

MRC GLOBAL INC.  
Form 10-K  
March 05, 2012  
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**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 FISCAL YEAR ENDED DECEMBER 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE TRANSITION PERIOD FROM            TO

Commission file number: 333-153091

**MRC Global Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**20-5956993**  
(I.R.S. Employer  
Identification No.)

**2 Houston Center, 909 Fannin, Suite 3100**

**Houston, Texas**  
(Address of Principal Executive Offices)

**77010**  
(Zip Code)

**(877) 294-7574**

(Registrant's Telephone Number, including Area Code)

**Securities registered pursuant to Section 12(b) of the Act: None**

Title of each class

Name of each exchange on which registered

**Securities registered pursuant to Section 12(g) of the Act: None**

(Title of class)

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 Exchange 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

The registrant has 11,000 shares of common stock held by non-affiliates.

There is no public market for the Company's common stock. There were 84,427,000 shares of the registrant's common stock, par value \$0.01 per share, issued and outstanding as of December 31, 2011.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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PART I

*Unless otherwise indicated or the context otherwise requires, all references to our company, McJunkin Red Man, MRC, we, us, our, and the registrant refer to MRC Global Inc. and its consolidated subsidiaries, and all references to the Issuer are to McJunkin Red Man Corporation, exclusive of its subsidiaries.*

**ITEM 1. BUSINESS**

**General**

We are the largest global industrial distributor of pipe, valves and fittings ( PVF ) and related products and services to the energy industry based on sales and hold the leading position in our industry across each of the upstream (exploration, production and extraction of underground oil and natural gas), midstream (gathering and transmission of oil and natural gas, natural gas utilities and the storage and distribution of oil and natural gas) and downstream (crude oil refining, petrochemical processing and general industrials) sectors. We offer more than 150,000 SKUs, including an extensive array of PVF, oilfield supply, automation, instrumentation and other general and specialty industry supply products from our over 12,000 suppliers. Through our North American and International segments, we serve our more than 12,000 customers through over 400 service locations throughout North America, Europe, Asia, and Australasia.

Our North American segment includes over 175 branch locations, six distribution centers in the U.S., one distribution center in Canada, 12 valve automation service centers and over 160 pipe yards located in the most active oil and natural gas regions in North America. Our International segment includes over 30 branch locations throughout Europe, Asia and Australasia with distribution centers in each of the United Kingdom, Singapore and Australia and 10 automation service centers in Europe and Asia. We offer a wide array of PVF and oilfield supplies encompassing a complete line of products from our global network of suppliers. We are diversified by geography and the industry sectors we serve and the products we sell.

Our PVF and oilfield supplies are used in mission critical process applications that require us to provide a high degree of product knowledge, technical expertise and comprehensive value added services to our customers. We seek to provide best-in-class service and a one-stop shop for our customers by satisfying the most complex, multi-site needs of many of the largest companies in the energy and industrial sectors as their primary PVF supplier. We provide services such as product testing, manufacturer assessments, multiple daily deliveries, volume purchasing, inventory and zone store management and warehousing, technical support, just-in-time delivery, truck stocking, order consolidation, product tagging and system interfaces customized to customer and supplier specifications for tracking and replenishing inventory, which we believe result in deeply integrated customer relationships. We believe the critical role we play in our customers' supply chain, together with our extensive product offering, broad global presence, customer-linked scalable information systems and efficient distribution capabilities, serve to solidify our long-standing customer relationships and drive our growth. As a result, we have an average relationship of over 20 years with our largest 25 customers.

We have benefited historically from several growth trends within the energy industry, including high levels of customer expansion and maintenance expenditures. Although these trends were offset in 2009 and 2010 due to adverse economic conditions, we believe that growth in PVF and industrial supply spending within the energy industry is likely to continue. Several factors have driven the long-term growth in spending, including underinvestment in North American energy infrastructure, production and capacity constraints, and market expectations of future improvements in the oil, natural gas, refined products, petrochemical and other industrial sectors. In addition, the products we distribute are often used in extreme operating environments, leading to the need for a regular replacement cycle. Approximately two-thirds of our sales are attributable to multi-year maintenance, repair and operations ( MRO ) arrangements and nearly three quarters of our MRO activity is in

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the form of 3-5 year exclusive or primary supplier contracts. Our average annual retention rate for these contracts since 2000 is 95%. We consider MRO arrangements to be normal, generally repetitive business that primarily addresses the recurring maintenance, repair or operational work to existing energy infrastructure. Project activities, including facility expansions, exploration or new construction projects, are more commonly associated with a customer's capital expenditures budget. Such projects can be more sensitive to global oil and natural gas prices and general economic conditions. We mitigate our exposure to price volatility by limiting the length of any price-protected contracts, and as pricing continues to rebound, we believe that we have the ability to pass price increases on to the marketplace.

Our business is segregated into two operating segments, one consisting of our North American operations and one consisting of our international operations. These segments represent our business of providing PVF and related products and services to the energy and industrial sectors, across each of the upstream, midstream and downstream sectors. Financial information regarding our reportable segments appears in

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 13 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

MRC Global Inc. was incorporated in Delaware on November 20, 2006 and McJunkin Red Man Corporation was incorporated in West Virginia on March 21, 1922 and was reincorporated in Delaware on June 14, 2010. Our principal executive office is located at 2 Houston Center, 909 Fannin, Suite 3100, Houston, Texas 77010. Our telephone number is (877) 294-7574. Our website address is [www.mrcpvf.com](http://www.mrcpvf.com). Information contained on our website is expressly not incorporated by reference into this document.

## **History**

McJunkin Corporation was founded in 1921 in Charleston, West Virginia and initially served the local oil and natural gas industry, focusing primarily on the downstream sector. In 1989, McJunkin Corporation broadened its upstream sector presence by merging its oil and natural gas division with Appalachian Pipe & Supply Co. to form McJunkin Appalachian, which was a subsidiary of McJunkin Corporation, but has since been merged with and into McJunkin Red Man Corporation, which focused primarily on upstream oil and natural gas customers.

In April 2007, we acquired Midway-Tristate Corporation ( Midway ), a regional PVF oilfield distributor, primarily serving the upstream Appalachia and Rockies regions. This extended our leadership position in the Appalachia/Marcellus shale region, while adding additional branches in the Rockies.

Red Man Pipe and Supply Co. ( Red Man ) was founded in 1976 in Tulsa, Oklahoma and began as a distributor to the upstream sector and subsequently expanded into the midstream and downstream sectors. In 2005, Red Man acquired an approximate 51% voting interest in Canadian oilfield distributor Midfield Supply ULC ( MRC Midfield ), giving Red Man a significant presence in the Western Canadian Sedimentary Basin.

In October 2007, McJunkin Corporation and Red Man completed a business combination transaction to form the combined company, McJunkin Red Man Corporation. This transformational merger combined leadership positions in the upstream, midstream and downstream sectors, while creating a one stop PVF leader across all sectors with full geographic coverage across North America. Red Man has since been merged with and into McJunkin Red Man Corporation.

In July 2008, we acquired the remaining voting and equity interest in MRC Midfield. Also, in October 2008, we acquired LaBarge Pipe and Steel Co. ( LaBarge ). LaBarge is engaged in the sale and distribution of carbon steel pipe (predominately large diameter pipe) for use primarily in the North American midstream energy infrastructure sector. The acquisition of LaBarge expanded our midstream sector leadership, while adding a new product line in large outside diameter pipe.

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In October 2009, we acquired Transmark Fcx Group B.V. ( MRC Transmark ). MRC Transmark is a leading distributor of valves and flow control products in Europe, Southeast Asia and Australasia. MRC Transmark was formed from a series of acquisitions, the most significant being the acquisition of the FCX European and Australasian distribution business in July 2005. The acquisition of MRC Transmark provided geographic expansion internationally, additional downstream diversification and enhanced valve sector leadership.

During 2010, we acquired South Texas Supply and also certain operations and assets of Dresser Oil Tools & Supply. With these two acquisitions, we expanded our footprint in the Eagle Ford and Bakken shale regions, expanding our local presence in two of the emerging active shale basins in North America.

In June 2011, we acquired Stainless Pipe and Fittings Australia Pty. Ltd. ( MRC SPF ). Headquartered in Perth, Western Australia, MRC SPF is a distributor of stainless steel piping products through its seven locations across Australia as well as Korea, the United Kingdom and the United Arab Emirates.

In July 2011, we acquired Valve Systems and Controls ( VSC ). VSC specializes in valve automation for upstream projects and maintenance, repairs and operation in the downstream sector.

In December 2011, we signed an agreement to acquire the operations and assets of OneSteel Piping Systems ( OPS ). This acquisition was completed in March 2012. OPS is a leading PVF product and service specialist with proven capabilities supplying the oil and gas, mining and mineral processing industries in Australia.

On January 10, 2012, we amended our amended and restated certificate of incorporation and amended and restated bylaws to reflect our change in name from McJunkin Red Man Holding Corporation to MRC Global Inc.

## **Business Strategy**

Our goal is to grow our market position as the largest global industrial distributor of PVF and related products to the energy industry. Our strategy is focused on pursuing growth by increasing market share and growing our business with current customers, expanding into new geographies and sectors, increasing recurring revenues through integrated supply and MRO business, capturing additional high growth project activity, continuing to increase our operational efficiency and making and integrating strategic acquisitions. We seek to extend our current MRO contracts and bundle certain products, most notably pipe, fittings, flanges and other products ( PFF ), into MRC Transmark's existing customer base and branch network. We also seek to opportunistically add other products and new suppliers, including alloy, chrome, stainless products, gaskets, seals, safety and other industrial supply products, into our existing North American platform. We will also look at future complementary distribution acquisitions that would supplement our PVF leadership position, and we will look at future bolt-on acquisitions that broaden our geographic footprint, increase international focus, or expand our product offering to our major customers.

## **Industry**

We primarily serve the global oil and natural gas industry, generating approximately 90% of our sales from supplying products and various services to customers throughout the energy industry. Of our total sales, 62% of sales are comprised of valves, fittings and flanges and other industrial supply products and 38% are tubular products, predominantly line pipe and oil country tubular goods ( OCTG ) for the year ended December 31, 2011. Given the diverse requirements and various factors that drive the growth of the upstream, midstream and downstream sectors, our sales to each sector or by product may vary over time, though the overall strength of the global energy market and the level of our customers' operating and capital expenditures are typically good indicators of our business activity. In each of 2010 and 2011, as part of the broader global economic recovery, our customers' capital and operating expenditures increased as compared to 2009, although overall oil and natural gas drilling and completion spending still remained below 2006 and 2007 levels. Over the longer term, we expect to continue to see customer spending increase due to a variety of global supply and demand fundamentals, a slowly improving global economy, shale exploration and production ( E&P ) activity and longer term outlooks for oil and natural gas prices.

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Average Commodity Prices(1)	Year Ended December 31,											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Natural gas (\$/Mcf)	\$ 4.31	\$ 3.96	\$ 3.38	\$ 5.47	\$ 5.87	\$ 8.69	\$ 6.73	\$ 6.97	\$ 8.86	\$ 3.94	\$ 4.37	\$ 4.00
WTI crude oil (\$per barrel)	\$ 30.38	\$ 25.98	\$ 26.18	\$ 31.08	\$ 41.51	\$ 56.64	\$ 66.05	\$ 72.34	\$ 99.67	\$ 61.95	\$ 79.48	\$ 94.91
Brent crude oil (\$per barrel)	\$ 28.66	\$ 24.46	\$ 24.99	\$ 28.85	\$ 38.27	\$ 54.57	\$ 65.16	\$ 72.44	\$ 96.94	\$ 61.74	\$ 79.61	\$ 111.26

(1) Source Department of Energy, EIA ([www.eia.gov](http://www.eia.gov))

During the last several years, the global energy industry has experienced a number of favorable supply and demand dynamics that have led our customers to make substantial investments to expand their physical infrastructure and processing capacities. On the demand side, world energy markets are benefiting from:

- (i) increased consumption of energy, caused in part by the industrialization of China, India and other countries that are not members of the Organization for Economic Cooperation and Development ( non-OECD countries );
- (ii) a slow recovery in economic growth in OECD countries from the severe downturn in 2009 and 2010;
- (iii) continued global energy infrastructure expansion; and
- (iv) increased use of natural gas, as opposed to coal, in power generation.

At the same time, global energy supply has been generally constrained due to increasing scarcity of natural resources, declining excess capacity of existing energy assets, geopolitical instability, natural and other unforeseen disasters and more stringent regulatory, safety and environmental standards. These demand and supply dynamics underscore the need for investment in energy infrastructure and increases in global exploration, extraction, production, transportation, refining and processing of energy inputs.

Within the U.S., the energy industry has benefited from technological developments that have enabled more recent significant increases in U.S. oil production and natural gas supply. The U.S. Energy Information Administration ( EIA ) expects that U.S. crude oil production, which increased 2.1% in 2010 and 2.1% in 2011, will increase by a further 4.3% in 2012, driven by increased oil-directed drilling activity, particularly in unconventional shale formations. EIA expects that U.S. marketed natural gas production, which increased by 3.5% in 2010 and 7.8% in 2011, will grow further by 2.2% in 2012. Finally, as companies in the energy industry, both in North America and internationally, continue to focus on improving operating efficiencies, they have been increasingly looking to outsource their procurement and related administrative functions to distributors such as MRC.



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The following charts illustrate U.S. liquid fuel production from 1974 through 2010, actual and forecasted U.S. and Canadian oil production from 2005 through 2035, U.S. liquid fuel supply and electricity generation by fuel:

**U.S. liquid fuel production(1)**

**U.S. and Canadian oil production(2)**

**U.S Liquid Fuel Supply (million barrels per day)(2)**  
(million barrels per day)

**Electricity Generation by Fuel(2)**  
(trillion kilowatts hours per year)

(1) Source *Financial Times*, *Department of Energy*, *EIA* ([www.eia.gov](http://www.eia.gov)), *The National Petroleum Council* ([www.npc.org](http://www.npc.org))

(2) Source *Department of Energy*, *EIA* ([www.eia.gov](http://www.eia.gov))

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The following charts illustrate historical and forecasted U.S. production of crude oil and dry natural gas as well as the expected increase in U.S. natural gas production from shale gas:

**U.S Oil and Gas Production (2006-2014E)(1)(2)**

**U.S. Natural Gas Production (1990-2035E)(3)**  
(trillion cubic feet per year)

- (1) Projections from IHS CERA. Historical Data from the U.S. Energy Information Administration. Note: Liquids include crude oil, condensate, natural gas liquids, and non-traditional liquids (extra-heavy oil, GTL, CTL, and oil shale)
- (2) Historical and projected annual natural gas production for the U.S. Lower-48
- (3) U.S Energy Information Administration ([www.eia.gov](http://www.eia.gov))

*Upstream:* E&P companies, commonly referred to as upstream companies, search for oil and natural gas underground and extract it to the surface. Representative companies include Aera Energy LLC, Anadarko Petroleum Corporation, Apache Corporation, Canadian Natural Resources, Ltd., Chesapeake Energy Corporation, Chevron Corporation, ConocoPhillips, Encana Corporation, ExxonMobil Corporation, Hess Corporation, Husky Energy Inc., Marathon Oil Company, Range Resources Corporation and Royal Dutch Shell plc. E&P companies typically purchase oilfield supplies, including carbon steel and other pipe, OCTG, valves, sucker rods, tools, pumps, production equipment, meters and general industrial supply products from us.

