

NOW Inc.
Form 10-Q
August 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2018

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
(State or other jurisdiction of
incorporation or organization) 46-4191184
(I.R.S. Employer
Identification No.)

7402 North Eldridge Parkway,

Houston, Texas 77041

(Address of principal executive offices)

(281) 823-4700

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

(Do not check if a small reporting company) Small 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 26, 2018 the registrant had 108,390,737 shares of common stock (excluding 1,384,492 unvested restricted shares), par value \$0.01 per share, outstanding.

NOW INC.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

NOW INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 91	\$ 98
Receivables, net	495	423
Inventories, net	604	590
Prepaid and other current assets	23	18
Total current assets	1,213	1,129
Property, plant and equipment, net	109	119
Deferred income taxes	2	2
Goodwill	321	328
Intangibles, net	155	166
Other assets	11	5
Total assets	\$ 1,811	\$ 1,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 315	\$ 290
Accrued liabilities	103	103
Other current liabilities	2	1
Total current liabilities	420	394
Long-term debt	195	162
Deferred income taxes	6	7
Other long-term liabilities	1	1
Total liabilities	622	564
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;	1	1
108,390,737 and 108,030,438 shares issued and outstanding at June 30, 2018		

and December 31, 2017, respectively		
Additional paid-in capital	2,026	2,019
Accumulated deficit	(714)	(730)
Accumulated other comprehensive loss	(124)	(105)
Total stockholders' equity	1,189	1,185
Total liabilities and stockholders' equity	\$ 1,811	\$ 1,749

See notes to unaudited consolidated financial statements.

NOW INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In millions, except per share data)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Revenue	\$777	\$651	\$1,541	\$1,282
Operating expenses:				
Cost of products	620	527	1,236	1,044
Warehousing, selling and administrative	139	138	280	273
Operating profit (loss)	18	(14)	25	(35)
Other expense	(3)	(3)	(7)	(5)
Income (loss) before income taxes	15	(17)	18	(40)
Income tax provision (benefit)	1	—	2	—
Net income (loss)	\$14	\$(17)	\$16	\$(40)
Earnings (loss) per share:				
Basic earnings (loss) per common share	\$0.12	\$(0.16)	\$0.15	\$(0.37)
Diluted earnings (loss) per common share	\$0.12	\$(0.16)	\$0.15	\$(0.37)
Weighted-average common shares outstanding, basic	108	108	108	108
Weighted-average common shares outstanding, diluted	108	108	108	108

See notes to unaudited consolidated financial statements.

NOW INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	2018	2017	2018	2017
Net income (loss)	\$14	\$(17)	\$16	\$(40)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(20)	12	(19)	22
Comprehensive loss	\$(6)	\$(5)	\$(3)	\$(18)

See notes to unaudited consolidated financial statements.

NOW INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$16	\$(40)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	22	26
Deferred income taxes	(1)	(1)
Stock-based compensation	8	11
Provision for doubtful accounts	2	2
Provision for inventory	5	8
Change in operating assets and liabilities, net of acquisitions:		
Receivables	(79)	(61)
Inventories	(25)	(50)
Prepaid and other current assets	(4)	(5)
Accounts payable and accrued liabilities	31	37
Income taxes receivable, net	—	(1)
Net cash used in operating activities	(25)	(74)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3)	(1)
Business acquisitions, net of cash acquired	—	(4)
Other, net	1	3
Net cash used in investing activities	(2)	(2)
Cash flows from financing activities:		
Borrowing under the revolving credit facility	391	172
Repayments under the revolving credit facility	(358)	(109)
Other	(8)	—
Net cash provided by financing activities	25	63
Effect of exchange rates on cash and cash equivalents	(5)	4
Net change in cash and cash equivalents	(7)	(9)
Cash and cash equivalents, beginning of period	98	106
Cash and cash equivalents, end of period	\$91	\$97

See notes to unaudited consolidated financial statements.

NOW INC.

Notes to Unaudited Consolidated Financial Statements

1. Organization and Basis of Presentation

Nature of Operations

NOW Inc. (“NOW” or the “Company”) is a holding company headquartered in Houston, Texas that was incorporated in Delaware on November 22, 2013. NOW operates primarily under the DistributionNOW and Wilson Export brands. NOW is a global distributor of energy products as well as products for industrial applications through its locations in the U.S., Canada and internationally which are geographically positioned to serve the energy and industrial markets in over 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 other facilities across numerous industries and end markets. NOW also provides supply chain management to drilling contractors, E&P operators, midstream operators, downstream energy and industrial manufacturing companies. NOW’s supplier network consists of thousands of vendors in approximately 40 countries.

