, $6.02 and $3.95, respectively. The total intrinsic value of options exercised for the years ended December 31, 2020, 2019 and 2018 was less than $1 million. As of December 31, 2020, unrecognized compensation cost related to stock option awards was approximately $3 million, which is expected to be recognized over a weighted average period of 1.4 years. There were no stock options exercised during the year ended December 31, 2020.

Restricted Stock Awards, Restricted Stock Units and Phantom Shares (“RSAs and RSUs”)

Restricted stock generally cliff vests after 1, 3 or 6 years. The grant-date fair value of RSA and RSU grants is determined using the closing quoted market price on the grant date. Additionally, the Company’s RSA and RSU agreements provide for full vesting of RSAs and RSUs 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 RSAs and RSUs:

RSAs / RSUs	Shares *(in thousands)*	Weighted-Average Grant-Date Fair Value
Nonvested as of December 31, 2019	1,272	$ 19.38
Granted	374	8.78
Vested (1)	(963)	22.69
Forfeited	(49)	11.88
Nonvested as of December 31, 2020	634	$ 10.25

(1) 256 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 $8.78, $13.42 and $10.82 for RSAs and RSUs granted for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, unrecognized compensation cost related to RSAs and RSUs was $3 million, which is expected to be recognized over a weighted average period of 1.1 year. The total vest-date fair value of shares vested for the years ended December 31, 2020, 2019 and 2018 was $4 million, $12 million, and $7 million, respectively.

Performance Stock Awards ("PSAs")

PSAs generally have a 3-year vesting period from the grant date and vest at the end of the vesting period with potential payouts varying from zero for performance below the threshold performance metric to 200% of the target award PSAs for performance above the maximum performance metric. The grant-date fair value of market-condition PSA grants is determined using a Monte Carlo simulation probabilistic model. The grant-date fair value of performance-condition PSA 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 PSAs at the target level 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 Company granted PSAs to senior management employees whereby the PSAs can be earned based on performance against established metrics over a three-year performance period. The PSAs are divided into three independent parts that are subject to separate performance metrics: (i) one-half of the PSAs have a Total Shareholder Return ("TSR") metric, (ii) one-quarter of the PSAs have an EBITDA metric, and (iii) one-quarter of the PSAs have a Return on Capital Employed ("ROCE") metric.

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 ROCE metric is determined by comparing the performance of the Company's actual ROCE average for each of the three-years of the performance period against the ROCE 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, 2019	213	$ 15.67
Granted	195	12.12
Vested (1)	(52)	20.64
Forfeited	(41)	16.63
Nonvested as of December 31, 2020	315	$ 12.53

(1) 15 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 of PSAs granted for the years ended December 31, 2020, 2019 and 2018 was $12.12, $17.69 and $11.81 respectively. As of December 31, 2020, unrecognized compensation cost related to PSAs was $1 million, which is expected to be recognized over a weighted average period of 1.3 years. The total vest-date fair value of PSAs vested during the year ended December 31, 2020 was less than $1 million.

18. Employee Bargaining Agreements and Benefit Plans

Collective bargaining agreements

At December 31, 2020, the Company had approximately 2,500 employees, of which approximately 100 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 and a percentage of current earnings. For the years ended December 31, 2020, 2019 and 2018, employer contributions for defined contribution plans were $5 million, $13 million and $13 million, respectively, and all funding is current.

The Company has a non-qualified deferred compensation plan (the "NQDC Plan") for certain members of senior management. NQDC Plan assets are invested in mutual funds held in a "rabbi trust," which is restricted for payment to participants of the NQDC Plan. Such equity securities held in a rabbi trust are measured using quoted market prices at the reporting date (Level 1 within the fair value hierarchy) and were included in other assets, with the corresponding liability included in other long-term liabilities in the consolidated balance sheets.