The capital spending budgets of upstream companies have grown over the past decade as tight supply conditions, strong global demand for oil and natural gas and economically feasible E&P in shale formations have spurred companies to expand their operations. Spears & Associates expects global oil and natural gas drilling and completion spending will increase at an approximately 9% compound annual growth rate ( CAGR ) between 2011 and 2017.

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The following chart illustrates historical and forecasted North American and international oil and natural gas drilling and completion spending:

**Oil and Natural Gas Drilling and Completion Spending(1)**

(1) *Source Spears & Associates: Outlook for the Worldwide Upstream Oil and Gas Industry, December 2011*

(2) *Includes Europe and the Far East*

Rig counts are considered to be generally indicative of activity levels in the upstream sector. The average North American rig count increased at an approximate 3% CAGR between 2006 and 2008, but, due to the global economic recession that began in late 2008, the average fell by more than 40% in 2009. As the economy recovered, the rig count increased, rising by 44% in 2010. Spears & Associates expects that the North American rig count will increase at a 7% CAGR between 2011 and 2017. Furthermore, more technically sophisticated drilling methods, such as deep and horizontal drilling and the multiple fracturing of hydrocarbon production zones, coupled with higher oil and natural gas prices relative to long term averages, have made E&P in previously underdeveloped areas, such as Appalachia and the Rockies, more economically feasible. As part of this trend, there has been growing commercial interest by our customers in several shale deposit areas in the United States, including the Bakken, Barnett, Eagle Ford, Fayetteville, Haynesville, Marcellus, Niobrara, Permian and Utica shales, where we have an extensive local presence. During 2010 and 2011, there was a significant shift towards oil prospects, with an average oil rig count of approximately 53% of the total for 2011, the highest percentage in the United States since 1997. Additionally, we believe improved E&P technologies will allow for more deepwater drilling both offshore in the Gulf of Mexico and offshore in certain international areas, where we maintain a presence. In the Gulf of Mexico, new drilling and safety requirements will have to be met before we anticipate a significant activity increase. In Canada, improvements in mining and mineral processing and in-situ technology are driving increased investment in the Canadian Oil Sands and we believe that we will continue to benefit from the associated growth in PVF spending in this region.

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**Oil and Natural Gas Rig Count**

The following chart illustrates the historical and forecasted North American (U.S. and Canada) and International oil and natural gas rig count from 2004 through 2017:

**Forecasted Worldwide Rig Count**

**Forecasted North American Rig Count**

(1) *Spears & Associates: Outlook for the Worldwide Upstream Oil and Gas Industry, December 2011*

*Midstream:* The midstream sector of the oil and natural gas industry is comprised of companies that provide gathering, storage, transmission, distribution, and other services related to the movement of oil, natural gas and refined petroleum products from sources of production to demand centers. Representative midstream companies include AGL Resources Inc., Atmos Energy Corporation, Chesapeake Midstream Partners, Consolidated Edison, Inc., DCP Midstream Partners, LP, El Paso Natural Gas Company, Enterprise Products Partners L.P., Kinder Morgan Inc., Magellan Midstream Partners, L.P., NiSource, Inc., Pacific Gas and Electric Company, Vectren Energy and Williams Partners L.P. Core products supplied for midstream infrastructure include carbon steel line pipe for gathering and transporting oil and natural gas, actuation systems for the remote opening and closing of valves, polyethylene pipe for last mile transmission to end user locations, metering equipment for the measurement of oil and natural gas delivery and general industrial supplies.

The natural gas utilities portion of the midstream sector has been one of our fastest growing sectors since regulatory changes enacted in the late 1990s encouraged utilities to outsource through distribution their PVF purchasing and procurement needs. Outsourcing provides significant labor and working capital savings to customers through the consolidation of standardized product procurement spending and the delegation of warehousing operations to us. We estimate that less than one-half of natural gas utilities currently outsource in varying degrees and we anticipate that some of the remaining large natural gas utilities will most likely switch from the direct sourcing model to a distributor model. Furthermore, we believe natural gas utilities will increasingly seek operating efficiencies as large natural gas pipelines and related distribution networks continue to be built, and will increasingly rely on companies such as ours to optimize their supply chains and enable them to focus on their core operations.

The gathering and transmission pipeline activity is anticipated to exhibit significant growth over the next several years due to the new discoveries of natural gas reserves in various shale natural gas fields and the need for additional pipelines to carry heavy sour crude from Canada to processing facilities in the United States. Recent heightened activity in oil and natural gas fields such as the Bakken, Eagle Ford, Niobrara and Marcellus shale regions remain largely unsupported by transmission facilities of the appropriate scale necessary to bring the oil

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and natural gas to market. The Interstate Natural Gas Association of America ( INGAA ) estimates that companies will need to build 35,600 miles of large, high pressure natural gas pipelines between 2011 and 2035 to meet market demands, at an estimated cost of \$178 billion. Further, an INGAA study completed by ICF International projects that on average, approximately 16,500 miles of new gathering lines and approximately 2,000 miles of new transmission line will be added each year from 2011 through 2035. This need for large pipelines to transport energy feedstocks to markets is creating significant growth for PVF and other products we sell. Drivers of pipeline development and growth include the development of natural gas production in new geographies, increased pipeline interconnection driven by a need to lower price differences within regions, and the need to link facilities that may be developed over the next decade.

The following chart illustrates historical and projected additions to total natural gas pipeline mileage in the U.S. from 2005 through 2016:

(1) *ICF International, North American Midstream Infrastructure Through 2035 A Secure Energy Future, Prepared for the INGAA Foundation, June 28, 2011*

The need for increased safety and governmental demands for pipeline integrity have also accelerated the MRO cycle for PVF products in this segment. Government mandated programs have hastened the testing of existing lines to ensure that the integrity of the pipe remains consistent with its original design criteria. All pipe falling outside the necessary performance criteria as it relates to safety and overall integrity must be replaced. These regulations for pipeline integrity management should continue to stimulate MRO demand for products as older pipelines are inspected and eventually replaced. About 60% of the U.S. network of natural gas-transmission pipeline is over 40 years old and will likely require significant maintenance or replacement as shown below.

*Source: Wall Street Journal, Pipeline Safety and Hazardous Materials Administration*

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*Downstream:* Typical downstream activities include the refining of crude oil and the selling and distribution of products derived from crude oil, as well as the production of petro and industrial chemical products. Representative downstream companies include BP plc, Chevron, ConocoPhillips, ExxonMobil Corporation, Marathon Petroleum Corporation, Royal Dutch Shell plc and Valero Energy Corporation. Refinery infrastructure products include carbon steel line pipe and gate valves, fittings to construct piping infrastructure and chrome or high alloy pipe and fittings for high heat and pressure applications. Chemical/petrochemical products include corrosive-resistant stainless steel or high alloy pipes, multi-turn valves and quarter-turn valves and general industrial supply products.

Over the 2008-2009 period, refinery utilization rates decreased significantly as part of the global economic slowdown and as a result, several new projects to increase capacity were delayed, or in some cases cancelled. Since 2010, utilization rates have improved but remained at levels below longer term historical averages. [The number of operable refineries in the U.S. declined from 223 in 1985 to approximately 148 in 2010, and we believe that continued stress on refinery infrastructure caused by demand for petroleum products will accelerate PVF replacement rates over the longer term.] This trend is most pronounced outside the U.S. where capacity utilization rates are the highest and the demand for petroleum products is growing the fastest.

The following charts illustrate the utilization of oil refineries in the U.S. and the European Union from 2002 through 2011 and global refinery margins during the same period:

<b>Percent Utilization of</b>	
<b>Refinery Operable Capacity(1)(2)</b>	<b>3:2:1 Crack Spread(3)</b>

- (1) *Refinery utilization is calculated as refinery throughput divided by capacity*
- (2) *Source BP Statistical Review of World Energy June 2011 ([www.bp.com/statisticalreview](http://www.bp.com/statisticalreview))*
- (3) *Source Commodity Systems, Inc.*

The pre-recession gap between fuel consumption and U.S. refining capacity, coupled with an anticipated recovery in refinery utilization levels, may necessitate new projects and generate new project and MRO contract opportunities for MRC. Further, as refineries look for ways to improve margins and value-added capabilities, they are also increasingly broadening the crude processed to include heavier, sour crude. Heavier, sour crude is harsher and more corrosive than light sweet crude, and requires high-grade alloys in many parts of the refining process, shortening product replacement cycles and creating additional MRO contract opportunities for us following project completion. Thus, we believe that this need will create greater demand for our specialty products that include, among others, corrosion resistant components and steam products used in various process applications in refineries.

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The following charts illustrate industrial PMI (Purchasing Managers Index) from January 2008 through January 2012 and actual and forecasted refining turnaround activity on an annual basis from 2008 through 2013, based on data from Industrial Info Resources, Inc.:

**Industrial PMI (Purchasing Managers Index)(1)****Annual Refining Turnaround Activity  
Planned Unit Outages (thousand barrels per day)(2)**

(1) *Institute for Supply Management*

(2) *Industrial Info Resources, Inc.*

Petrochemical plants generally use crude oil, natural gas or coal in production of a variety of primary petrochemicals (e.g. ethylene and propylene) that are the building blocks for many of the manufactured goods produced in the world today. The burgeoning economies in China, India and other non-OECD countries have generated increasing demand for petrochemicals and we expect that future increases in demand will require additional capital and other expenditures to increase capacity. Industry participants include integrated oil and natural gas companies with significant petrochemical operations and large industrial chemical companies, such as BP Chemicals, Celanese Chemicals, Chevron Phillips Chemical Co. LLC, Dow Chemical Company, E.I. DuPont de Nemours and Company, Eastman Chemicals Company, ExxonMobil Corporation, PPG Industries, Inc. and Shell Chemical L.P. In North America, increased shale E&P activity has led to a significantly increased supply of natural gas feedstock for the chemicals industry, thereby lowering input prices and stimulating activity. As a result of the improved profitability, several of our major chemical customers are currently considering significant new projects to increase North American capacity. In March 2011, the American Chemistry Council projected \$16.2 billion in new capital investments, including debottlenecking, brownfield and greenfield projects, in the petrochemical industry over the next several years, and we believe that we will materially benefit as a result of this increase in anticipated activity.

*Other Industries Served.* Beyond the oil and natural gas industry, we also supply products and services to other energy sectors, such as coal, mining and mineral processing, power generation, liquefied natural gas and alternative energy facilities. We also serve more general industrial sectors, such as pulp and paper, metals processing, fabrication, pharmaceutical, desalinization, food and beverage and manufacturing, which together make use of products such as corrosion resistant piping products as well as automation and instrumentation products. Some of the customers we serve in these sectors include Alcoa, Inc., Arcelor Mittal, BHP Billiton, Eli Lilly and Company, Georgia Pacific Corporation, International Paper Company, the Rio Tinto Group and U.S. Steel Corporation. These other sectors are typically characterized by large physical plants requiring significant ongoing maintenance and capital programs to ensure efficient and reliable operations. We include these industries within our downstream sector category.

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### **North American Operations**

Our North American segment represented approximately 93% of our consolidated revenues in 2011 and is comprised of our business of distributing PVF to the energy and industrial sectors, across each of the upstream, midstream and downstream sectors, through our distribution operations located throughout the U.S. and Canada.

*Products:* Through our over 175 branch locations strategically located throughout North America, we distribute a complete line of PVF products, primarily used in specialized applications in the energy infrastructure sector, from our global network of suppliers. The products we distribute are used in the construction, maintenance, repair and overhaul of equipment used in extreme operating conditions such as high pressure, high/low temperature, high corrosive and abrasive environments. We are required to carry significant amounts of inventory to meet the rapid delivery, often same day, requirements of our customers. The breadth and depth of our product offerings and our extensive North American presence allow us to provide high levels of service to our customers. Due to our national inventory coverage, we are able to fulfill more orders more quickly, including those with lower volume and specialty items, than we would be able to if we operated on a smaller scale or only at a local or regional level. Key product types are described below:

*Valves and Specialty Products* (19% of our North American revenue in 2011). Products offered include ball, butterfly, gate, globe, check, needle and plug valves which are manufactured from cast steel, stainless/alloy steel, forged steel, carbon steel or cast and ductile iron. Valves are generally used in oilfield and industrial applications to control direction, velocity and pressure of fluids and gases within transmission networks. Specialty products include lined corrosion resistant piping systems, valve automation and top work components used for regulating flow and on/off service, and a wide range of steam and instrumentation products used in various process applications within our refinery, petrochemical and general industrial sectors.

*Line Pipe* (23% of our North American revenue in 2011). Carbon line pipe is typically used in high-yield, high-stress and abrasive applications such as the gathering and transmission of oil, natural gas and phosphates. Line pipe is part of our tubular product category.

*OCTG* (18% of our North American revenue in 2011). OCTG is part of our tubular product category, includes casing (used for production and to line the well bore) and tubing pipe (used to extract oil or natural gas from wells) and is either classified as carbon or alloy depending on the grade of material.

*Carbon Steel Fittings and Flanges and Stainless Steel and Alloy Pipe and Fittings* (18% of our North American revenue in 2011). Carbon steel fittings and flanges include carbon weld fittings, flanges and piping components used primarily to connect piping and valve systems for the transmission of various liquids and gases. These products are used across all the industries in which we operate. Stainless steel and alloy pipe and fittings include stainless, alloy and corrosion resistant pipe, tubing, fittings and flanges. These are used most often in the chemical, refining and power generation industries but are used across all of the sectors in which we operate. Alloy products are principally used in high-pressure, high-temperature and high-corrosion applications typically seen in process piping applications.

*Other* (22% of our North American revenue in 2011). Other includes natural gas distribution products, oilfield supplies, and other industrial products such as mill and safety and electrical supplies. Natural gas distribution products include risers, meters, polyethylene pipe and fittings and various other components and industrial supplies used primarily in the distribution of natural gas to residential and commercial customers. We offer a comprehensive range of oilfield and industrial supplies and completion equipment, and products offered include high density polyethylene pipe and fittings, valves, well heads, pumping units and rods. Additionally, we can supply a wide range of specialized production equipment including meter runs, tanks and separators used in our upstream sector.



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The following table provides a breakdown of our total North American revenues by product type on an actual basis for the years ended December 31, 2011, 2010 and 2009:

	Year Ended December 31,		
	2011	2010	2009
<b>Energy carbon steel tubular products:</b>			
Line Pipe	23%	19%	20%
OCTG	18%	21%	21%
	41%	40%	41%
<b>Valves, fittings, flanges and other products:</b>			
Valves and Specialty Products	19%	20%	18%
Carbon Steel Fittings and Flanges and Stainless Steel and Alloy Pipe and Fittings	18%	18%	18%
Other	22%	22%	23%
	59%	60%	59%

*Services:* We provide many of our customers with a comprehensive array of services including multiple deliveries each day, zone store management valve tagging and significant system interfaces that directly tie the customer into our proprietary information systems. This allows us to interface with our customers' IT systems and provide an integrated supply service. Such services strengthen our position with our customers as we become more integrated into the customer's business and supply chain and are able to market a total transaction value solution rather than individual product prices.