Basis of Presentation

All significant intercompany transactions and accounts have been eliminated. The unaudited consolidated financial information included in this report has been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and Article 10 of SEC Regulation S-X. The principles for interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the financial statements included in the Company’s most recent Annual Report on Form 10-K. In the opinion of the Company’s management, the consolidated financial statements include all adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year.

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.

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. Cash equivalents include only those investments having a maturity date of three months or less at the time of purchase. See Note 12 “Derivative Financial Instruments” for the fair value of derivative financial instruments.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company continues to assess the impact of ASU 2016-02 on its consolidated financial statements. The Company plans to adopt Topic 842 in the first quarter of fiscal year 2019. Based on the Company’s preliminary assessment, which is subject to change, the Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon the adoption of ASU 2016-02, which will increase the total assets and total liabilities that are reported relative to such amounts prior to adoption. The Company does not expect the adoption of this standard to have a material impact on its consolidated statements of operations and cash flows.

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

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 affects any entity using GAAP that enters into contracts with customers to transfer goods or services or contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Revenue Recognition (Topic 605), and most industry-specific guidance. The Company adopted this standard as of January 1, 2018, using the modified retrospective transition method resulting in an immaterial increase to the opening accumulated deficit due to the cumulative impact of adopting Topic 606. The adoption of the new standard had no material impact on the measurement or recognition of revenue, however additional disclosures have been added in accordance with Topic 606. See Note 2 “Revenue” for additional details on the Company’s revenue policies.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715). ASU 2017-07 requires the disaggregation of the service cost component from the other components of net periodic benefit cost and allows only the service cost component of net benefit cost to be eligible for capitalization. ASU 2017-07 is effective for annual and interim periods in fiscal years beginning after December 15, 2017. The Company sponsors two defined benefit plans in the UK under which accrual of pension benefits has ceased and there will not be a service cost component to the net periodic pension cost. 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. The Company adopted this standard as of January 1, 2018, with no material impact on its consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (Topic 740), which updates the income tax accounting in U.S. GAAP to reflect the Securities and Exchange Commission interpretive guidance released on December 22, 2017, when the Tax Cuts and Jobs Act of 2017 (“Tax Cuts and Jobs Act”) was enacted into law. The Company evaluated the potential impacts of SEC Staff Accounting Bulletin No. 118 (“SAB 118”) along with this ASU and has applied them to its consolidated financial statements and related disclosures. See Note 8 “Income Taxes” for additional information.

2. Revenue

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with ASC Topic 605, “Revenue Recognition”. The adoption of ASC Topic 606 resulted in \$5 million additional receivables and deferred revenue related to the recognition of receivables with unconditional right to payment.

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 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.

See Note 7 "Business Segments" for 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.

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 one year or more. 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 if 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. These assets were de minimis for the six months ended June 30, 2018 and were included in receivables, net in the consolidated balance sheets. The Company applied the practical expedient to recognize 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 recognized is one year or less. These expenses were not material for the three and six months ended June 30, 2018.

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. The increase in contract liabilities for the six months ended June 30, 2018 was primarily related to customer deposits of approximately \$17 million, partially offset by approximately \$11 million of revenue recognized that was deferred at the beginning of the period.

3. Property, Plant and Equipment, net

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

	Estimated Useful Lives	June 30, 2018	December 31, 2017
Information technology assets	1-7 Years	\$45	\$ 48
Operating equipment	2-15 Years	90	93
Buildings and land ⁽¹⁾	5-35 Years	96	97
Construction in progress		1	—
Total property, plant and equipment		232	238
Less: accumulated depreciation		(123)	(119)
Property, plant and equipment, net		\$109	\$ 119

(1) Land has an indefinite life.

4. Accrued Liabilities

Accrued liabilities consist of (in millions):

	June 30, 2018	December 31, 2017
Compensation and other related expenses	\$ 32	\$ 36
Contract liabilities ⁽¹⁾	29	19
Taxes (non-income)	12	15
Other	30	33
Total	\$ 103	\$ 103

(1) Previously shown as customer credits and prepayments.

5. 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 subfacility of \$60 million, and a swing line subfacility of 10% of the facility amount), of which up to \$100 million is available for the Company's Canadian subsidiaries and \$40 million 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 June 30, 2018, the Company borrowed \$195 million against the Credit Facility and had approximately \$332 million in availability (as defined in the Credit Facility) resulting in the excess availability (as defined in the Credit Facility) of 62% subject to certain limitations. The Company was not obligated to pay back the borrowing against the Credit Facility until the expiration date, as such the outstanding borrowing is classified as long-term debt in the consolidated balance sheets.