Defined Benefit Pension Plans

As of December 31, 2020, the Company sponsors two defined benefit plans in the United Kingdom under which accrual of pension benefits have ceased. Plan member benefits that have previously been accrued are indexed in line with inflation during the period up to retirement in order to protect their purchasing power. During 2020, the Company completed a lump-sum window in one plan, which allowed participants to elect a one-time voluntary lump sum payment in lieu of future pension payments. As a result of the lump-sum transaction, the Company recognized a settlement charge of approximately $3 million in other expenses in its consolidated statement of operations. For the remaining participants who did not elect the lump-sum distribution, the Company entered into a buy-in annuity contract in 2020, which is expected to transfer the remaining liability to the insurance provider when the remaining buy-out contract provisions are completed. In connection with these transactions, the Company made a voluntary cash contribution of $3 million in 2020.

Net periodic benefit cost for the Company’s defined benefit plans aggregated $6 million for the year ended December 31, 2020, and were included in other expense in the consolidated statement of operations. Actuarial loss during the year is primarily attributable to the de-risking of the Company’s defined benefit plans including the lump-sum settlement and the purchase of the buy-in annuity contract. The Company immediately recognizes actuarial gains and losses in other expense. These gains and losses are generally measured annually and will normally be recorded in the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost would be affected in future years. Net periodic benefit cost for the defined benefit plans aggregated less than $1 million for each of the years ended December 31, 2019 and 2018.

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, 2020 and 2019, are as follows (*in millions*):

	Pension Benefits	
At year end	**2020**	**2019**
Benefit obligation at beginning of year	$ 11	$ 11
Service cost	—	—
Interest cost	—	—
Actuarial loss (gain)	6	—
Benefits paid	—	—
Participants contributions	—	—
Plan settlements	(8)	—
Foreign currency exchange rate changes	—	—
Acquisitions (disposals)	—	—
Benefit obligation at end of year	$ 9	$ 11
Fair value of plan assets at beginning of year	$ 16	$ 15
Actual return	—	1
Benefits paid	—	—
Company contributions	3	—
Participants contributions	—	—
Plan settlements	(8)	—
Foreign currency exchange rate changes	—	—
Acquisitions (disposals)	—	—
Fair value of plan assets at end of year	$ 11	$ 16
Funded status	2	5
Accumulated benefit obligation at end of year	$ 9	$ 11

The net asset is presented within other assets in the consolidated balance sheets.

The Company estimates income or expense related to its pension and postretirement plans based on actuarial assumptions, including assumptions regarding discount rates and expected returns on plan assets, adjusted for current period actuarial gains and losses. 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:

	December 31,	
	2020	2019
Discount rate:	0.70% - 1.20%	2.00% - 2.10%

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

	December 31,		
	2020	2019	2018
Discount rate:	2.00% - 2.10%	2.65% - 2.90%	2.50%
Expected return on assets:	2.54% - 3.03%	3.02% - 3.62%	3.10% - 4.17%

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. In the plan that purchased the annuity contract, the long-term rate of return is equal to the discount rate used to value the obligation.

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 $1 million or less for each of the next five years and in the aggregate $1 million for the five years thereafter. The Company does not expect to contribute to its defined benefit pension plans in 2021.

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 (1)
December 31, 2020:				
Annuity contract	$ 6	$ —	$ —	$ 6
Other	5	1	4	—
Total fair value measurements	$ 11	$ 1	$ 4	$ 6
December 31, 2019:				
Equity securities	$ 6	$ 6	$ —	$ —
Fixed income securities	5	5	—	—
Other	5	1	4	—
Total fair value measurements	$ 16	$ 12	$ 4	$ —

(1) Transfers of $6 million into Level 3 in the fair value hierarchy consist of the buy-in annuity contract entered into during 2020. Fair value is estimated by adjusting the premium paid by movements in gilt yields during the reporting period.

19. Transactions

Divestitures

As of December 31, 2019, as a result of strategic review of its assets, the Company decided to commit to a plan to divest a business that is primarily in the United States segment selling cutting tools to the aerospace and automotive markets. For the year ended December 31, 2019, the carrying value of the net assets held-for-sale was compared to the estimated fair value resulting in a $9 million impairment charge which was included in impairment charges in the consolidated statements of operations and the remaining $34 million of assets and $6 million of liabilities were classified as held-for-sale in the consolidated balance sheets. In the first quarter of 2020, the Company completed the sale of its held-for-sale business as of year-end 2019.