Our comprehensive information systems, which provide for customer and supplier electronic integrations, information sharing and e-commerce applications, further strengthen our ability to provide high levels of service to our customers. In 2011, we processed over 1.6 million EDI/EDE customer transactions. Our highly specialized implementation group focuses on the integration of our information systems and implementation of improved business processes with those of a new customer during the initiation phase. By maintaining a specialized team, we are able to utilize best practices to implement our systems and processes, thereby providing solutions to customers in a more organized, efficient and effective manner. This approach is valuable to large, multi-location customers who have demanding service requirements.

As major integrated and large independent energy companies have implemented efficiency initiatives to focus on their core business, many of these companies have begun outsourcing certain of their procurement and inventory management requirements. In response to these initiatives and to satisfy customer service requirements, we offer integrated supply services to customers who wish to outsource all or a part of the administrative burden associated with sourcing PVF and other related products, and we also often have MRC employees on-site full-time at many customer locations. Our integrated supply group offers procurement-related services, physical warehousing services, product quality assurance and inventory ownership and analysis services.

*Suppliers:* We source the products we distribute from a global network of suppliers. Our suppliers benefit from access to our diversified customer base and, by consolidating customer orders, we benefit from stronger purchasing power and preferred vendor programs. Our purchases from our largest 25 suppliers in 2011 approximated 52% of our North American total purchases, with our single largest supplier constituting approximately 10%. We are the largest customer for many of our suppliers and we source a significant majority of the products we distribute directly from the manufacturer. The remainder of the products we distribute are sourced from manufacturer representatives, trading companies and, in some instances, other distributors.

We believe our customers and suppliers recognize us as an industry leader in part due to the quality of products we supply and for the formal processes we use to evaluate vendor performance. This vendor assessment process

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is referred to as the MRC Supplier Registration Process, which involves employing individuals, certified by the International Registry of Certificated Auditors, who specialize in conducting on-site assessments of our manufacturers as well as monitoring and evaluating the quality of goods produced. The result of this process is the MRC approved manufacturer's listing ( AML ). Products from the manufacturers on this list are supplied across many of the industries we support. Given that many of our largest customers, especially those in our downstream sector, maintain their own formal AML listing, we are recognized as an important source of information sharing with our key customers regarding the results of our on-site assessment. For this reason, together with our commitment to promote high quality products that bring the best overall value to our customers, we often become the preferred provider of AML products to these customers. Many of our customers regularly collaborate with us regarding specific manufacturer performance, our own experience with vendors' products and the results of our on-site manufacturer assessments. The emphasis placed on the MRC ASL by both our customers and suppliers helps secure our central and critical position in the global PVF supply chain.

We utilize a variety of freight carriers in addition to our corporate truck fleet to ensure timely and efficient delivery of our products. With respect to deliveries of products from us to our customers, or our outbound needs, we utilize both our corporate fleet and third-party transportation providers. We utilize third parties for approximately 22% of our outbound deliveries. With respect to shipments of products from suppliers to us, or our inbound needs, we principally use third-party carriers.

*Sales and Marketing:* We distribute our products to a wide variety of end-users. Our broad distribution network and customer base allow us to capitalize on our extensive inventory base. Local relationships, depth of inventory, service and timely delivery are critical to the sales process in the PVF distribution industry. We generate approximately 93% of our total sales in North America. Our sales efforts are customer and product driven, and provide a system that is more responsive to changing customer and product needs than a traditional, fully centralized structure.

Our sales model applies a two-pronged approach to address both regional and national markets. Regional sales teams, led by four senior vice presidents with an average tenure of 30 years at MRC or its predecessors, are based in our core geographic regions and are complemented by a national accounts sales team organized by sector or product expertise and focused on large regional, national or global customers. These sales teams are then supported by groups with additional specific service or product expertise, including integrated supply and implementation. Our overall sales force is then internally divided into outside and inside sales forces.

Our approximately 200 (as of December 31, 2011) outside sales representatives develop relationships with prospective and existing customers in an effort to better understand their needs and to increase the number of our products specified or approved by a given customer. Outside sales representatives may be branch outside sales representatives, focused on customer relationships in specific geographies, or technical outside sales representatives, who focus on specific products and provide detailed technical support to customers.

In order to address the needs of our customer base, our inside sales force of approximately 750 customer service representatives (as of December 31, 2011) is responsible for processing orders generated by new and existing customers as well as by our outside sales force. The customer service representatives develop order packages based on specific customer needs, interface with manufacturers to determine product availability, ensure on-time delivery and establish pricing of materials and services based on guidelines and predetermined metrics set by management.

*Seasonality:* Our business experiences mild seasonal effects as demand for the products we distribute is generally higher during the months of August, September and October. Demand for the products we distribute during the months of November and December and early in the year generally tends to be lower due to a lower level of activity in the industry sectors we serve near the end of the calendar year and due to winter weather disruptions. In addition, certain E&P activities, primarily in Canada, typically experience a springtime reduction due to seasonal thaws and regulatory restrictions, limiting the ability of drilling rigs to operate effectively during these periods.

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*Customers:* Our principal customers are companies active in the upstream, midstream and downstream sectors of the energy industry as well as in other industrial and energy sectors. Due to the demanding operating conditions in the energy industry, high costs and safety risks associated with equipment failure, customers prefer highly reliable products and vendors with established qualifications, reputation and experience. As our PVF products typically are mission critical and represent a fraction of the total cost of a given project, our customers often place a premium on service and high reliability given the high cost to them of maintenance or new project delays. We strive to build long-term relationships with our customers by maintaining our reputation as a supplier of high-quality, efficient and reliable products and value-added services and solutions.

We have a diverse customer base of over 10,000 active customers. We are not dependent on any one customer or group of customers. A majority of our customers are offered terms of net 30 days (due within 30 days of the date of the invoice). Customers generally have the right to return products we have sold, subject to certain conditions and limitations, although returns have historically been immaterial to our sales. For the years ended December 31, 2011 and 2010, our largest 25 North American customers represented approximately half of our North American sales. For many of our largest customers, we are often their sole or primary PVF provider by sector or geography, their largest or second largest supplier in aggregate or, in certain instances, the sole provider for their upstream, midstream and downstream procurement needs. We believe that many customers for which we are not the exclusive or comprehensive North American sole source PVF provider will continue to reduce their number of suppliers in an effort to reduce costs and administrative burdens and focus on their core operations. As such, we believe these customers will seek to select PVF distributors with the most extensive product offering and broadest geographic presence. Furthermore, we believe our business will benefit as companies in the energy industry continue to consolidate and the larger, resulting companies look to larger distributors such as ourselves as their sole or primary source PVF provider.

*Backlog:* Backlog is determined by the amount of unshipped third-party customer orders, which may be revised or cancelled by the customer in certain instances. Backlog is generally attributable to our project contract activity, as we generally supply products for MRO contracts within a short period of time from order. There can be no assurance that the backlog amounts will be ultimately realized as revenue, or that the Company will earn a profit on the backlog of orders. Our backlog at December 31, 2011 and December 31, 2010 was \$693 million and \$519 million, respectively. We expect to fill the substantial majority of our backlog within the next 12 months.

*Competition:* We are the largest North American PVF distributor to the energy industry based on sales. The broad PVF distribution industry is fragmented and includes large, nationally recognized distributors, major regional distributors and many smaller local distributors. The principal methods of competition include offering prompt local service, fulfillment capability, breadth of product and service offerings, price and total costs to the customer. Our competitors include nationally recognized PVF distributors, such as Wilson Industries, Inc. (a subsidiary of Schlumberger), National Oilwell Varco, Inc. and Ferguson Enterprises (a subsidiary of Wolseley, plc), several large regional or product-specific competitors and many local, family-owned PVF distributors.

*Employees:* As of December 31, 2011, we had approximately 3,450 employees in North America. 27 employees in the United States belong to a union and are covered by collective bargaining agreements. We consider our relationships with our employees to be good.

*Properties:* We operate a modified hub and spoke model that is centered around our seven distribution centers in North America with more than 175 branch locations which have inventory and local employees. We own our Houston-Darien, TX and Nisku, AB Canada distribution centers and lease the remaining five distribution centers. We own less than 10% of our branch locations as we primarily lease the facilities. Additionally, in order to meet specific customer needs and maintain strong customer relationships, we hold inventory at approximately 700 on-site customer locations.

We maintain three U.S. corporate offices; our main corporate headquarters in Houston, TX, the precedent McJunkin headquarters in Charleston, WV, which we own, and the precedent Red Man headquarters in Tulsa, OK. We also maintain a corporate office for our Canadian operations in Calgary, Alberta and a corporate office for our other international operations in Bradford, UK.

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### **International Operations**

Our International segment represents our valve and stainless and alloy pipe, fitting and flange distribution business to the energy and general industrial sectors, across each of the downstream and upstream sectors, through our distribution operations located throughout Europe, Asia, Australasia and the Middle East. Our International segment represented approximately 7% of our consolidated revenues in 2011.

*Products:* Through our over 30 strategic branch and service facilities throughout Europe, Asia, Australasia and the Middle East, we distribute a complete line of valve and stainless and alloy pipe, fittings and flanges and specialty products. The products we distribute are used in the construction, maintenance, repair and overhaul of equipment used in extreme operating conditions such as high pressure, high/low temperature, high corrosive and abrasive environments. Due to our geographical footprint, we are able to service our global customers at several of their locations. Key product types are described below:

*Valves and Specialty Products* (83% of our International revenue in 2011). Valve products offered include ball, butterfly, gate, globe, check, needle and plug valves which are manufactured from cast steel, stainless/alloy steel, forged steel, carbon steel or cast and ductile iron. Valves are generally used in oilfield and industrial applications to control direction, velocity and pressure of fluids and gases within transmission networks. Specialty products include lined corrosion resistant piping systems, valve automation and top work components used for regulating flow and on/off service and a wide range of steam and instrumentation products used in various process applications within our offshore, refinery, petrochemical and general industrial sectors.

*Stainless Steel Pipe, Fittings and Flanges* (17% of our International revenue in 2011). Stainless steel products are offered primarily through MRC SPF (acquired in June 2011) and are used in all sectors in which we operate including oil and gas, mining and mineral processing, water treatment and desalination, and petrochemical.

*Services:* We provide our customers with a comprehensive array of services, including multiple daily deliveries, zone stores management, valve tagging and significant system interfaces that directly tie the customer into our proprietary information systems. This allows us to interface with our customers' IT systems and provide an integrated supply service. Such services strengthen our position with our customers as we become more integrated into the customer's business and supply chain and are able to market a total transaction value solution rather than individual product prices.

As major integrated and large independent energy companies have implemented efficiency initiatives to focus on their core business, many of these companies have begun outsourcing certain of their procurement and inventory management requirements. In response to these initiatives and to satisfy customer service requirements, we offer integrated supply services to customers who wish to outsource all or a part of the administrative burden associated with sourcing pipe, valves and fittings and other related products. Our integrated supply group offers procurement-related services, physical warehousing services, product inspection, product quality assurance and inventory ownership and analysis services.

A large portion of our International revenue is generated by providing products and services to support our customers' large capital projects. As our products typically represent a fraction of the total cost of the project, our customers often place a premium on service given the high cost to them of maintenance or new project delays. MRC can assist customers in project planning and execution to ensure that product is where they need it, when they need it.

*Suppliers:* We source the products we distribute from a global and regional network of suppliers. Our suppliers benefit from access to our diversified customer base and, by consolidating customer orders, we benefit from stronger purchasing power and preferred vendor programs. Our purchases from our largest 25 suppliers in 2011 approximated 58% of our International total purchases, with our single largest supplier constituting

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approximately 10%. We are a significant buyer for many of our suppliers and we source a significant majority of the products we distribute directly from the manufacturer. The remainder of the products we distribute are sourced from manufacturer representatives, trading companies and other distributors.

*Sales and Marketing:* We distribute our products to a wide variety of end-users in widely dispersed geographies. Our broad customer base and access to our other international locations allow us to leverage our extensive inventory base. Local relationships, depth of inventory, service and timely delivery are critical to the sales process in the PVF distribution industry. We generate approximately 7% of our sales within our International segment. Our marketing efforts are customer and product driven, and provide a system that is more responsive to changing customer and product needs than a traditional, fully centralized structure.

Our sales model is built on a highly trained sales force, and for our valve sales, the majority of our sales force are qualified engineers. This team is able to meet complex customer requirements, selecting the optimal solution from a range of products to increase customers' efficiency and lower total product lifecycle costs. The technical knowledge of our sales engineers combined with the application of local sales professionals addresses the high degree of engineering and product expertise required for each solution.

Our sales force is internally divided into outside and inside sales forces. Outside sales professionals spend the majority of their time building existing customer relationships at target accounts, introducing new products, and identifying and assisting customers with major projects. In addition, outside sales professionals are also responsible for developing new customer relationships. Internally, customer service representatives spend the majority of their time answering client inquiries, addressing customer requirements and making targeted outbound calls to generate additional business. Customer service representatives are product experts who ensure product deliveries meet customer timeframes, qualify sales opportunities and make pricing decisions within identified guidelines.

*Customers:* Our principal customers are companies active in the upstream and downstream sectors of the energy industry, as well as in other industrial and energy sectors. Due to the demanding operating conditions in the energy industry, high costs and safety risks associated with equipment failure, customers prefer highly reliable products and vendors with established qualifications, reputation and experience. As our products typically represent a fraction of the total cost of the project, our customers often place a premium on service given the high cost to them of maintenance or new project delays. We strive to build long-term relationships with our customers by maintaining our reputation as a supplier of high-quality, efficient and reliable products and value-added services and solutions.

We have a diverse customer base, consisting of thousands of active customers. We are not dependent on any one customer or group of customers. Customers generally have the right to return products we have sold, subject to certain conditions and limitations, although returns have historically been immaterial to our sales. For the year ended December 31, 2011, our largest 10 International customers represented approximately 33% of our International segment sales. For many of our largest customers, we are often their sole or primary valve or stainless steel and alloy provider by sector or geography, their largest or second largest supplier in aggregate or, in certain instances, the sole provider for their upstream and downstream procurement needs. We believe that many customers for which we are not the exclusive or comprehensive sole source valve provider will continue to reduce their number of suppliers in an effort to reduce costs and administrative burdens and focus on their core operations. As such, we believe these customers will seek to select valve and PVF distributors with the most extensive product offering and broadest geographic presence. Furthermore, we believe our business will benefit as companies in the energy industry continue to consolidate and the larger, resulting companies look to larger distributors such as ourselves as their sole or primary source valve provider.

*Backlog:* Backlog is determined by the amount of unshipped third-party customer orders, either specific or general in nature, which may be revised or cancelled by the customer in certain instances. Backlog is generally attributable to our project contract activity, as we generally supply products for MRO contracts within a short

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period of time. There can be no assurance that the backlog amounts will be ultimately realized as revenue or that the Company will earn a profit on the backlog of orders. Our backlog at December 31, 2011 and December 31, 2010 was \$130 million and \$64 million, respectively. We expect to fill the substantial majority of our backlog within the next 12 months.