The Company issued \$6 million in letters of credit under the Credit Facility primarily for casualty insurance expiring in July 2019.

6. Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments
Balance at December 31, 2017	\$ (105)
Other comprehensive loss	(19)
Balance at June 30, 2018	\$ (124)

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 or loss in accordance with ASC Topic 830, "Foreign Currency Matters."

7. Business Segments

Operating results by reportable segment are as follows (in millions):

	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Revenue:				
United States	\$600	\$481	\$1,162	\$920
Canada	75	79	177	175
International	102	91	202	187
Total revenue	\$777	\$651	\$1,541	\$1,282
Operating profit (loss):				
United States	\$16	\$(16)	\$19	\$(42)
Canada	1	2	5	5
International	1	—	1	2
Total operating profit (loss)	\$18	\$(14)	\$25	\$(35)
Operating profit (loss) % of revenue:				
United States	2.7 %	(3.3 %)	1.6 %	(4.6 %)
Canada	1.3 %	2.5 %	2.8 %	2.9 %
International	1.0 %	0.0 %	0.5 %	1.1 %
Total operating profit (loss) %	2.3 %	(2.2 %)	1.6 %	(2.7 %)

8. Income Taxes

On May 1, 2014, the National Oilwell Varco, Inc. (“NOV”) Board of Directors approved the Spin-Off (the “Spin-Off” or “Separation”) of its distribution business into an independent, publicly traded company named NOW Inc. In connection with the Separation, the Company and NOV entered into a Tax Matters Agreement, dated as of May 29, 2014 (the “Tax Matters Agreement”). The Tax Matters Agreement sets forth the Company and NOV’s rights and obligations related to the allocation of federal, state, local and foreign taxes for periods before and after the Spin-Off, as well as taxes attributable to the Spin-Off, and related matters such as the filing of tax returns and the conduct of IRS and other audits. Pursuant to the Tax Matters Agreement, NOV has prepared and filed the consolidated federal income tax return, and any other tax returns that include both NOV and the Company for all the liability periods ended on or prior to May 30, 2014. NOV will indemnify and hold harmless the Company for any income tax liability for periods before the Separation date. The Company will prepare and file all tax returns that include solely the Company for all taxable periods ending after that date. Settlements of tax payments between NOV and the Company were generally treated as contributions from or distributions to NOV in periods prior to the Separation date.

The effective tax rates for the three and six months ended June 30, 2018 were 6.1% and 9.3%, compared to (0.1%) and 1.0% for the same periods in 2017. Compared to the U.S. statutory rate, the effective tax rate was impacted by recurring items, such as differing tax rates on income earned in foreign jurisdictions that is permanently reinvested, nondeductible expenses, state income taxes, the effects of the enactment of the Tax Cuts and Jobs Act and the change in valuation allowance recorded against deferred tax assets. Due to the continuing uncertainty in the Company's industry and thus the Company's outlook, the Company continues to utilize the method of recording income taxes on a year-to-date effective tax rate for the three and six months ended June 30, 2018. The Company will evaluate its use of this method each quarter until such time as a return to the annualized estimated effective tax rate method is deemed appropriate.

Provisional Amounts in the Effective Tax Rate

The Tax Cuts and Jobs Act was enacted on December 22, 2017. The Tax Cuts and Jobs Act contains several tax law changes that will impact the Company in prior, current and future periods, including a reduction in the U.S. federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, creating new taxes on certain foreign sourced earnings and changes to bonus depreciation, the deduction for executive compensation and interest expense. The Company is applying the guidance in SAB 118 when accounting for the enactment-date effects of the Tax Cuts and Jobs Act. At June 30, 2018, the Company has not completed its accounting for all of the tax effects of the Tax Cuts and Jobs Act; however, in certain cases, as described below, the Company has made a reasonable estimate of the tax effects. As further discussed below, during the six-month period ended June 30, 2018, the Company recognized adjustments of \$9 million to the

provisional amounts recorded at December 31, 2017 related to the one-time transition tax and the reduction in the corporate income tax rate. The Company will continue to refine its calculations as additional analysis is completed.