During the fourth quarter of 2020, the Company completed the sale of a business that sells lighting solutions locally in the United Kingdom. Neither divestiture of business qualified to be a discontinued operation as it did not represent a strategic shift that would have a major effect on the Company's operations and financial results. Both sales resulted in an aggregate loss of $1 million for the year ended December 31, 2020 and were included in impairment charges in the consolidated statements of operations, subject to customary purchase price adjustments as defined in the transaction agreements.

Acquisitions

As of December 31, 2019, the Company completed two acquisitions for a net purchase price consideration of approximately $8 million cash. These acquisitions expand NOW's market in the U.S. The Company completed its valuations as of the acquisition date of the acquired net assets and recognized goodwill of $6 million and intangible assets of $2 million in the United States segment. The full amount of goodwill recognized is expected to be deductible for income tax purposes. Acquisition-related costs were less than $1 million for the year ended December 31, 2019. The Company has not presented supplemental pro forma information because the acquired operations did not materially impact the Company's consolidated operating results.

EXHIBIT 4.1

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following description sets forth certain material terms and provisions of the securities of NOW Inc. (the "Company") that are registered under Section 12 of the Securities Exchange Act of 1934, as amended. This description also summarizes relevant provisions of Delaware law. The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable provisions of Delaware law and our amended and restated certificate of incorporation and our amended and restated bylaws, copies of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. We encourage you to read our certificate of incorporation, our bylaws and the applicable provisions of Delaware law for additional information.

Our certificate of incorporation authorizes us to issue up to 330,000,000 shares of common stock, par value $0.01 per share, and 20,000,000 shares of preferred stock, par value $0.01 per share, in one or more series.

Holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to the preferences that may be applicable to any outstanding shares of preferred stock, common stockholders are entitled to receive ratably such dividends, if any, as may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the common stockholders are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of any shares of preferred stock then outstanding. Common stockholders have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. The common stock currently outstanding is fully paid and non-assessable.

The transfer agent and registrar for the common stock is American Stock Transfer & Trust Company, LLC.

Our common stock is listed on the New York Stock Exchange under the trading symbol "DNOW".

Our board of directors is authorized, without any action by the stockholders, subject to any limitations prescribed by law, to designate and issue preferred stock in one or more series and to designate the powers, preferences and rights of each series, which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until our board of directors determines the specific rights of the holders of such preferred stock. However, the effects might include, among other things:

- impairing the dividend rights of the common stock;

- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; and
- delaying, deferring or preventing a change in control.

Anti-Takeover Provisions

Certain provisions of Delaware law and our certificate of incorporation and bylaws could make the following more difficult:

- our acquisition by means of a tender offer;
- acquisition of control by means of a proxy contest or otherwise; and
- removal of our incumbent officers and directors.

These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and inadequate takeover bids, and are designed to encourage persons seeking to acquire control of the Company to negotiate with the board of directors. The Company believes that the benefits of increased protection against an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging such proposals. Among other things, negotiation of such proposals could result in an improvement of their terms.

Delaware Anti-Takeover Law. Delaware corporations may elect not to be governed by Section 203 of the Delaware General Corporation Law (the "DGCL"), *i.e*., Delaware's anti-takeover law. The Company has not made this election. Delaware's anti-takeover law provides that an "interested stockholder," defined as a person who owns 15% or more of the outstanding voting stock of a corporation or a person who is an associate or affiliate of the corporation and, within the preceding three-year period, owned 15% or more of the outstanding voting stock, may not engage in specified business combinations with the corporation for a period of three years after the date on which the person became an interested stockholder. The law defines the term "business combination" to encompass a wide variety of transactions with or caused by an interested stockholder, including mergers, asset sales and transactions in which the interested stockholder receives or could receive a benefit on other than a pro rata basis with other stockholders. With the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of our capital stock entitled to vote in the election of directors, voting together as a single class, we may amend the certificate of incorporation in the future to no longer be governed by the anti-takeover law. This amendment would have the effect of allowing any person who owns at least 15% of our outstanding voting stock to pursue a takeover transaction that was not approved by our board of directors. However, because the Company has not elected to opt-out of this provision, for transactions not approved in advance by our board of directors, the provision might discourage takeover attempts that might result in a premium over the market price for shares of our common stock.