*Competition:* We are one of the largest global valve distributors to the energy industry based on sales. The broad PVF distribution industry is fragmented and includes large, internationally and nationally recognized distributors, major regional distributors and many smaller local distributors. The principal methods of competition include offering prompt local service, fulfillment capability, breadth of product and service offerings, price and total costs to the customer. Our competitors include several large regional or product-specific competitors, such as Econosto (a subsidiary of Eriks), and many local, family-owned PVF distributors.

*Employees:* As of December 31, 2011, we had approximately 650 employees. Three employees, one in Australia, one in New Zealand and one in France, belong to a union and are covered by a collective bargaining agreement. We consider our relationships with our employees to be good.

*Properties:* We operate through a network of over 30 branch locations located throughout Europe, Asia, Australasia and the Middle East, including distribution centers in each of the United Kingdom, Singapore and Australia. We also maintain an operations center for our international operations in Bradford, United Kingdom and Perth, Australia. We own our Brussels location and the remainder of our locations are leased.

For a breakdown of our annual revenues by geography, see Note 13 Segment, Geographic and Product Line Information to the audited consolidated financial statements as of December 31, 2011.

## **Information Systems**

Our technology approach allows for extensive integration and customization with our clients. We believe that this is accretive to the value we bring to customers and increases their loyalty to MRC. Our information systems enable on-line real-time access to appropriate resources and are an integral part of our competitive advantage, particularly among larger customers whose own information systems we integrate with seamlessly.

We operate a single information and operating system ( SIMS ) for all North American locations and a separate, Oracle-based system for our other international locations, in each case other than for locations that we have recently acquired. Our branches are linked by our wide area networks into these integrated, scalable, and enterprise server-based systems allowing online, real-time access to all business resources, including customer order processing, purchasing and material request, distributing requirements planning, warehousing and receiving, inventory control and all accounting and financial functions. The large geographic coverage of each system not only enhances the efficient distribution of products but also standardizes internal processes, data management and reporting, as well as customer-facing applications and information presentation. Each system is highly functional and tailored to meet both the needs of MRC's distribution network and our customers for functionality, customer and internal integration, operational controls, acquisition implementation, scalability, reliability, speed and accounting and reporting capability and compliance.

Third-party and web-based applications are incorporated in our platform and enhance our IT offering. Customer and supplier electronic integrations, information sharing and e-commerce applications help support and secure long-standing relationships and foster additional business with our customers. Scanning and customized bar-coding systems further increase efficiency. Our corporate Intranet also includes various web-based applications and access to valuable resources such as report libraries and a Document Imaging application that includes more than 15 million documents and reports. In addition, we have implemented solutions, processes, and procedures to help mitigate the risk of a cyber incident, or a deficiency in our cyber security, but these measures, as well as our organization's increased awareness of our risk of a cyber incident, do not guarantee that our business will not be negatively impacted by such an incident. As of December 31, 2011, we had a staff of approximately 60 IT professionals.

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### **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. 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. However, the failure by us to comply with applicable environmental, health and safety requirements could result in fines, penalties, enforcement actions, employee, neighbor or other 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.

Under certain laws and regulations, such as the U.S. federal Superfund law or its foreign equivalents, the obligation to investigate, remediate, monitor and clean up contamination at a facility may be imposed on current and former owners, lessees or operators or on persons who may have sent waste to that facility for disposal. Liability under these laws and regulations may be imposed without regard to fault or to the legality of the activities giving rise to the contamination. Although we are not aware of any active litigation against us under the U.S. federal Superfund law or its state or foreign equivalents, contamination has been identified at several of our current and former facilities, and we have incurred and will continue to incur costs to investigate, remediate, monitor and clean up these conditions. Moreover, we may incur liabilities in connection with environmental conditions currently unknown to us relating to our prior, existing 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 and it is impossible to predict accurately the effect that changes in these laws and regulations, or their interpretation or enforcement, may have upon our business, financial condition or results of operations. 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 our business, financial condition and results of operations.

In particular, legislation and regulations limiting emissions of greenhouse gases, including carbon dioxide associated with the burning of fossil fuels, are at various stages of consideration and implementation at the international, national, regional and state levels. In 2005, the Kyoto Protocol to the 1992 United Nations Framework Convention on Climate Change, which established a binding set of emission targets for greenhouse gases, became binding on the countries that ratified it. Attention is now focused on development of a post-2012 international policy framework to guide international action to address climate change when the Kyoto protocol expires in 2012. Certain states and regions have adopted or are considering legislation or regulation imposing overall caps on greenhouse gas emissions from certain facility categories or mandating the increased use of electricity from renewable energy sources. Similar legislation has been proposed at the federal level. In addition, the EPA has begun to implement regulations that require permits for and reductions in greenhouse gas emissions for certain categories of facilities, the first of which became effective in January 2011. Pursuant to the terms of a settlement agreement, the EPA also intends to finalize greenhouse gas emissions standards, known as New Source Performance Standards ( NSPS ), for power plants in May 2012 and plans to issue such NSPS for refineries in the future. These laws and regulations could negatively impact the market for the products we distribute and, consequently, our business.

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In addition, some states have adopted regulations that could impose more stringent permitting, disclosure, wastewater and other waste disposal and well construction and testing requirements on hydraulic fracturing, a practice involving the injection of water containing more limited amounts of certain substances into rock formations (after perforating the formation with explosive charges) to stimulate production of hydrocarbons, particularly natural gas, from shale basin regions. Other states and the federal government are considering regulating this practice. These regulations include a variety of well construction, set back, wastewater disposal and disclosure requirements limiting how fracturing can be performed and requiring various degrees of disclosures regarding the contents of chemicals injected into the rock formations, as well as moratoria on all hydraulic fracturing activity. Any increased federal or state regulation of hydraulic fracturing could reduce the demand for our products in these regions.

### **Exchange Rate Information**

In this report, unless otherwise indicated, foreign currency amounts are converted into U.S. dollar amounts at the exchange rates in effect on December 31, 2011 and 2010 for balance sheet figures. Income statement figures are converted on a monthly basis, using each month's average conversion rate.

### **ITEM 1A. RISK FACTORS**

*You should carefully consider the following risk factors as well as the other information contained in this Annual Report on Form 10-K. If one or more of these risks or uncertainties actually occurs, they could materially and adversely affect our business, financial condition and operating results. In this Annual Report on Form 10-K, unless the context expressly requires a different reading, when we state that a factor could adversely affect us, have a material adverse effect, adversely affect our business and similar expressions, we mean that the factor could materially and adversely affect our business, financial condition and operating results. Information contained in this section may be considered forward-looking statements. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements below for a discussion of certain qualifications regarding such statements.*

#### **Risks Related to Our Business**

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

A large portion of our revenue depends upon the level of capital and operating expenditures in the oil and natural gas industry, including capital and other expenditures in connection with exploration, drilling, production, gathering, transportation, refining and processing operations. Demand for the products we distribute and services we provide 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. A material decline 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. If our customers' expenditures decline, our business will suffer.

***Volatile oil and gas prices affect demand for our products.***

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. For example, oil and natural gas prices during much of 2008 were at levels much higher than historical long term averages, and worldwide oil and natural gas drilling and exploration activity during much of 2008 was also at record high levels. Oil and natural gas prices decreased during the second half of 2008 and during 2009. This sustained decline in oil and natural gas prices resulted in decreased capital expenditures in the oil and natural gas industry and had an adverse effect on our business, results of operations and financial condition. Any sustained decrease in capital expenditures in the oil and natural gas industry could have a material adverse effect on us.



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

the level of domestic and worldwide oil and natural gas production and inventories;

the level of drilling activity and the availability of attractive oil and natural gas field prospects, which governmental actions may affect, such as regulatory actions or legislation, or other restrictions on drilling, including those related to environmental concerns (e.g., the temporary moratorium on deepwater drilling in the Gulf of Mexico following the Deepwater Horizon drilling rig accident and subsequent oil spill);

the discovery rate of new oil and natural gas reserves and the expected cost of developing new reserves;

the actual cost of finding and producing oil and natural gas;

depletion rates;

domestic and worldwide refinery overcapacity or undercapacity and utilization rates;

the availability of transportation infrastructure and refining capacity;

increases in the cost of products and services that the oil and gas industry uses, such as those that we provide, which may result from increases in the cost of raw materials such as steel;

shifts in end-customer preferences toward fuel efficiency and the use of natural gas;

the economic or political attractiveness of alternative fuels, such as coal, hydrocarbon, wind, solar energy and biomass-based fuels;

increases in oil and natural gas prices or historically high oil and natural gas prices, which could lower demand for oil and natural gas products;

worldwide economic activity including growth in non-OECD countries, including China and India;

interest rates and the cost of capital;

national government policies, including government policies that could nationalize or expropriate oil and natural gas exploration, production, refining or transportation assets;

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the ability of the Organization of Petroleum Exporting Countries ( OPEC ) to set and maintain production levels and prices for oil;

the impact of armed hostilities, or the threat or perception of armed hostilities;

environmental regulation;

technological advances;

global weather conditions and natural disasters;

currency fluctuations; and

tax policies.

Oil and natural gas prices have been and are expected to remain volatile. This 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. In particular, volatility in the oil and natural gas sectors could adversely affect our business.

### ***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

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regarding future economic conditions also affect our forecasts. A decrease in demand for the products we distribute or other adverse effects resulting from an economic downturn may cause us to fail to achieve our anticipated financial results. General economic factors beyond our control that affect our business and customers include interest rates, recession, inflation, deflation, customer credit availability, consumer credit availability, consumer debt levels, performance of housing markets, energy costs, tax rates and policy, unemployment rates, commencement or escalation of war or hostilities, the threat or possibility of war, terrorism or other global or national unrest, political or financial instability, and other matters that influence our customers' spending. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency or increase in magnitude. In addition, worldwide economic conditions, including those associated with the current European sovereign debt crisis, could have an adverse effect on our business, prospects, operating results, financial condition, and cash flows going forward. The global economic downturn in 2009 and 2010 significantly adversely affected our business, results of operations and financial condition. Continued adverse economic conditions would have an adverse effect on us.

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

We sell products and services in very competitive markets. In some cases, we compete with large oilfield services providers with substantial resources. In other cases, we compete with smaller regional players that may increasingly be willing to provide similar products and services at lower prices. Competitive actions, such as price reductions, improved delivery and other actions, could adversely affect our revenue and earnings. We could experience a material adverse effect to the extent that our competitors are successful in reducing our customers' purchases of products and services from us. Competition could also cause us to lower our prices, which could reduce our margins and profitability.

***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 PVF 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.

***We may experience unexpected supply shortages.***

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

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

In the future, we may face supply cost increases due to, among other things, unexpected increases in demand for supplies, decreases in production of supplies or increases in the cost of raw materials or transportation. Any inability to pass supply price increases on to our customers could have a material adverse effect on us. For example, we may be unable to pass increased supply costs on to our customers because significant amounts of our sales are derived from stocking program arrangements, contracts and MRO arrangements, which provide our customers time limited price protection, which may obligate us to sell products at a set price for a specific period. 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 or services from us or a reduction of our prices, and these reductions occur concurrently with increases in the prices

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for selected commodities which we use in our operations, including steel, nickel and molybdenum, 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. Approximately 50% of our total purchases during the year ended December 31, 2011 were from our 25 largest suppliers. Although we believe there are numerous manufacturers with the capacity to supply the products we distribute, the loss of one or more of our major suppliers could have an adverse effect on our product offerings and our business. Such a loss would require us to rely more heavily on our other existing suppliers or develop relationships with new suppliers, which may cause us to pay higher prices for products due to, among other things, a loss of volume discount benefits currently obtained from our major suppliers.

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

The value of our inventory could decline as a result of manufacturer price reductions with respect to products that we sell. We have been selling the same types of products to our customers for many years and, therefore, do not expect that our inventory will become obsolete. However, 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 gross profit or cash flow.***

We distribute many products manufactured from steel. As a result, the price and supply of steel can affect our business and, in particular, our tubular product category. When steel prices are lower, the prices that we charge customers for products may decline, which affects our gross profit 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 the costs of raw materials necessary to produce steel, steel manufacturers' plant utilization levels and capacities, import duties and tariffs and currency exchange rates. Currently, steel pipe producers in the Western Hemisphere are in the process of adding more than two million tons of welded and seamless production capacity, most of which is due to come on line over the next three years. The increase in capacity could put pressure on the prices we receive for our tubular products. When steel prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices and, consequently, lower gross profit or 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

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

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

Given the nature of our business, and consistent with industry practice, we do not have long-term contracts with many of our customers. In addition, our contracts, including our MRO contracts, generally do not commit our customers to any minimum purchase volume. Therefore, a significant number of our customers, including our MRO customers, may terminate their relationships with us or reduce their purchasing volume at any time. Furthermore, the long-term customer contracts that we do have are generally terminable without cause on short notice. Our 25 largest customers represented approximately half of our sales for the year ended December 31, 2011. 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 gross margin percentage 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 potential credit losses, we cannot assure such 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, in order 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

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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. For example, we incurred \$17.5 million in fees and expenses during 2009 related to our acquisition of MRC Transmark.

In addition, 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;

strain on the operational and managerial controls and procedures of our business, and the need to modify systems or to add management resources;

difficulties in the integration and retention of customers or personnel and the integration and effective deployment of operations or technologies;

amortization of acquired assets, which would reduce future reported earnings;

possible adverse short-term effects on our cash flows or operating results;

diversion of management's attention from the ongoing operations of our business;

integrating personnel with diverse backgrounds and organizational cultures;

coordinating sales and marketing functions;

failure to obtain and retain key personnel of an acquired business; and

assumption of known or unknown material liabilities or regulatory non-compliance issues.

Failure to manage these acquisition growth risks could have an adverse effect on us. We also agreed to acquire the piping systems business of OneSteel Ltd., and subsequently closed the acquisition in the first quarter of 2012. We may experience any of the risks described herein in closing and integrating the piping systems business of OneSteel Ltd.

***Our significant indebtedness may affect our ability to operate our business, and this could have a material adverse effect on us.***

We have now and will likely continue to have a significant amount of indebtedness. As of December 31, 2011, we had total debt outstanding of \$1,526.7 million, borrowing availability of \$583.7 million under our credit facilities and total liquidity (borrowing capacity plus cash on hand) of \$629.8 million, representing leverage of 4.1x under the terms of the ABL Credit Facility. We may incur significant additional indebtedness in the future. If new indebtedness is added to our current indebtedness, the risks described below could increase. Our significant level of indebtedness could have important consequences, such as:

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limiting our ability to obtain additional financing to fund our working capital, acquisitions, expenditures, debt service requirements or other general corporate purposes;

limiting our ability to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to service debt;

limiting our ability to compete with other companies who are not as highly leveraged;

subjecting us to restrictive financial and operating covenants in the agreements governing our and our subsidiaries' long-term indebtedness;

exposing us to potential events of default (if not cured or waived) under financial and operating covenants contained in our or our subsidiaries' debt instruments that could have a material adverse effect on our business, results of operations and financial condition;

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increasing our vulnerability to a downturn in general economic conditions or in pricing of our products; and

limiting our ability to react to changing market conditions in our industry and in our customers' industries.

In addition, borrowings under our credit facilities bear interest at variable rates. If market interest rates increase, the variable-rate debt will create higher debt service requirements, which could adversely affect our cash flow. Our interest expense for the year ended December 31, 2011 was \$136.8 million.