The Company originally remeasured its U.S. deferred tax assets and liabilities and recorded a \$69 million charge relating to the U.S. federal corporate income tax rate change, with a corresponding decrease to its valuation allowance of \$69 million. Similarly, the Company originally recorded a \$33 million charge for the one-time, mandatory transition tax on unremitted foreign earnings which was fully offset by foreign tax credits and net operating losses. There was no net impact to the Company's provision for income taxes for these entries at December 31, 2017.

Subsequent guidance was issued by the Treasury Department and Internal Revenue Service in Notice 2018-26 which clarifies that companies may elect-out of using 2017 net operating losses when computing the one-time, mandatory transition tax. The Company refined its one-time, mandatory transition tax calculation, and while the election does not impact the \$33 million charge originally recorded, it results in the Company utilizing additional foreign tax credits and preserves the Company's 2017 net operating loss. The Company remeasured its 2017 net operating loss deferred tax asset and recorded an additional charge of \$9 million relating to the U.S. federal corporate income tax rate change with a corresponding decrease to its valuation allowance of \$9 million. There was no net impact to the Company's provision for income taxes related to this adjustment at June 30, 2018.

The Tax Cuts and Jobs Act subjects a U.S. shareholder to current tax on Global Intangible Low Taxed Income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5 Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and recognized a provisional tax expense of less than \$1 million related to GILTI for the six-month period ended June 30, 2018, which is fully offset by prior year losses. The utilization of the Company's prior year net operating losses resulted in a corresponding decrease in the Company's valuation allowance. There was no net impact to the Company's provision for income taxes related to GILTI for the six-month period ended June 30, 2018.

To the extent penalties and interest would be assessed on any underpayment of income tax, such accrued amounts would be classified as a component of income tax provision (benefit) in the financial statements consistent with the Company's policy.

The Company is subject to taxation in the United States, various states and foreign jurisdictions. The Company has significant operations in the United States and Canada and to a lesser extent in various other international jurisdictions. Tax years that remain subject to examination by major tax jurisdictions vary by legal entity, but are generally open in the U.S. for the tax years ending after 2013 and outside the U.S. for the tax years ending after 2011. The Company is indemnified for any income tax exposures related to the periods prior to the Separation under the Tax Matters Agreement with NOV.

9. Earnings Per Share (“EPS”)

For the three and six months ended June 30, 2018, approximately 6 million and 6 million, respectively, of potentially dilutive shares were excluded from the computation of diluted earnings per share due to their antidilutive effect. For the three and six months ended June 30, 2017, approximately 8 million and 8 million, respectively, of potentially dilutive shares were excluded from the computation of diluted loss per share due to the Company recognizing a net loss for the period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss) attributable to the Company	\$14	\$(17)	\$16	\$(40)
Less: net income (loss) attributable to nonvested shares	—	—	—	—
Net income (loss) attributable to the Company's stockholders	\$14	\$(17)	\$16	\$(40)
Denominator:				
Weighted average basic common shares outstanding	108,278,356	107,689,554	108,177,100	107,635,122
Effect of dilutive securities	198,632	—	148,337	—
Weighted average diluted common shares outstanding	108,476,988	107,689,554	108,325,437	107,635,122
Earnings (loss) per share attributable to the Company's stockholders:				
Basic	\$0.12	\$(0.16)	\$0.15	\$(0.37)
Diluted	\$0.12	\$(0.16)	\$0.15	\$(0.37)

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

10. Stock-based Compensation and Outstanding Awards

The Company has a stock-based compensation plan known as the NOW Inc. Long-Term Incentive Plan (the “Plan”). Under the Plan, the Company’s employees are eligible to be granted stock options, restricted stock awards (“RSAs”), restricted stock units (“RSUs”), and performance stock awards (“PSAs”).

For the six months ended June 30, 2018, the Company granted 1,807,822 stock options with a weighted average fair value of \$3.95 per share and 357,481 shares of RSAs and RSUs with a weighted average fair value of \$10.82 per share. In addition, the Company granted PSAs to senior management employees with potential payouts varying from zero to 364,518 shares. These options vest over a three-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 RSAs and RSUs vest on the first and third anniversary of the date of grant. The PSAs can be earned based on performance against established metrics over a three-year performance period. The PSAs are divided into three equal, independent parts that are subject to three separate performance metrics: (i) one-third of the PSAs have a Total Shareholder Return (TSR) metric, (ii) one-third of the PSAs have an EBITDA metric, and (iii) one-third of the PSAs have a Working Capital (WC) 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 WC metric is determined by comparing the performance of the Company's actual WC average for each of the three-years of the performance period against the WC metrics set by the Company's Compensation Committee of the Board of Directors.