Limitations of Director Liability and Indemnification. Our certificate of incorporation provides that directors shall not be personally liable to the corporation or to its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL. Delaware law currently provides that this waiver may not apply to liability:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- under Section 174 of the DGCL (governing distributions to stockholders); or
- for any transaction from which the director derived any improper personal benefit.

In the event the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors will be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. Our bylaws further provide that we will indemnify each of our directors and officers, trustees, fiduciaries, employees and agents to the fullest extent permitted by Delaware law.

Board of Directors. The board is currently divided into three classes such that each director shall serve for a term ending on the third annual meeting following the annual meeting at which such director was elected. The 2020 Annual meeting approved a declassification amendment that will eliminate the classification of the board over a three-year period beginning at our 2021 Annual Meeting of Stockholders. The elected director(s) would serve a one-year term expiring at the following annual meeting of stockholders and until his or her respective successor is duly elected and qualified, or until his or her earlier death, resignation, disqualification, or removal. Directors whose terms expire in 2022 and 2023 would continue their original terms until up for reelection. As a result, beginning at the 2023 Annual Meeting, all directors would be elected annually. In addition, a director may be removed before expiration of such director's term only for cause by an affirmative vote of the holders of not less than 80% of the outstanding shares.

Special Stockholder Meetings. Under our certificate of incorporation, only our chief executive officer or board of directors may call a special meeting of stockholders pursuant to a resolution adopted by at least a majority of the members of the board of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our bylaws contain advance-notice and other procedural requirements that apply to stockholder proposals and stockholder nominations of candidates for the election of directors. Proper notice must be both timely and must include certain information about the stockholder making the proposal or nomination, as applicable, and about the proposal or candidate being nominated, as applicable. These advance-notice provisions may have the effect of precluding a contest for the election of our directors or the consideration of stockholder proposals if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal, without regard to whether consideration of those nominees or proposals might be harmful or beneficial to us and our stockholders.

Elimination of Stockholder Action by Written Consent. Our certificate of incorporation eliminates the right of stockholders to act by written consent without a meeting. This provision will make it more difficult for stockholders to take action opposed by the board of directors.

No Cumulative Voting. Our certificate of incorporation does not provide for cumulative voting in the election of directors, which, under Delaware law, precludes stockholders from cumulating their votes in the election of directors, frustrating the ability of minority stockholders to obtain representation on the board of directors.

Undesignated Preferred Stock. The authorization of undesignated preferred stock makes it possible for the board of directors, without stockholder approval, to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to obtain control of the Company. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in the control or management of the Company.

Amendment of Provisions in the Certificate of Incorporation and Bylaws. Our certificate of incorporation provides that the affirmative vote of the holders of at least 80 percent of our voting stock then outstanding is required to amend certain provisions of the certificate of incorporation, including those relating to the number and classification of the board of directors, term and removal of directors, the calling of special meetings of stockholders and exclusive venue for specified disputes. Our certificate of incorporation also provides that the affirmative vote of holders of at least 80 percent of the voting power of the voting stock then outstanding is required to amend certain provisions of the bylaws, including those relating to the calling of special meetings of stockholders, stockholder action by written consent, composition and classification of the board of directors, vacancies on the board of directors, term and removal of directors and director and officer indemnification. Our certificate of incorporation also confers upon our board of directors the right to amend our bylaws.

Exclusive Forum. Our bylaws provide that, unless our board of directors consents in writing to an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty owed by any of our directors or officers to us or our stockholders, creditors or other constituents, any action asserting a claim against us or any of our directors or officers arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws (as either may be amended from time to time) or any action asserting a claim against us or any of our directors or officers governed by the internal affairs doctrine.