Our ability to make scheduled debt payments, to refinance our obligations with respect to our indebtedness and to fund capital and non-capital expenditures necessary to maintain the condition of our operating assets, properties and systems software, as well as to provide capacity for the growth of our business, depends on our financial and operating performance, which, in turn, is subject to prevailing economic conditions and financial, business, competitive, legal and other factors. Our business may not generate sufficient cash flow from operations, and future borrowings may not be available to us under our credit facilities in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may seek to sell assets to fund our liquidity needs but may not be able to do so. We may also need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all.

In addition, we are and will be subject to covenants contained in agreements governing our present and future indebtedness. These covenants include and will likely include restrictions on:

certain payments and investments;

the redemption and repurchase of capital stock;

the issuance of stock of subsidiaries;

the granting of liens;

the incurrence of additional indebtedness;

dividend restrictions affecting us and our subsidiaries;

asset sales; and

transactions with affiliates and mergers and acquisitions.

They also include financial maintenance covenants which contain financial ratios we must satisfy each quarter. Any failure to comply with these covenants could result in a default under our credit facilities. Upon a default, unless waived, the lenders under our secured credit facilities and 9.50% senior secured notes due December 15, 2016 (the "Notes") would have all remedies available to a secured lender. They could elect to terminate their commitments, cease making further loans, institute foreclosure proceedings against our or our subsidiaries' assets and force us and our subsidiaries into bankruptcy or liquidation.

In addition, any defaults under our credit facilities, our Notes or our other debt could trigger cross defaults under other or future credit agreements and may permit acceleration of our other indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. For a description of our credit facilities and Notes, see Item 7 Management's Discussion and Analysis of Financial



Condition and Results of Operations Liquidity and Capital Resources .

***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 pay dividends or make other distributions in the future will depend upon the cash flow of our subsidiaries and our subsidiaries' payment of

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funds to us in the form of dividends, tax sharing payments or otherwise. In addition, McJunkin Red Man Corporation, our direct subsidiary and the primary obligor under our ABL Credit Facility and our Notes, is also dependent to a significant extent on the cash flow of its subsidiaries to meet its debt service obligations.

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. In particular, our subsidiaries' credit facilities currently impose significant limitations on the ability of our subsidiaries to make distributions to us and consequently our ability to pay dividends to our stockholders. Subject to limitations in our credit facilities, our subsidiaries may also enter into additional agreements that contain covenants prohibiting them from distributing or advancing funds or transferring assets to us under certain circumstances, including to pay dividends.

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

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

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

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

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

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

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

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Certain laws and regulations, such as the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA or the U.S. federal Superfund law ) or its state and foreign equivalents, may impose the obligation to investigate and remediate contamination at a facility on current and former owners or operators or on persons who may have sent waste to that facility for disposal. These laws and regulations may impose liability without regard to fault or to the legality of the activities giving rise to the contamination. Although we are not aware of any active litigation against us under the U.S. federal Superfund law or its state or foreign equivalents, contamination has been identified at several of our current and former facilities, and we have incurred and will continue to incur costs to investigate and remediate these conditions.

Moreover, we may incur liabilities in connection with environmental conditions currently unknown to us relating to our existing, prior or future owned or leased sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired. We believe that indemnities contained in certain of our acquisition agreements may cover certain environmental conditions existing at the time of the acquisition, subject to certain terms, limitations and conditions. However, if these indemnification provisions terminate or if the indemnifying parties do not fulfill their indemnification obligations, we may be subject to liability with respect to the environmental matters that those indemnification provisions address.

In addition, environmental, health and safety laws and regulations applicable to our business and the business of our customers, including laws regulating the energy industry, and the interpretation or enforcement of these laws and regulations, are constantly evolving. It is impossible to predict accurately the effect that changes in these laws and regulations, or their interpretation or enforcement, may have on us. Should environmental laws and regulations, or their interpretation or enforcement, become more stringent, our costs, or the costs of our customers, could increase, which may have a material adverse effect on us.

In particular, legislation and regulations limiting emissions of greenhouse gases, including carbon dioxide associated with the burning of fossil fuels, are at various stages of consideration and implementation, at the international, national, regional and state levels. In 2005, the Kyoto Protocol to the 1992 United Nations Framework Convention on Climate Change, which established a binding set of emission targets for greenhouse gases, became binding on the countries that ratified it. Attention is now focused on the development of a post-2012 international policy framework to guide international action to address climate change when the Kyoto protocol expires in 2012. Certain states and regions have adopted or are considering legislation or regulation imposing overall caps on greenhouse gas emissions from certain facility categories or mandating the increased use of electricity from renewable energy sources. Similar legislation has been proposed at the federal level. In addition, the U.S. Environmental Protection Agency (the EPA ) has begun to implement regulations that require permits for and reductions in greenhouse gas emissions for certain categories of facilities, the first of which became effective in January 2011. Pursuant to the terms of a settlement agreement, the EPA also intends to finalize greenhouse gas emissions standards, known as NSPS, for power plants in May 2012 and plans to issue such NSPS for refineries in the future. These laws and regulations could negatively impact the market for the products we distribute and, consequently, our business.

In addition, some states have adopted, and other states and the federal government are considering adopting, regulations that could impose more stringent permitting, disclosure, wastewater disposal and well construction requirements on hydraulic fracturing, a practice involving the injection of water containing more limited amounts of certain substances into rock formations (after perforating the formation with explosive charges) to stimulate production of hydrocarbons, particularly natural gas, from shale basin regions. These effective and potential regulations include a variety of well construction, set back, wastewater disposal and disclosure requirements limiting how fracturing can be performed and requiring various degrees of disclosures regarding the contents of chemicals injected into the rock formations, as well as moratoria on all hydraulic fracturing activity. Any increased federal, regional or state regulation of hydraulic fracturing could significantly reduce the demand for our products in the high-growth shale regions of the U.S.

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***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. It is possible, however, that judgments could be rendered against us in cases in which we would be uninsured and beyond the amounts that we currently have reserved or anticipate incurring for these matters. Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on us. Furthermore, we may not be able to continue to obtain insurance on commercially reasonable terms in the future, and we may incur losses from interruption of our business that exceed our insurance coverage. Finally, even in cases where we maintain insurance coverage, our insurers may raise various objections and exceptions to coverage that could make uncertain the timing and amount of any possible insurance recovery.

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

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

***We are a defendant in asbestos-related lawsuits. Exposure to these and any future lawsuits could have a material adverse effect on us.***

We are a defendant in lawsuits involving approximately 981 claims as of December 31, 2011 alleging, among other things, personal injury, including mesothelioma and other cancers, arising from exposure to asbestos-containing materials included in products that we distributed in the past. Each claim involves allegations of exposure to asbestos-containing materials by a single individual, his or her spouse or family members. The complaints in these lawsuits typically name many other defendants. In the majority of these lawsuits, little or no information is known regarding the nature of the plaintiffs' alleged injuries or their connection with the products we distributed. Based on our experience with asbestos litigation to date, as well as the existence of certain insurance coverage, we do not believe that the outcome of these pending claims will have a material impact on us. However, the potential liability associated with asbestos claims is subject to many uncertainties, including

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negative trends with respect to settlement payments, dismissal rates and the types of medical conditions alleged in pending or future claims, negative developments in the claims pending against us, the current or future insolvency of co-defendants, adverse changes in relevant laws or the interpretation of those laws and the extent to which insurance will be available to pay for defense costs, judgments or settlements. Further, while we anticipate that additional claims will be filed against us in the future, we are unable to predict with any certainty the number, timing and magnitude of future claims. Therefore, we can give no assurance that pending or future asbestos litigation will not ultimately have a material adverse effect on us. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, Commitments and Contingencies Legal Proceedings and Item 3 Legal Proceedings for more information.

***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 IT 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 are vulnerable to natural disasters, power losses, telecommunication failures and other problems. If critical information systems fail or are otherwise unavailable, our ability to procure products to sell, process and ship customer orders, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay accounts payable and expenses could be adversely affected. Our ability to integrate our systems with our customers' systems would also be significantly affected. We maintain information systems controls designed to protect against, among other things, unauthorized program changes and unauthorized access to data on our information systems. If our information systems controls do not function properly, we face increased risks of unexpected errors and unreliable financial data or theft of proprietary Company information.

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

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

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

We may require more capital in the future to:

fund our operations;

finance investments in equipment and infrastructure needed to maintain and expand our distribution capabilities;

enhance and expand the range of products we offer; and

respond to potential strategic opportunities, such as investments, acquisitions and international expansion.

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

*Adverse weather events or natural disasters could negatively affect our local economies or disrupt our 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 branches and require us to close branches. Additionally, our sales order backlog and shipments can experience a temporary decline immediately following these events.

We cannot predict whether or to what extent damage caused by these events will affect our operations or the economies in regions where we operate. These adverse events could result in disruption of our purchasing or distribution capabilities, interruption of our business that exceeds our insurance coverage, our inability to collect from customers and increased operating costs. Our business or results of operations may be adversely affected by these and other negative effects of these events.

*We have a substantial amount of goodwill and other intangibles recorded on our balance sheet, partly because of our recent acquisitions and business combination transactions. The amortization of acquired assets will reduce our future reported earnings. Furthermore, if our goodwill or other intangible assets become impaired, we may be required to recognize charges that would reduce our income.*

As of December 31, 2011, we had \$1.3 billion of goodwill and other intangibles recorded on our balance sheet. A substantial portion of these intangible assets result from our use of purchase accounting in connection with the acquisitions we have made over the past several years. In accordance with the purchase accounting method, the excess of the cost of an acquisition over the fair value of identifiable tangible and intangible assets is assigned to goodwill. The amortization expense associated with our identifiable intangible assets will have a negative effect on our future reported earnings. Many other companies, including many of our competitors, will not have the significant acquired intangible assets that we have because they have not participated in recent acquisitions and business combination transactions similar to ours. Thus, the amortization of identifiable intangible assets will not negatively affect their reported earnings to the same degree as ours.

Additionally, under generally accepted accounting principles, goodwill and certain other intangible assets are not amortized, but must be reviewed for possible impairment annually, or more often in certain circumstances where events indicate that the asset values are not recoverable. These reviews could result in an earnings charge for the impairment of goodwill, which would reduce our net income even though there would be no impact on our

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underlying cash flow. For example, we recorded a non-cash impairment charge in the amount of \$386 million during the year ended December 31, 2009. This charge was based on the results of our annual impairment tests for goodwill and intangible assets, which indicated that the book value of these assets exceeded their fair value by this amount.

***We face risks associated with conducting business in markets outside of North America.***

We currently conduct substantial business in countries outside of North America. In addition, we are evaluating the possibility of establishing distribution networks in certain other foreign countries, particularly in Europe, Asia, the Middle East and South America. 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 such non-North American activities 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.

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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

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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 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 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 the Notes or our other securities.

***We face risks associated with international instability and geopolitical developments.***

In some countries, there is an increased chance for economic, legal or political changes that may adversely affect the performance of our services, sale of our products or repatriation of our profits. We do not know the impact that these regulatory, geopolitical and other factors may have on our business in the future and any of these factors could adversely affect us.

***The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and distract management, and we may be unable to comply with these requirements in a timely or cost-effective manner.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the corporate governance standards of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These requirements may place a strain on our management, systems and resources. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition within specified time periods and to prepare proxy statements with respect to our annual meeting of shareholders. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting and comply with the Exchange Act and NYSE requirements, significant resources and management oversight will be required. This may divert management's attention from other business concerns, which could have a material adverse effect on us.

We also expect that it could be difficult and will be significantly more expensive to obtain directors' and officers' liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and

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retain qualified persons to serve on our board of directors (the Board ) or as executive officers. Advocacy efforts by shareholders and third parties may also prompt even more changes in governance and reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of these costs.

***We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.***

We are in the process of evaluating our internal controls systems to allow management to report on, and our independent auditors to audit, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, and will be required to comply with Section 404 in full (including an auditor attestation on management's internal controls report) in our annual report on Form 10-K for the year ending December 31, 2012 (subject to any change in applicable SEC rules). Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable U.S. Securities and Exchange Commission ( SEC ) and Public Company Accounting Oversight Board ( PCAOB ) rules and regulations that remain unremediated. As a public company, we will be required to report, among other things, control deficiencies that constitute a material weakness or changes in internal controls that, or that are reasonably likely to, materially affect internal controls over financial reporting. A material weakness is a significant deficiency or combination of significant deficiencies in internal control over financial reporting that results in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

If we fail to implement the requirements of Section 404 in a timely manner, regulatory authorities such as the SEC or the PCAOB might subject us to sanctions or investigation. If we do not implement improvements to our disclosure controls and procedures or to our internal controls in a timely manner, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal controls over financial reporting pursuant to an audit of our controls. This may subject us to adverse regulatory consequences or a loss of confidence in the reliability of our financial statements. We could also suffer a loss of confidence in the reliability of our financial statements if our independent registered public accounting firm reports a material weakness in our internal controls, if we do not develop and maintain effective controls and procedures or if we are otherwise unable to deliver timely and reliable financial information. Any loss of confidence in the reliability of our financial statements or other negative reaction to our failure to develop timely or adequate disclosure controls and procedures or internal controls could result in a decline in the price of our common stock. In addition, if we fail to remedy any material weakness, our financial statements may be inaccurate, we may face restricted access to the capital markets which could adversely affect us.

***The SEC's move toward a single set of international accounting standards could materially impact our results of operations.***

The SEC continues to move forward with a convergence to a single set of international accounting standards (such as International Financial Reporting Standards ( IFRS )). The associated changes in regulatory accounting may negatively impact the way we record revenues, expenses, assets and liabilities. Currently, under IFRS, the last in, first out ( LIFO ) method of valuing inventory is not permitted. If we had ceased valuing our inventory under the LIFO method at December 31, 2011, we would have been required to make tax payments approximating \$136 million over the subsequent four years.

***The financial statements presented in this report may not provide an accurate indication of what our future results of operations are likely to be.***

Given our recent history of consummating numerous acquisitions, our financial statements may not represent an accurate picture of what our future performance will be. We acquired the remaining 15% majority voting interest

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in McJunkin Appalachian Oilfield Supply Company ( McJunkin Appalachian ) in January 2007; we acquired Midway in April 2007; we entered into a business combination with Red Man in October 2007 (effectively doubling our size); we acquired the remaining approximately 49% noncontrolling interest in MRC Midfield in July 2008; we acquired LaBarge in October 2008; we acquired MRC Transmark in October 2009; we acquired MRC SPF in June 2011; and we acquired the piping systems business of OneSteel Ltd in March 2012. Our limited combined operating history may make it difficult to forecast our future operating results and financial condition. In particular, because of the significance of the Red Man combination, the financial statements for periods prior to that transaction are not comparable with those after the transaction.

***Certain affiliates of The Goldman Sachs Group, Inc. control us and may have conflicts of interest with other stockholders or holders of debt securities of McJunkin Red Man Corporation. Conflicts of interest may arise because affiliates of our principal stockholder have continuing agreements and business relationships with us.***

As of December 31, 2011, the Goldman Sachs Funds control 60% of our outstanding common stock. As a result, the Goldman Sachs Funds control the election of our directors, determine our corporate and management policies and determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including potential mergers or acquisitions, asset sales and other significant corporate transactions. The Goldman Sachs Funds also have sufficient voting power to amend our organizational documents.