Stock-based compensation expense totaled \$4 million and \$8 million for the three and six months ended June 30, 2018 respectively, and \$5 million and \$11 million for the same periods in 2017, respectively.

11. Commitments and Contingencies

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

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

The Company does not accrue for contingent losses that, in its judgment, are considered to be reasonably possible, but not probable. Estimating reasonably possible losses also requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. NOW's management currently estimates a range of loss for reasonably possible losses for which an estimate can be made is between zero and \$15 million in the international segment primarily attributable to accounts receivable with one customer. The Company has accrued its best estimate for loss as of June 30, 2018. Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

The Company maintains credit arrangements with several banks providing for short-term borrowing capacity, overdraft protection and other bonding requirements. As of June 30, 2018, these credit arrangements totaled approximately \$35 million. The Company was contingently liable for approximately \$10 million of outstanding standby letters of credit, including bid and performance related bonds and surety bonds. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid.

12. 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 non-functional currency monetary accounts. The purpose of the Company's foreign currency economic hedging activities is to economically hedge the Company's risk from changes in the fair value of non-functional currency denominated monetary accounts.

The Company records all derivative financial instruments at their fair value in its consolidated balance sheets. None of the derivative financial instruments that the Company holds are designated as either a fair value hedge or cash flow hedge and the gain or loss on the derivative instrument is recorded in earnings. The Company has determined that the fair value of its derivative financial instruments are computed using level 2 inputs (inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability) in the fair value hierarchy as the fair value is based on publicly available foreign exchange rates at each financial reporting date. As of June 30, 2018, and December 31, 2017, the fair value of the Company's foreign currency forward contracts totaled an asset of less than \$1 million and less than \$1 million, respectively, and is included in prepaid and other current assets in the accompanying consolidated balance sheets; a liability of less than \$1 million and less than \$1 million, respectively, and is included in other current liabilities in the accompanying consolidated balance sheets.

For the three and six months ended June 30, 2018, the Company recorded a loss of \$1 million and \$1 million, respectively, related to the changes in fair value. All gains and losses recorded are included in other expense in the accompanying consolidated statements of operations. The notional principal associated with those contracts was \$20 million and \$37 million as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018, 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Some of the information in this document contains, or has incorporated by reference, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements typically are identified by use of terms such as “may,” “believe,” “anticipate,” “expect,” “plan,” “predict,” “estimate,” “will be” or other similar words and phrases, although forward-looking statements are expressed differently. You should be aware that our actual results could differ materially from results anticipated in the forward-looking statements due to a number of factors, including, but not limited to, changes in oil and gas prices, changes in the energy markets, customer demand for our products, significant changes in the size of our customers, difficulties encountered in integrating mergers and acquisitions, general volatility in the capital markets, changes in applicable government regulations, increased borrowing costs, competition between us and our former parent company, NOV, the triggering of rights and obligations by the Spin-Off or any litigation arising out of or related to the Separation, impairments in goodwill or other intangible assets and worldwide economic activity. You should also consider carefully the statements under “Risk Factors,” as disclosed in our Form 10-K, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. We undertake no obligation to update any such factors or forward-looking statements to reflect future events or developments.

Company 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 Wilson Export brands. Through our network of approximately 270 locations and approximately 4,500 employees worldwide, we stock and sell a comprehensive offering of energy products as well as an extensive selection of products for industrial applications. Our energy product offering is consumed throughout all sectors of the oil and gas industry – from upstream drilling and completion, exploration and production (“E&P”), midstream infrastructure development to downstream petroleum refining – as well as in other industries, such as chemical processing, mining, utilities and industrial manufacturing operations. The industrial distribution end markets include manufacturing, aerospace, automotive, 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 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 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 the functions of procurement, inventory and warehouse 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 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 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, LNG terminals, power generation utilities and industrial manufacturing operations and customer on-site locations.

We stock or sell more than 300,000 stock keeping units (“SKUs”) through our branch network. Our supplier network consists of thousands of vendors in approximately 40 countries. From our operations in over 20 countries we sell to customers operating in approximately 80 countries. The supplies and equipment stocked by each of our branches 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, materials management and logistics coordination to our customers around the globe. Having a common ERP platform allows immediate visibility into the Company’s inventory assets, operations and financials worldwide, enhancing decision making and efficiency.

Demand for our products is driven primarily by the level of oil and gas drilling, completions, servicing, production, transmission, refining and petrochemical and industrial manufacturing 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, the Philippines, Russia, Saudi Arabia, Scotland, Singapore, the United Arab Emirates and the United States.