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Name	Country
Capital Valves Holdings Limited	United Kingdom
Capital Valves Limited	United Kingdom
DNOW Australia Pty. Ltd.	Australia
DNOW Brasil Distribuicao de Produtos Industriais Ltda	Brazil
DNOW Canada ULC	Canada
DNOW de Mexico S de RL de CV	Mexico
DNOW L.P.	United States
DNOW Singapore Pte. Ltd.	Singapore
DNOW UK Limited	United Kingdom
GROUP KZ LLP	Kazakhstan
Istok Business Services LLC	Russian Federation
NOW Brazil Holding LLC	United States
NOW Canada Holding B.V.	Netherlands
NOW Canada Holding ULC	Canada
NOW Cooperatief I U.A.	Netherlands
NOW Cooperatief II U.A.	Netherlands
NOW Distribution (Shanghai) Co., Ltd.	China
NOW Distribution Eurasia, LLC	Russian Federation
NOW Distribution India Private Limited	India
NOW Holding Cooperatief U.A.	Netherlands
NOW Holding LLC	United States
NOW I LLC	United States
NOW Indonesia Holding B.V.	Netherlands
NOW Indonesia Holding LLC	United States
NOW Management, LLC	United States
NOW Mexico Holding I B.V.	Netherlands
NOW Mexico Holding II B.V.	Netherlands
Now Muscat LLC	Oman
NOW Netherlands B.V.	Netherlands
NOW Norway AS	Norway
NOW Russia Holding B.V.	Netherlands
NOW Singapore Holding LLC	United States
PT. NOW Indonesia	Indonesia
Wilson Distribution Holdings BV	Netherlands
Wilson International, Inc.	United States
Wilson Libya Holdings, LLC	United States
Distribution NOW FZE	United Arab Emirates
Wilson Supply Chain Services Limited	British Virgin Islands
Wilson United Kingdom Limited	United Kingdom
WILSONCOS, L.L.C.	United States
Odessa Pumps and Equipment, Inc.	United States
Power Service, Inc.	United States
Power Transportation, LLC	United States
Oaasis Group Limited	United Kingdom
Atlas Industrial and Marine Supply Limited	United Kingdom
Annasbrook Supply Company Limited	United Kingdom
Outland Safety and Industrial Products Limited	United Kingdom
MacLean Electrical Group Limited	United Kingdom
J.T. Day Pty Ltd	Australia
MacLean Marine Limited	United Kingdom
North Sea Cables Limited	United Kingdom
MacLean Electrical (Australia) Pty Ltd	Australia
R.A. Hall Limited	United Kingdom
Noskab Limited	United Kingdom
NOW Saudi Arabia Limited Company	Saudi Arabia
DNOW Wilson USVI, LLC	Virgin Islands, U.S.
DNOW Egypt-Free Zone	Egypt

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-196529) pertaining to the NOW Inc. Long-Term Incentive Plan and the NOW Inc. 401(k) and Retirement Savings Plan of our reports dated February 17, 2021, with respect to the consolidated financial statements of NOW Inc. and the effectiveness of internal control over financial reporting of NOW Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2020.

By: /s/ Ernst & Young LLP
Houston, Texas
February 17, 2021

Exhibit 31.1

CERTIFICATION

I, David A. Cherechinsky, certify that:

1. I have reviewed this annual report on Form 10-K of NOW Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its combined subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2021

By: */s/ David A. Cherechinsky*
David A. Cherechinsky
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Mark B. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K of NOW Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its combined subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 17, 2021

By: */s/ Mark B. Johnson*
Mark B. Johnson
Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NOW Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, David A. Cherechinsky, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The certification is given to the knowledge of the undersigned.

Date: February 17, 2021

By: */s/ David A. Cherechinsky*
David A. Cherechinsky
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NOW Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark B. Johnson, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The certification is given to the knowledge of the undersigned.

Date: February 17, 2021

By: /s/ Mark B. Johnson
Mark B. Johnson
Senior Vice President and Chief Financial Officer