Conflicts of interest may arise between our principal stockholder and us. Affiliates of our principal stockholder engage in transactions with our Company. One affiliate of our principal stockholder, Goldman Sachs Lending Partners LLC, is the co-documentation agent and a managing agent for our ABL Credit Facility. See Item 13 Certain Relationships and Related Transactions, and Director Independence . Further, the Goldman Sachs Funds are in the business of making investments in companies and may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us, and they may either directly, or through affiliates, also maintain business relationships with companies that may directly compete with us. In general, the Goldman Sachs Funds or their affiliates could pursue business interests or exercise their voting power as stockholders in ways that are detrimental to us but beneficial to themselves or to other companies in which they invest or with whom they have a material relationship. Conflicts of interest could also arise with respect to business opportunities that could be advantageous to the Goldman Sachs Funds and they may pursue acquisition opportunities that may be complementary to our business. As a result, those acquisition opportunities may not be available to us. Under the terms of our certificate of incorporation, the Goldman Sachs Funds have no obligation to offer us corporate opportunities.

As a result of these relationships, the interests of the Goldman Sachs Funds may not coincide with the interests of our Company or other holders of our common stock or debt securities of McJunkin Red Man. Because of the significant equity position of the Goldman Sachs Funds, they may support actions which are in their interest as equity holders but which are not in the interests of bond holders. So long as the Goldman Sachs Funds continue to control a significant amount of the outstanding shares of our common stock, the Goldman Sachs Funds will continue to be able to strongly influence or effectively control our decisions, including potential mergers or acquisitions, asset sales and other significant corporate transactions. See Item 13 Certain Relationships and Related Transactions, and Director Independence .

***We do not currently intend to pay dividends in the foreseeable future.***

It is uncertain when, if ever, we will declare dividends to our stockholders. We do not currently intend to pay dividends in the foreseeable future. Our ability to pay dividends is constrained by our holding company structure under which we are dependent on our subsidiaries for payments. Additionally, we and our subsidiaries are parties to credit agreements which restrict our ability and their ability to pay dividends. See

Item Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources .

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

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

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **ITEM 2. PROPERTIES**

We operate a modified hub and spoke model that is centered around our seven distribution centers in North America with more than 175 branch locations which have inventory and local employees. We own our Houston-Darien, TX and Nisku, AB Canada distribution centers and lease the remaining five distribution centers. We own less than 10% of our branch locations as we primarily lease the facilities. Additionally, in order to meet specific customer needs and maintain strong customer relationships, we hold inventory at approximately 700 on-site customer locations.

We operate through a network of over 30 branch locations located throughout Europe, Asia, Australasia and the Middle East, including distribution centers in each of the United Kingdom, Singapore and Australia. We also maintain an operations center for our international operations in Bradford, United Kingdom and Perth, Australia. We own our Brussels location and the remainder of our locations are leased.

Our company maintains its principal executive office at 2 Houston Center, 909 Fannin, Suite 3100, Houston, Texas, 77010 and also maintains corporate offices in Charleston, WV, and in Tulsa, OK. All three locations have corporate functions such as accounting, human resources, legal and information technology. We also maintain operations centers for our Canadian operations in Calgary, Alberta and for our international operations in Bradford, United Kingdom.

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we have been subject to various claims and involved in legal proceedings incidental to the nature of our businesses. We maintain insurance coverage to reduce financial risk associated with certain of these claims and proceedings. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, there are no material pending legal proceedings that are likely to have a material effect on our business, financial condition or results of operations, although it is possible that the resolution of certain actual, threatened or anticipated claims or proceedings could have a material adverse effect on our results of operation in the period of resolution.

Also, from time to time, in the ordinary course of our business, our customers may claim that the products that we distribute are either defective or require repair or replacement under warranties that either we or the manufacturer may provide to the customer. These proceedings are, in the opinion of management, ordinary and

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routine matters incidental to our normal business. Our purchase orders with our suppliers generally require the manufacturer to indemnify us against any product liability claims, leaving the manufacturer ultimately responsible for these claims. In many cases, state, provincial or foreign law provides protection to distributors for these sorts of claims, shifting the responsibility to the manufacturer. In some cases, we could be required to repair or replace the products for the benefit of our customer and seek our recovery from the manufacturer for our expense. In the opinion of management, the ultimate disposition of these claims and proceedings are not expected to have a material adverse effect on our financial position, results of operations or cash flows, although it is possible that the resolution of certain actual, threatened or anticipated claims or proceedings could have a material adverse effect on our results of operation in the period of resolution.

For information regarding asbestos cases in which we are a defendant and other claims and proceedings, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, Commitments and Contingencies Legal Proceedings and Note 15 Commitments and Contingencies to our audited consolidated financial statements included elsewhere in this report.

**ITEM 4. MINE SAFETY DISCLOSURES**  
N/A

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

There is no established public trading market for the registrant's common stock.

As of February 2012, there were 83 holders of the registrant's common stock.

Our board of directors has not declared any dividends during 2010 or 2011 and currently has no present intention to declare any dividends.

McJunkin Red Man Corporation's revolving credit facility and the indenture governing the notes have the effect of restricting our ability to issue cash dividends. Any future dividends declared would be at the discretion of our board of directors and would depend on our financial condition, results of operations, contractual obligations, the terms of our financing agreements at the time a dividend is considered, and other relevant factors.

The following table summarizes information, as of December 31, 2011, relating to our equity compensation plans pursuant to which grants of options, restricted stock, or certain other rights to acquire our shares may be granted from time to time.

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
Stock Options	2,845,688	\$ 17.04	904,312
Restricted Stock	141,997	N/A	358,003
Total	2,987,685	\$ 17.04	1,262,315
Equity compensation plans not approved by security holders			
	None	N/A	None

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**ITEM 6. SELECTED FINANCIAL DATA**

On January 31, 2007, MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), an affiliate of The Goldman Sachs Group, Inc., acquired a majority of the equity of the entity now known as McJunkin Red Man Corporation (then known as McJunkin Corporation) (the "GS Acquisition"). In this report, the term "Predecessor" refers to McJunkin Corporation and its subsidiaries prior to January 31, 2007 and the term "Successor" refers to the entity now known as MRC Global Inc. and its subsidiaries on and after January 31, 2007. As a result of the change in McJunkin Corporation's basis of accounting in connection with the GS Acquisition, Predecessor's financial statement data for the one month ended January 30, 2007 and earlier periods are not comparable to Successor's financial data for the eleven months ended December 31, 2007 and subsequent periods.

McJunkin Corporation completed a business combination transaction with Red Man (the "Red Man Transaction") on October 31, 2007. At that time, McJunkin Corporation was renamed McJunkin Red Man Corporation. Operating results for the eleven-month period ended December 31, 2007 include the results of MRC Global Inc. for the full period and the results of Red Man for the two months after the business combination on October 31, 2007. Accordingly, our historical results for the years ended December 31, 2011, 2010, 2009 and 2008 and the 11 months ended December 31, 2007 are not comparable to McJunkin Corporation's historical results for the one month ended January 30, 2007.

The selected consolidated financial information presented below under the captions Statement of Operations Data and Other Financial Data for the years ended December 31, 2011, 2010, 2009 and 2008, and the selected consolidated financial information presented below under the caption Balance Sheet Data as of December 31, 2011 and December 31, 2010, have been derived from the consolidated financial statements of MRC Global Inc. included elsewhere in this report that Ernst & Young LLP, our independent registered public accounting firm, has audited. The selected consolidated financial information presented below under the captions Statement of Operations Data and Other Financial Data for the one month ended January 30, 2007 and the eleven months ended December 31, 2007, and the selected consolidated financial information presented below under the caption Balance Sheet Data as of December 31, 2009, December 31, 2008 and December 31, 2007, have been derived from the consolidated financial statements of MRC Global Inc. not included in this report that Ernst & Young LLP has audited.

All information in this Annual Report gives retroactive effect to the two-for-one reverse split of our common stock which occurred on February 29, 2012.

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The selected historical consolidated financial data presented below has been derived from financial statements that have been prepared using accounting principles generally accepted in the United States of America (in millions, except share and per share amounts). This data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this report.

	Successor				Predecessor	
	Year Ended December 31,				Eleven Months Ended	One Month Ended
	2011	2010	2009(1)	2008	December 31, 2007	January 30, 2007
<b>Statement of Operations Data:</b>						
Sales	\$ 4,832.4	\$ 3,845.5	\$ 3,661.9	\$ 5,255.2	\$ 2,124.9	\$ 142.5
Cost of sales	4,124.2	3,327.0	3,067.4	4,273.1	1,761.9	114.9
Inventory write-down		0.4	46.5			
Gross margin	708.2	518.1	548.0	982.1	363.0	27.6
Selling, general and administrative expenses	513.6	451.7	411.6	482.1	218.5	15.9
Goodwill and intangibles impairment charge			386.1			
Operating income (loss)	194.6	66.4	(249.7)	500.0	144.5	11.7
Other (expenses) income:						
Interest expense	(136.8)	(139.6)	(116.5)	(84.5)	(61.7)	(0.1)
Write off of debt issuance costs	(9.5)					
Change in fair value of derivatives	7.0	(4.9)	8.9	(6.2)		
Other, net	0.5	2.9	2.5	(2.6)	(0.8)	(0.4)
Total other (expense) income	(138.8)	(141.6)	(105.1)	(93.3)	(62.5)	(0.5)
Income (loss) before income taxes	55.8	(75.2)	(354.8)	406.7	82.0	11.2
Income taxes	26.8	(23.4)	(15.0)	153.2	32.1	4.6
Net (loss) income	29.0	(51.8)	(339.8)	253.5	49.9	6.6
Earnings (loss) per share amounts:						
Basic	\$ 0.34	\$ (0.61)	\$ (4.30)	\$ 3.26	\$ 1.44	
Diluted	\$ 0.34	\$ (0.61)	\$ (4.30)	\$ 3.26	\$ 1.44	
Weighted average shares, basic (in thousands)	84,417	84,384	79,067	77,646	34,663	
Weighted average shares, diluted (in thousands)	84,655	84,384	79,067	77,828	34,731	
Basic Class A						\$ 376.70
Diluted Class A						\$ 376.70
Basic Class B						\$ 376.70
Diluted Class B						\$ 376.70
Dividends	\$	\$	\$ 0.04	\$ 6.10	\$	



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	Successor Year Ended December 31,				Eleven Months Ended December 31,	Predecessor One Month Ended January 30,
	2011	2010	2009(1)	2008	2007	2007
<b>Balance Sheet Data:</b>						
Cash	\$ 46.1	\$ 56.2	\$ 56.2	\$ 12.1	\$ 10.1	\$ 2.0
Working capital	1,074.7	842.6	930.2	1,208.0	674.1	211.1
Total assets	3,227.7	2,991.2	3,083.2	3,919.7	3,083.8	474.2
Total debt	1,526.7	1,360.2	1,452.6	1,748.6	868.4	4.8
Stockholders' equity	720.9	689.8	743.9	987.2	1,262.7	245.2
<b>Other Financial Data:</b>						
Adjusted Gross Margin	\$ 849.6	\$ 663.2	\$ 493.5	\$ 1,164.0	\$ 400.6	\$ 27.9
Adjusted EBITDA	\$ 360.5	\$ 224.2	\$ 218.5	\$ 744.4	\$ 344.9	\$ 26.0
Net cash:						
Operating Activities	(102.9)	112.7	505.5	(137.4)	110.2	6.6
Investing Activities	(48.0)	(16.2)	(66.9)	(314.2)	(1,788.9)	(0.2)
Financing Activities	140.6	(98.2)	(393.9)	452.0	1,687.2	(8.3)

(1) Includes \$46.5 million inventory write-down and \$386.1 million goodwill and intangibles impairment charge.

We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles, other non-recurring and non-cash charges (such as gains/losses on the early extinguishment of debt, changes in the fair value of derivative instruments and goodwill impairment) and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted EBITDA because it is an important measure used to determine the interest rate and commitment fee we pay under our ABL Credit Facility. In addition, we believe it is a useful factor indicator of our operating performance. We believe this for the following reasons:

Our management uses Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections, as well as for determining a significant portion of the compensation of our executive officers;

Adjusted EBITDA is widely used by investors to measure a company's operating performance without regard to items, such as interest expense, income tax expense and depreciation and amortization, that can vary substantially from company to company depending upon their financing and accounting methods, the book value of their assets, their capital structures and the method by which their assets were acquired; and

Securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies. In particular, we believe that Adjusted EBITDA is a useful indicator of our operating performance because Adjusted EBITDA measures our Company's operating performance without regard to certain non-recurring, non-cash or transaction-related expenses.

Adjusted EBITDA, however, does not represent and should not be considered as an alternative to net income, cash flow from operations or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA may not be comparable to similar measures that other companies report because other companies may not calculate Adjusted EBITDA in the same manner as we do. Although we use Adjusted EBITDA as a measure to assess the operating performance of our business, Adjusted EBITDA has significant limitations as an analytical tool because it excludes certain material costs. For example, it does not include interest expense, which has been a significant element of our costs. Because we use capital assets,



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depreciation expense is a significant element of our costs and impacts our ability to generate revenue. In addition, the omission of the amortization expense associated with our intangible assets further limits the usefulness of this measure. Adjusted EBITDA also does not include the payment of certain taxes, which is also a significant element of our operations. Furthermore, Adjusted EBITDA does not account for our LIFO inventory costing methodology, and therefore, to the extent that recently purchased inventory accounts for a relatively large portion of our sales, Adjusted EBITDA may overstate our operating performance. Because Adjusted EBITDA does not account for certain expenses, its utility as a measure of our operating performance has material limitations. Because of these limitations, management does not view Adjusted EBITDA in isolation or as a primary performance measure and also uses other measures, such as net income and sales, to measure operating performance.

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The following table reconciles Adjusted EBITDA with our net income (loss), as derived from our financial statements (in millions):

	Successor				Predecessor	
	Year Ended	Year Ended	Year Ended	Year Ended	Eleven Months Ended	One Month Ended
	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	January 30, 2007
Net (loss) income	\$ 29.0	\$ (51.8)	\$ (339.8)	\$ 253.5	\$ 49.9	\$ 6.6
Income taxes	26.8	(23.4)	(15.0)	153.2	32.1	4.6
Interest expense	136.8	139.6	116.5	84.5	61.7	0.1
Write off of debt issuance costs	9.5					
Depreciation and amortization	17.0	16.6	14.5	11.3	5.4	0.3
Amortization of intangibles	50.7	53.9	46.6	44.4	21.9	
Amortization of purchase price accounting			15.7	2.4		
Change in fair value of derivative instruments	(7.0)	4.9	(8.9)	6.2		
Closed locations		(0.7)	1.4	4.4		
Share based compensation	8.4	3.7	7.8	10.2	3.0	
Franchise taxes	0.4	0.7	1.4	1.5		
Gain on early extinguishment of debt			(1.3)			
Goodwill and intangibles impairment			386.1			
Inventory write-down		0.4	46.5			
IT system conversion costs			2.4	1.4		
M&A transaction & integration expenses	0.5	1.4	17.5	30.4	12.7	
Midway pre-acquisition contribution					2.8	1.0
Legal and consulting expenses	9.9	4.2	1.9	0.4		
Joint venture termination	1.7					
Provision for uncollectible accounts	0.4	(2.0)	1.0	7.7	0.4	
Red Man pre-acquisition contribution					142.2	13.1
Severance and related costs	1.1	3.2	4.4			
MRC Transmark pre-Acquisition contribution			38.5			
LIFO	73.7	74.6	(115.6)	126.2	10.3	
Other expenses	1.6	(1.1)	(3.1)	6.7	2.5	0.3
Adjusted EBITDA	\$ 360.5	\$ 224.2	\$ 218.5	\$ 744.4	\$ 344.9	\$ 26.0

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We define Adjusted Gross Margin as sales, less cost of sales, plus depreciation and amortization, plus amortization of intangibles, and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Margin because we believe it is a useful indicator of our operating performance and facilitates a meaningful comparison to our peers. We believe this for the following reasons:

Our management uses Adjusted Gross Margin for planning purposes, including the preparation of our annual operating budget and financial projections. This measure is also used to assess the performance of our business;

Investors use Adjusted Gross Margin to measure a company's operating performance without regard to items, such as depreciation and amortization, and amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of transactions they have been involved in. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether those companies elect to utilize the LIFO method and depending upon which LIFO method they may elect; and

Securities analysts can use Adjusted Gross Margin as a supplemental measure to evaluate overall operating performance of companies.