Summary of Reportable Segments

We operate through three reportable segments: United States (“U.S.”), Canada and International. The segment data included in our Management’s Discussion and Analysis (“MD&A”) are presented on a basis consistent with our internal management reporting. Segment information appearing in Note 7 “Business Segments” of the notes to the unaudited consolidated financial statements (Part I, Item 1 of this Form 10-Q) is also presented on this basis.

United States

We have approximately 180 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 equipment, fluid transfer products, measurement and controls, along with many other products required by our customers, which enable them to focus on their core business while we manage 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 and industrial manufacturing.

Canada

We have a network of approximately 55 locations in the Canadian oilfield, predominantly in the oil rich provinces of Alberta and Saskatchewan in Western Canada. Our Canada segment primarily serves the energy exploration, production, mining and drilling business, offering customers many of the same products and value-added solutions that we perform in the U.S. In Canada, we also provide training for, and supervise the installation of, jointed and spoolable composite pipe. This product line is supported by inventory and product and installation expertise to serve our customers.

International

We operate in approximately 20 countries and serve the needs of our international customers from approximately 35 locations outside of the U.S. and Canada, which are strategically located in major oil and gas development areas. Our approach in these markets is similar to our approach in North America, as our customers turn to us to provide inventory and support closer to their drilling and exploration activities. Our long legacy of operating in many international regions, combined with significant expansion into several key markets, provides a competitive advantage as few of our competitors have a presence in most of the global energy producing regions.

Basis of Presentation

All significant intercompany transactions and accounts have been eliminated. The unaudited consolidated financial information included in this report has been prepared in accordance with GAAP for interim financial information and Article 10 of SEC Regulation S-X. The principles for interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the financial statements included in the Company's most recent Annual Report on Form 10-K. In the opinion of our management, the consolidated financial statements include all adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year.

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 oil and natural gas prices, capital spending by operators, oilfield service companies and contractors and worldwide oil and gas inventory levels. Key industry indicators for the second quarter of 2018 and 2017 and the first quarter of 2018 include the following:

			% 2Q18 v 2Q17	1Q18*	% 2Q18 v 1Q18
	2Q18*	2Q17*			
Active Drilling Rigs:					
U.S.	1,038	892	16.4 %	965	7.6 %
Canada	106	114	(7.0 %)	273	(61.2 %)
International	968	958	1.0 %	970	(0.2 %)
Worldwide	2,112	1,964	7.5 %	2,208	(4.3 %)
West Texas Intermediate Crude Prices (per barrel)	\$68.03	\$48.24	41.0 %	\$62.89	8.2 %
Natural Gas Prices (\$/MMBtu)	\$2.86	\$3.08	(7.1 %)	\$3.08	(7.1 %)
Hot-Rolled Coil Prices (steel) (\$/short ton)	\$873.32	\$623.65	40.0 %	\$721.03	21.1 %

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

The following table details the U.S., Canadian and international rig activity and West Texas Intermediate oil prices for the past nine quarters ended June 30, 2018:

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

The worldwide quarterly average rig count declined 4.3% (from 2,208 rigs to 2,112 rigs) and the U.S. increased 7.6% (from 965 rigs to 1,038 rigs) in the second quarter of 2018 compared to the first quarter of 2018. The average price per barrel of West Texas Intermediate Crude increased 8.2% (from \$62.89 per barrel to \$68.03 per barrel) and natural gas prices declined 7.1% (from \$3.08 per MMBtu to \$2.86 per MMBtu) in the second quarter of 2018 compared to the first quarter of 2018. The average price per short ton of Hot-Rolled Coil increased 21.1% (from \$721.03 per short ton to \$873.32 per short ton) in the second quarter of 2018 compared to the first quarter of 2018.

U.S. rig count at July 13, 2018 was 1,054 rigs, up 16 rigs compared to the second quarter of 2018 average of 1,038 rigs. The price for West Texas Intermediate Crude was \$71.03 per barrel at July 13, 2018, up 4.4% from the second quarter average of 2018. The price for natural gas was \$2.86 per MMBtu at July 13, 2018, unchanged from the second quarter average of 2018. The price for Hot-Rolled Coil was \$912.64 per short ton at July 12, 2018, up 4.5% from the second quarter average of 2018.