In particular, we believe that Adjusted Gross Margin is a useful indicator of our operating performance because Adjusted Gross Margin measures our Company's operating performance without regard to acquisition transaction-related amortization expenses.

However, Adjusted Gross Margin does not represent and should not be considered an alternative to gross margin or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted Gross Margin may not be comparable to similar measures that other companies report because other companies may not calculate Adjusted Gross Margin in the same manner as we do. Although we use Adjusted Gross Margin as a measure to assess the operating performance of our business, Adjusted Gross Margin has significant limitations as an analytical tool because it excludes certain material costs. For example, it does not include depreciation and amortization expense. Because we use capital assets, depreciation expense is a significant element of our costs and impacts our ability to generate revenue. In addition, the omission of amortization expense associated with our intangible assets further limits the usefulness of this measure. Furthermore, Adjusted Gross Margin does not account for our LIFO inventory costing methodology and, therefore, to the extent that recently purchased inventory accounts for a relatively large portion of our sales, Adjusted Gross Margin may overstate our operating performance. Because Adjusted Gross Margin does not account for certain expenses, its utility as a measure of our operating performance has material limitations. Because of these limitations, management does not view Adjusted Gross Margin in isolation or as a primary performance measure and also uses other measures, such as net income and sales, to measure operating performance.

The following table reconciles Adjusted Gross Margin to gross margin (in millions):

	Successor				Predecessor	
	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Eleven Months Ended December 31, 2007	One Month Ended January 30, 2007
Gross margin	\$ 708.2	\$ 518.1	\$ 548.0	\$ 982.1	\$ 363.0	\$ 27.6
Depreciation and amortization	17.0	16.6	14.5	11.3	5.4	0.3
Amortization of intangibles	50.7	53.9	46.6	44.4	21.9	
Increase (decrease) in LIFO reserve	73.7	74.6	(115.6)	126.2	10.3	
<b>Adjusted Gross Margin</b>	<b>\$ 849.6</b>	<b>\$ 663.2</b>	<b>\$ 493.5</b>	<b>\$ 1,164.0</b>	<b>\$ 400.6</b>	<b>\$ 27.9</b>



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

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under "Cautionary Note Regarding Forward-Looking Statements" and "Item 1A Risk Factors" and elsewhere in this report. All references throughout this section (and elsewhere in this report) to amounts available for borrowing under various credit facilities refer to amounts actually available for borrowing after giving effect to any borrowing base limitations imposed by the facility.*

**Cautionary Note Regarding Forward-Looking Statements**

Management's Discussion and Analysis of Financial Condition and Results of Operations (as well as other sections of this Annual Report on Form 10-K) contain forward-looking statements, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in the oil and natural gas industry. These forward-looking statements are not guarantees of future performance. These statements are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, including the factors described under "Risk Factors", that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Such risks and uncertainties include, among other things:

decreases in oil and natural gas prices;

decreases in oil and natural gas industry expenditure levels, which may result from decreased oil and natural gas prices or other factors;

increased usage of alternative fuels, which may negatively affect oil and natural gas industry expenditure levels;

U.S. and international general economic conditions;

our ability to compete successfully with other companies in our industry;

the risk that manufacturers of the products we distribute will sell a substantial amount of goods directly to end users in the industry sectors we serve;

unexpected supply shortages;

cost increases by our suppliers;

our lack of long-term contracts with most of our suppliers;

increases in customer, manufacturer and distributor inventory levels;

suppliers' price reductions of products that we sell, which could cause the value of our inventory to decline;

decreases in steel prices, which could significantly lower our profit;

increases in steel prices, which we may be unable to pass along to our customers, which could significantly lower our profit;

our lack of long-term contracts with many of our customers and our lack of contracts with customers that require minimum purchase volumes;

changes in our customer and product mix;



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risks related to our customers' credit;

the potential adverse effects associated with integrating acquisitions into our business and whether these acquisitions will yield their intended benefits;

the success of our acquisition strategies;

our significant indebtedness;

the dependence on our subsidiaries for cash to meet our debt obligations;

changes in our credit profile;

a decline in demand for certain of the products we distribute if import restrictions on these products are lifted;

environmental, health and safety laws and regulations and the interpretation or implementation thereof;

the sufficiency of our insurance policies to cover losses, including liabilities arising from litigation;

product liability claims against us;

pending or future asbestos-related claims against us;

the potential loss of key personnel;

interruption in the proper functioning of our information systems;

loss of third-party transportation providers;

potential inability to obtain necessary capital;

risks related adverse weather events or natural disasters;

impairment of our goodwill or other intangible assets;

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changes in tax laws or adverse positions taken by taxing authorities in the countries in which we operate;

adverse changes in political or economic conditions in the countries in which we operate;

exposure to U.S. and international laws and regulations, including the Foreign Corrupt Practices Act and the U.K. Bribery Act and other economic sanction programs;

potential increases in costs and distraction of management resulting from the requirements of being a publicly reporting company;

risks relating to evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act;

the operation of our Company as a controlled company ; and

the limited usefulness of our historic financial statements.

Undue reliance should not be placed on our forward-looking statements. Although forward-looking statements reflect our good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except to the extent law requires.

### **Overview**

We are the largest global industrial distributor of pipe, valves and fittings (PVF) and related products and services to the energy industry based on sales and hold the leading position in our industry across each of the

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upstream (exploration, production and extraction of underground oil and natural gas), midstream (gathering and transmission of oil and natural gas, natural gas utilities and the storage and distribution of oil and natural gas) and downstream (crude oil refining, petrochemical processing and general industrials) sectors. Globally, we have two operating segments through which we serve our customers in over 400 service locations. Our North American segment includes over 175 branch locations, six distribution centers in the U.S., one distribution center in Canada, 12 valve automation service centers and over 160 pipe yards located in the most active oil and natural gas regions in North America. Our International segment includes over 30 branch locations throughout Europe, Asia and Australasia with distribution centers in the United Kingdom, Singapore and Australia and 10 automation service centers in Europe and Asia. We offer a wide array of PVF and oilfield supplies encompassing a complete line of products from our global network of suppliers to our more than 12,000 customers. We are diversified by geography, the industry sectors we serve and the products we sell. We seek to provide best-in-class service to our customers by satisfying the most complex, multi-site needs of many of the largest companies in the energy and industrial sectors as their primary PVF supplier. We believe the critical role we play in our customers' supply chain, together with our extensive product offering, broad global presence, customer-linked scalable information systems and efficient distribution capabilities, serve to solidify our long-standing customer relationships and drive our growth. As a result, we have an average relationship of over 20 years with our largest 25 customers.

We have benefited from several growth trends within the energy industry, including high levels of customer expansion and maintenance expenditures and believe that longer-term growth in PVF and industrial supply spending within the energy industry is likely to continue. Several factors have driven the long-term growth in spending, including underinvestment in energy infrastructure, production and capacity constraints, and market expectations of future improvements in the oil, natural gas, refined products, petrochemical and other industrial sectors. In addition, the products we distribute are often used in extreme operating environments, leading to the need for a regular replacement cycle. Approximately two-thirds of our sales are attributable to multi-year MRO arrangements where we have demonstrated an average annual retention rate of over 95% since 2000. We consider MRO arrangements to be normal, generally repetitive business that primarily addresses the recurring maintenance, repair or operational work to existing energy infrastructure. Project activities, including facility expansions or new construction projects, are more commonly associated with a customer's capital expenditures budget and can be more sensitive to global oil and natural gas prices and general economic conditions. We mitigate our exposure to price volatility by limiting the length of any price-protected contracts, and as pricing continues to rebound, we believe that we have the ability to pass price increases on to the marketplace.

**Key Drivers of Our Business**

Our revenues are predominantly derived from the sale of PVF and other oilfield and industrial supplies to the energy sector in North America, Europe, Asia and Australasia. Our business is therefore dependent upon both the current conditions and future prospects in the energy industry and, in particular, maintenance and expansionary operating and capital expenditures by our customers in the upstream, midstream and downstream sectors of the industry. Long-term growth in spending has been, and we believe will continue to be, driven by several factors, including underinvestment in global energy infrastructure, growth in shale and unconventional exploration and production (E&P) activity, and anticipated strength in the oil, natural gas, refined products, petrochemical and other industrial sectors. The outlook for future oil, natural gas, refined products, petrochemical and other industrial PVF spending is influenced by numerous factors, including the following:

*Oil and Natural Gas Prices.* Sales of PVF and related products to the oil and natural gas industry constitute a significant portion of our sales. As a result, we depend upon the oil and natural gas industry and its ability and willingness to make maintenance and capital expenditures to explore for, produce and process oil and natural gas and refined products. Oil and natural gas prices, both current and projected, along with the costs necessary to produce oil and gas, impact other drivers of our business, including, E&P spending, additions and maintenance to pipeline mileage, refinery utilization and petrochemical and other industrial processing activity.

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*Steel Prices, Availability and Supply and Demand.* Fluctuations in steel prices can lead to volatility in the pricing of the products we distribute, especially carbon steel tubular products, which can influence the buying patterns of our customers. A majority of the products we distribute contain various types of steel. The worldwide supply and demand for these products, or other steel products that we do not supply, impacts the pricing and availability of our products and, ultimately, our sales and operating profitability.

*Economic Conditions.* The demand for the products we distribute is dependent on the general economy, the energy and industrials sectors and other factors. Changes in the general economy or in the energy and industrials sectors (domestically or internationally) can cause demand for the products we distribute to materially change.

*Customer, Manufacturer and Distributor Inventory Levels of PVF and Related Products.* Customer, manufacturer and distributor inventory levels of PVF and related products can change significantly from period to period. Increases in our customers' inventory levels can have an adverse effect on the demand for the products we distribute when customers draw from their inventory rather than purchase new products. Reduced demand, in turn, would likely result in reduced sales volume and profitability. Increased inventory levels by manufacturers or other distributors can cause an oversupply of PVF and related products in the industry sectors we serve and reduce the prices that we are able to charge for the products we distribute. Reduced prices, in turn, would likely reduce our profitability. Conversely, decreased customer and manufacturer inventory levels may ultimately lead to increased demand for our products and would likely result in increased sales volumes and overall profitability.

### **Recent Trends and Outlook**

The current outlook for activity in our end markets is positive. The period from 2005 to 2008 was a period of steady growth in North American oil and gas drilling and completion spending in our upstream market. Activity peaked in 2008, with oil pricing above \$140 per barrel and natural gas prices above \$14/mcf. Due to the associated record levels of E&P activity, there was a shortage of tubular products to meet the demand, and significant steel price inflation followed as a result. Approximately 40% of our sales and half of our gross profit was in tubular products during 2008 and these sales were typically at margins in excess of longer term historical levels for this product category. In our downstream/industrial market, 2005 to 2008 was a period of major refinery expansion projects in the U.S. to upgrade Midwestern and Gulf Coast refineries to handle heavier and more sour crude oil from Canada, Venezuela and other international sources. These large projects were in addition to normal turnaround and smaller project activity. During 2009 to 2010, as peak crude oil prices negatively impacted refining margins, the global economic recession reduced refined product demand, which resulted in decreased capital spending by our refining customers. In the U.S. petrochemical industry, the high natural gas prices of 2008 reduced investment, as natural gas is a primary cost and feedstock to this industry segment. In 2010 and 2011, increases in natural gas production from the U.S. shale plays led to lower natural gas commodity prices, which helped drive increases in customer spending and activity levels in this sector.

Global energy demand was negatively impacted in 2009 by the great recession in the global economy, which directly negatively affected oil and natural gas commodity prices. This resulted in lower spending by our major customers during 2009 and 2010, which, coupled with significant deflation in tubular steel prices, had a material impact on our profitability in 2009 and 2010 as customers renegotiated contracts with drilling contractors, energy service companies, equipment suppliers and distributors. The steep drop in demand, steel price deflation and new lower customer contract pricing along with high-cost inventory purchased in 2008 led to a major de-stocking effort of approximately \$1 billion (including both inventory and outstanding purchase orders) at our Company during 2009, generating over \$500 million in cash flow from operations. In certain instances, sales during this period in our tubular product category carried negative margins, which severely impacted our results during this period. Our non-tubular product lines were impacted to a much lesser degree.

In 2010, our business stabilized, but given continued economic uncertainty and the slow recovery, activity levels remained slow relative to more historical levels. In 2011, commodity oil and natural gas pricing improved, our

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customers E&P budgets increased, and product pricing increased as a result of the improvement in PVF demand. In addition, our high-cost tubular inventory was largely sold during 2009 and 2010, and as a result, profitability in 2011 began to improve. Steel inflation and pricing levels currently remain well below 2008 levels, but carbon steel pricing in line pipe has returned to a more normal historic range. OCTG pricing currently remains challenging, and we are rebalancing our product portfolio towards higher margin products, such as valves, fittings, flanges and other industrial products as a result.

During 2011, oil prices remained strong with an average price of approximately \$95 per barrel for West Texas Intermediate ( WTI ), or approximately 19% above the average for 2010. Natural gas prices remained relatively flat at an average price during this period of \$4/Mcf (Henry Hub), although they have declined below \$3/Mcf more recently. Behind the strength of oil prices, in particular, North American drilling activity has increased an estimated 21% in 2011 relative to 2010. We continue to see a shift in rig counts from natural gas to oil, with oil drilling representing over 55% of the total North American rig count during 2011.

Activity levels in the upstream sector remain strong. In the U.S., the average total rig count was up 21% in 2011 as compared to 2010. Continued development within the Marcellus, Eagle Ford and Bakken shale regions primarily drove this increase in rig count. In 2011, we shipped approximately 674,000 tons of energy carbon steel tubular products in the U.S., 20% more tons than in 2010. In Canada, the average total rig count was up 20% in 2011 as compared to 2010. There we have experienced an increase in MRO, particularly in the heavy oil and tar sands regions, which has mitigated the downturn experienced in shallow natural gas drilling elsewhere in Canada.