Executive Summary

For the three and six months ended June 30, 2018, the Company generated net income of \$14 million and \$16 million on \$777 million and \$1,541 million in revenue, respectively. Revenue increased \$126 million or 19.4%, and \$259 million or 20.2%, for the three and six months ended June 30, 2018, respectively, when compared to the corresponding periods of 2017. For the three and six months ended June 30, 2018, net income improved \$31 million and \$56 million, respectively, when compared to the corresponding periods of 2017.

For the three and six months ended June 30, 2018, the Company generated an operating profit of \$18 million or 2.3% of revenue, and \$25 million or 1.6% of revenue, compared to operating losses of \$14 million or negative 2.2% of revenue, and \$35 million or negative 2.7% of revenue, respectively, for the corresponding periods of 2017.

Outlook

Our outlook for the Company remains tied to global rig count and drilling and completion expenditures, particularly in North America. Oil prices and U.S. oil storage levels will continue to be the primary catalysts determining U.S. rig activity. Our approach continues to be to advance our strategic goals and manage the Company based on market conditions. We continue to rationalize expenses and capital where economic activity remains depressed and invest in growth where markets are expanding. We believe that our history of managing through these cycles, paired with our resources and minimal capital expenditure requirements, enable us to maximize new opportunities.

Results of Operations

Operating results by reportable segment are as follows (in millions):

	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Revenue:				
United States	\$600	\$481	\$1,162	\$920
Canada	75	79	177	175
International	102	91	202	187
Total revenue	\$777	\$651	\$1,541	\$1,282
Operating profit (loss):				
United States	\$16	\$(16)	\$19	\$(42)
Canada	1	2	5	5
International	1	—	1	2
Total operating profit (loss)	\$18	\$(14)	\$25	\$(35)
Operating profit (loss) % of revenue:				
United States	2.7 %	(3.3 %)	1.6 %	(4.6 %)
Canada	1.3 %	2.5 %	2.8 %	2.9 %
International	1.0 %	0.0 %	0.5 %	1.1 %
Total operating profit (loss) %	2.3 %	(2.2 %)	1.6 %	(2.7 %)

United States

For the three and six months ended June 30, 2018, revenue was \$600 million and \$1,162 million, an increase of \$119 million or 24.7% and \$242 million or 26.3%, respectively, when compared to the corresponding periods of 2017. These increases were primarily driven by a year over year improvement in U.S. rig count.

For the three and six months ended June 30, 2018, the U.S. generated an operating profit of \$16 million or 2.7% of revenue and \$19 million or 1.6% of revenue, respectively, an improvement of \$32 million and \$61 million, respectively, when compared to the corresponding periods of 2017. For the three and six months ended June 30, 2018, U.S. operating profit improved primarily due to the increases in volume discussed above, coupled with product margin gains and lower operating expenses.

Canada

For the three and six months ended June 30, 2018, revenue was \$75 million and \$177 million, a decline of \$4 million or 5.1% and an increase of \$2 million or 1.1%, respectively, when compared to the corresponding periods of 2017. For the three months ended June 30, 2018, revenue decreased due to a decline in Canadian rig count. For the six months ended June 30, 2018, despite declines in Canadian rig count, revenue was in line with prior year primarily as a result of favorable foreign exchange rate impact.

For the three and six months ended June 30, 2018, Canada generated an operating profit of \$1 million or 1.3% of revenue and \$5 million or 2.8% of revenue, respectively, a decline of \$1 million and flat, respectively, when compared to the corresponding periods of 2017. For the three months ended June 30, 2018, operating profit decreased due to a decline in revenue discussed above. For the six months ended June 30, 2018, operating profit remained flat in line

with revenue in the periods.

International

For the three and six months ended June 30, 2018, revenue was \$102 million and \$202 million, an increase of \$11 million or 12.1% and \$15 million or 8.0%, respectively, when compared to the corresponding periods of 2017. The increases are primarily a result of an increase in customer projects coupled with a favorable foreign exchange rate impact in the periods.

For the three and six months ended June 30, 2018, the international segment generated an operating profit of \$1 million or 1.0% of revenue and \$1 million or 0.5% of revenue, respectively, an improvement of \$1 million and a decline of \$1 million, respectively, when compared to the corresponding periods of 2017. For the three months ended June 30, 2018, operating profit improved due to the revenue increase discussed above. For the six months ended June 30, 2018, despite the increase in revenue discussed above, operating profit declined primarily due to increased bad debt charges.

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Cost of products

For the three and six months ended June 30, 2018, cost of products was \$620 million and \$1,236 million, respectively, compared to \$527 million and \$1,044 million, respectively, for the corresponding periods in 2017. The increases were primarily due to increases in revenue in the periods. 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

For the three and six months ended June 30, 2018, warehousing, selling and administrative expenses were \$139 million and \$280 million, respectively, compared to \$138 million and \$273 million, respectively, for the corresponding periods of 2017. Operating expenses increased modestly with significantly improved market activity. Warehousing, selling and administrative expenses include general corporate expenses, depreciation and branch, distribution center and regional expenses (including costs such as compensation, benefits and rent).

Other expense

For the three and six months ended June 30, 2018, other expense was \$3 million and \$7 million, respectively, compared to \$3 million and \$5 million, respectively, for the corresponding periods of 2017. These charges were mainly attributable to interest and bank charges associated with the credit facilities.

Income tax provision (benefit)

The effective tax rates for the three and six months ended June 30, 2018 were 6.1% and 9.3% compared to (0.1%) and 1.0% for the same periods in 2017. Compared to the U.S. statutory rate, the effective tax rate was impacted by recurring items, such as differing tax rates on income earned in foreign jurisdictions that is permanently reinvested, nondeductible expenses, state income taxes, the effects of the enactment of the Tax Cuts and Jobs Act and the change in valuation allowance recorded against deferred tax assets. Due to the continuing uncertainty in our industry and thus the Company's outlook, the Company continues to utilize the method of recording income taxes on a year-to-date effective tax rate for the three and six months ended June 30, 2018. The Company will evaluate its use of this method each quarter until such time as a return to the annualized estimated effective tax rate method is deemed appropriate.

As further discussed in Note 8, "Income Taxes," on December 22, 2017, the Tax Cuts and Jobs Act enacted significant changes to U.S. tax and related laws. U.S. state or other regulatory bodies have not finalized potential changes to existing laws and regulations which may result from the new U.S. tax and related laws. In accordance with the SAB No. 118, the Company has recorded provisional estimates to reflect the effect of the provisions of the recently enacted U.S. tax and related laws on the Company's income tax assets and liabilities as of June 30, 2018. The Company continues to collect additional information to support and refine its calculations of the impact of these changes on its operations and its recorded income tax assets and liabilities. The ultimate impact of the Tax Cuts and Jobs Act may differ from the Company's provisional estimates due to changes in the interpretations and assumptions made by the Company as well as additional regulatory guidance.

Non-GAAP Financial Measure and Reconciliation

In an effort to provide investors with additional information regarding our results as determined by GAAP, we disclose a non-GAAP financial measure in our quarterly earnings press releases and other public disclosures. 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 as further identified below and has not been 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 this non-GAAP financial measure 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 reconciliation of EBITDA excluding other costs to its most comparable GAAP financial measure (in millions):

EBITDA excluding other costs

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
GAAP net income (loss) ⁽¹⁾	\$14	\$(17)	\$16	\$(40)
Interest, net	2	1	4	2
Income tax provision (benefit)	1	—	2	—
Depreciation and amortization	11	13	22	26
Other costs ⁽²⁾	1	1	1	1
EBITDA excluding other costs	\$29	\$(2)	\$45	\$(11)
EBITDA % excluding other costs ⁽³⁾	3.7%	(0.3%)	2.9%	(0.9%)

⁽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 our 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 includes severance expenses and accelerated debt issuance costs, which are included in operating profit (loss) and other expense, respectively.

⁽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 to remain in a strong financial position, with resources expected 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.

As of June 30, 2018 and December 31, 2017, the Company had cash and cash equivalents of \$91 million and \$98 million, respectively. As of June 30, 2018, approximately \$76 million of our cash and cash equivalents were maintained in the accounts of our various foreign subsidiaries. The Company has not and does not anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with domestic debt service requirements. The cash is considered permanently reinvested and, except for the Tax Cuts and Jobs Act's one-time transition tax, no additional provision for U.S. federal and state income taxes has been made. If our foreign cash was repatriated, it would be subject to additional U.S. federal and state taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable in various foreign countries, where applicable. We currently have the intent and ability to permanently reinvest the cash held by our foreign subsidiaries and there are currently no plans for the repatriation of such amounts.

At June 30, 2018, the Company had \$195 million of borrowings against its revolving credit facility. The credit facility contains usual and customary affirmative and negative covenants for credit facilities of this type including financial covenants. As of June 30, 2018, the Company was in compliance with all covenants. We continuously monitor compliance with debt covenants. A default, if not waived or amended, would prevent the Company from taking certain actions, such as incurring additional debt.

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

	Six Months Ended June 30, 2018 2017	
Net cash used in operating activities		