The midstream sector, which includes gathering, transmission pipeline and natural gas utilities, is currently our fastest growing sector. We generated revenue growth of 33% in 2011 compared to 2010. New wells coming on line and the continued need for infrastructure within the shale basins has driven this growth. As a result of the shift in E&P activity from natural gas to oil, we have experienced a shift in activity from the natural gas regions of the Barnett, Haynesville, Woodford, and Fayetteville shales to the Bakken, Eagle Ford, Niobrara and Permian shales, which are heavier producing regions for oil and natural gas liquids. Revenue from our gathering and transmission customers increased 40% in 2011 as compared to 2010, while revenue from our natural gas utilities customers increased approximately 28% in 2011 compared to 2010, due to the increasing focus on pipeline integrity work and the need for utilities to repair or replace aging pipeline infrastructure.

Our downstream and other industrials sector performance has improved in 2011 as compared to 2010. However, downstream market participants still appear cautious with respect to major capital spending in refining because of international refining capacity additions, higher crude oil prices and relatively low margins relative to longer term historical levels. We believe there will be increased turnaround activity by our major customers in our U.S. refining end market in 2012 and 2013 due to customers' delays in routine turnaround activity for maintenance and repair. Our chemical and general industrials sector increased approximately 5% in 2011 compared to 2010, due to an increase in general economic activity, and growth in maintenance and capital projects activity. Internationally, where our business is heavily weighted toward the downstream sector, excluding the impact of the acquisition of MRC SPF, we have seen an improvement of 3% in revenues in 2011 as compared to 2010 due to a modest recovery in capital and operating expenditures in Europe during 2011. The impact of the European debt crisis on general economic conditions and the impact on energy consumption and the downstream sector are uncertain.

We determine backlog by the amount of unshipped third-party customer orders, either specific or general in nature (including orders held under pipe programs), which the customer may revise or cancel in certain instances. There can be no assurance that the backlog amounts will be ultimately realized as revenue, or that we will earn a profit on the backlog of orders. Our backlog at December 31, 2011 was \$823 million, including \$693 million in our North American segment and \$130 million in our International segment. In total, this backlog represents year over year growth of 41%, which we believe is a relatively good general indicator of overall activity for MRC.

**Table of Contents****Results of Operations for the years ended December 31, 2011, 2010 and 2009**

Our operating results by segment are as follows (in millions). The results for the year ended December 31, 2009 only include the results of MRC Transmark (which comprises a majority of our International segment) for the two months after the business combination on October 30, 2009. Corporate administrative costs are included in the North American segment.

	December 31, 2011	Year Ended December 31, 2010	December 31, 2009
<i>Sales:</i>			
North America	\$ 4,502.8	\$ 3,589.9	\$ 3,610.1
International	329.6	255.6	51.8
Consolidated	\$ 4,832.4	\$ 3,845.5	\$ 3,661.9
<i>Operating Income (Loss):</i>			
North America	\$ 183.9	\$ 56.0	\$ (253.5)
International	10.7	10.4	3.8
Consolidated	\$ 194.6	\$ 66.4	\$ (249.7)

The following table shows key industry indicators for the years ended December 31, 2011, 2010 and 2009:

	December 31, 2011	Year Ended December 31, 2010	December 31, 2009
<i>Average Total Rig Count(1):</i>			
United States	1,875	1,546	1,089
Canada	422	351	221
Total North America	2,297	1,897	1,310
International	1,167	1,094	997
Total Worldwide	3,464	2,991	2,307
<i>Average Oil Rig Count(1):</i>			
United States	984	591	278
Canada	279	199	102
Total North America	1,263	790	380
<i>Average Natural Gas Rig Count(1):</i>			
United States	888	943	801
Canada	141	148	120
Total North America	1,029	1,091	921
<i>Average Commodity Prices(2):</i>			
WTI crude oil (per barrel)	\$ 94.91	\$ 79.48	\$ 61.95
Brent crude oil (per barrel)	\$ 111.26	\$ 79.61	\$ 61.74
Natural gas (\$/Mcf)	\$ 4.00	\$ 4.37	\$ 3.94

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Average Monthly Well Permits(3):	<b>5,811</b>	5,317	4,266
3:2:1 Crack Spread(4)	<b>\$ 25.40</b>	\$ 12.92	\$ 7.77
PMI Index (as of December 1 of each year)(5)	<b>53.1</b>	57.3	55.8

(1) Source Baker Hughes ([www.bakerhughes.com](http://www.bakerhughes.com)) (Total rig count includes oil, natural gas and other rigs.)

(2) Source Department of Energy, EIA ([www.eia.gov](http://www.eia.gov))

(3) Source RigData (U.S.)

(4) Source Commodity Systems, Inc.

(5) Source Institute for Supply Management

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The breakdown of our sales by sector for the years ended December 31, 2011, 2010 and 2009 was as follows:

	Year Ended December 31,		
	2011	2010	2009
Upstream	47%	46%	44%
Midstream	26%	24%	24%
Downstream and other industrials	27%	30%	32%
	100%	100%	100%

**Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010**

For the years ended December 31, 2011 and 2010 the following table summarizes our results of operations (in millions):

	Year Ended December 31,		\$ Change	% Change
	2011	2010		
<i>Sales:</i>				
North America	\$ 4,502.8	\$ 3,589.9	\$ 912.9	25%
International	329.6	255.6	74.0	29%
Consolidated	\$ 4,832.4	\$ 3,845.5	\$ 986.9	26%
<i>Gross margin:</i>				
North America	\$ 613.7	\$ 442.7	\$ 171.0	39%
International	94.5	75.4	19.1	25%
Consolidated	\$ 708.2	\$ 518.1	\$ 190.1	37%
<i>Selling, general and administrative expenses:</i>				
North America	\$ 429.8	\$ 386.7	\$ 43.1	11%
International	83.8	65.0	18.8	29%
Consolidated	\$ 513.6	\$ 451.7	\$ 61.9	14%
<i>Operating income (loss):</i>				
North America	\$ 183.9	\$ 56.0	\$ 127.9	228%
International	10.7	10.4	0.3	3%
Consolidated	\$ 194.6	\$ 66.4	\$ 128.2	193%
Interest expense	(136.8)	(139.6)	2.8	2%
Write off of deferred financing fees	(9.5)		(9.5)	N/A
Other, net	7.5	(2.0)	9.5	475%
Income tax benefit (expense)	(26.8)	23.4	(50.2)	(215)%
Net income (loss)	\$ 29.0	\$ (51.8)	\$ 80.8	156%
Adjusted Gross Margin	\$ 849.6	\$ 663.2	\$ 186.4	28%
Adjusted EBITDA	\$ 360.5	\$ 224.2	\$ 136.3	61%



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**Sales.** Sales include the revenue recognized from the sales of the products we distribute and services to customers and freight billings to customers, less cash discounts taken by customers in return for their early payment of our invoices to them. Our sales were \$4,832.4 million for the year ended December 31, 2011 as compared to \$3,845.5 million for the year ended December 31, 2010.

*North American Segment* Our North American sales increased \$912.9 million to \$4,502.8 million for 2011 from \$3,589.9 million for 2010. The 25% increase was due to an increase in volume related to the improved business

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environment, including, in particular, the upstream and midstream sectors, which have been driven by activity levels in the oil and natural gas shale regions in the U.S. as well as the heavy oil and tar sands regions of Canada.

*International Segment* Our International sales increased \$74.0 million to \$329.6 million for 2011 from \$255.6 million for 2010. Approximately \$56 million of this increase was due to the acquisition of MRC SPF in June 2011, while the remainder of the increase is due to an improvement in volume in the downstream sector in Europe during 2011.

**Gross Margin.** Our gross margin was \$708.2 million (14.7% of sales) for the year ended December 31, 2011 as compared to \$518.1 million (13.5% of sales) for the year ended December 31, 2010. The 1.2% improvement in gross margin percentage reflected the growth in sales, relative to certain costs such as depreciation and amortization, amortization of intangibles, and the impact of our LIFO inventory costing methodology, which are not directly related to activity levels and which remained relatively consistent from period to period. Excluding the impact of these items, gross margin percentage improved by 0.4%.

*North American Segment* Gross margin for our North American segment increased to \$613.7 million (13.6% of sales) for 2011 from \$442.7 million (12.3% of sales) for 2010. The increase of \$171.0 million was due to an increase in the volume of products sold year over year. The rig count increased 21% for that same period.

*International Segment* Gross margin for our International segment increased to \$94.5 million (28.7% of sales) for 2011 from \$75.4 million (29.5% of sales) for 2010, an improvement of \$19.1 million. The increase in gross margin was largely due to the acquisition of MRC SPF in June 2011, while the remainder of the increase is due to an increase in sales, particularly in Europe. The decrease in the gross margin percentage was due to the mix of products changing as a result of the acquisition of MRC SPF.

Certain purchasing costs and warehousing activities (including receiving, inspection, and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross profit may not be comparable to others who may include these expenses as a component of costs of goods sold. Purchasing and warehousing activities costs approximated \$27.3 million and \$25.5 million for the years ended December 31, 2011 and 2010.

**Adjusted Gross Margin.** Adjusted Gross Margin increased to \$849.6 million (17.6% of sales) for 2011 from \$663.2 million (17.2% of sales) for 2010, an improvement of \$186.4 million. We define Adjusted Gross Margin as sales, less cost of sales, plus depreciation and amortization, plus amortization of intangibles, and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Margin because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of acquisitions they have been involved in. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize the LIFO method and depending upon which method they may elect. In particular, we believe that Adjusted Gross Margin is a useful indicator of our operating performance because Adjusted Gross Margin measures our Company's operating performance without regard to acquisition transaction-related amortization expenses. We use Adjusted Gross Margin as a key performance indicator in managing our business. We believe that gross margin is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Margin.

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The following table reconciles Adjusted Gross Margin with our gross margin, as derived from our financial statements (in millions):

	Year Ended December 31,		2010	Percentage of Revenue
	2011	Percentage of Revenue		
Gross margin, as reported	\$ 708.2	14.7%	\$ 518.1	13.5%
Depreciation and amortization	17.0	0.4%	16.6	0.4%
Amortization of intangibles	50.7	1.0%	53.9	1.4%
Increase in LIFO reserve	73.7	1.5%	74.6	1.9%
<b>Adjusted Gross Margin</b>	<b>\$ 849.6</b>	<b>17.6%</b>	<b>\$ 663.2</b>	<b>17.2%</b>

**Selling, General and Administrative ( SG&A ) Expenses.** Costs such as salaries, wages, employee benefits, rent, utilities, communications, insurance, fuel and taxes (other than state and federal income taxes) that are necessary to operate our branch and corporate operations are included in selling, general and administrative expenses. Also contained in this category are certain items that are nonoperational in nature, including certain costs of acquiring and integrating other businesses. Our selling, general and administrative expenses were \$513.6 million (10.6% of sales) for the year ended December 31, 2011 as compared to \$451.7 million (11.7% of sales) for the year ended December 31, 2010. The \$61.9 million increase was largely due to additional personnel costs such as overtime and incentives directly related to the overall increase in business activity combined with the impact of the acquisition of MRC SPF which had SG&A expenses of \$12.3 million.

**Operating Income.** Operating income was \$194.6 million for the year ended December 31, 2011, as compared to operating income of \$66.4 million for the year ended December 31, 2010, an improvement of \$128.2 million. This improvement was a result of higher gross margins partially offset by the increase in selling, general and administrative expenses noted above.

**Interest Expense.** Our interest expense was \$136.8 million for the year ended December 31, 2011 as compared to \$139.6 million for the year ended December 31, 2010.

**Other Income (Expense).** We use derivative instruments to help manage our exposure to interest rate risks and certain foreign currency risks. The change in the fair market value of our derivatives resulted in earnings of \$7.0 million and losses of \$4.9 million during the year ended December 31, 2011 and December 31, 2010, respectively. In June 2011, we refinanced certain of our credit facilities. As a result of their termination, we wrote off and expensed \$9.5 million in deferred financing costs.

**Income Tax (Expense) Benefit.** Our income tax expense was \$26.8 million for the year ended December 31, 2011, as compared to an income tax benefit of \$23.4 million for the year ended December 31, 2010. Our effective tax rates were 48.0% and 31.1% for the years ended December 31, 2011 and 2010. These rates generally differ from the federal statutory rate of 35% principally as a result of state income taxes and differing foreign income tax rates. The 2011 effective tax rate of 48.0% includes adjustments made in the fourth quarter of \$4.0 million in deferred income tax expense required to recognize a higher rate at which we expect certain deferred taxes in the Netherlands and Canada to be realized, and an additional \$3.9 million in current income tax expense related to the taxation of our foreign operations primarily caused by a geographic shift in taxable income in different jurisdictions.

**Net Income (Loss).** Our net income was \$29.0 million for the year ended December 31, 2011 as compared to a \$51.8 million net loss for the year ended December 31, 2010, an improvement of \$80.8 million.

**Adjusted EBITDA.** We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles and other non-cash charges (such as gains/losses on the early extinguishment of debt, changes in the fair value of derivative instruments and goodwill impairment) and plus or minus the impact of our LIFO inventory costing methodology. Adjusted EBITDA was \$360.5 million for the

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year ended December 31, 2011, as compared to \$224.2 million for the year ended December 31, 2010. Our Adjusted EBITDA increased \$136.3 million over that period primarily due to the increase in gross margin and other factors noted above.

Adjusted EBITDA is an important measure under our ABL Credit Facility. In addition, we believe it provides investors a helpful measure for comparing our operating performance with the performance of other companies that have different financing and capital structures or tax rates. We believe that net income (loss) is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted EBITDA. The following table reconciles Adjusted EBITDA with our net income (loss), as derived from our financial statements (in millions):

The following table reconciles Adjusted EBITDA with our net income (loss), as derived from our financial statements (in millions):

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Net income (loss)	<b>\$ 29.0</b>	\$ (51.8)
Income tax (benefit) expense	<b>26.8</b>	(23.4)
Interest expense	<b>136.8</b>	139.6
Write off of debt issuance costs	<b>9.5</b>	
Depreciation and amortization	<b>17.0</b>	16.6
Amortization of intangibles	<b>50.7</b>	53.9
Change in fair value of derivative instruments	<b>(7.0)</b>	4.9
Share based compensation expense	<b>8.4</b>	3.7
Legal and consulting expenses	<b>9.9</b>	4.2
Joint venture termination	<b>1.7</b>	
Other non-cash expenses(1)	<b>4.0</b>	1.9
LIFO	<b>73.7</b>	74.6
<b>Adjusted EBITDA</b>	<b>\$ 360.5</b>	\$ 224.2

- (1) Other non-cash expenses include transaction-related expenses, pre-acquisition EBITDA of MRC SPF, and other items added back to net income pursuant to our ABL Credit Facility.

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For the years ended December 31, 2010 and 2009, the following table summarizes our results of operations (in millions):

	Year Ended December 31,		\$ Change	% Change
	2010	2009		
<i>Sales:</i>				
North America	\$ 3,589.9	\$ 3,610.1	\$ (20.2)	<1%
International	255.6	51.8	203.8	393%
Consolidated	\$ 3,845.5	\$ 3,661.9	\$ 183.6	5%
<i>Gross Margin:</i>				
North America	\$ 442.7	\$ 534.1	\$ (91.4)	(17)%
International	75.4	13.9	61.5	442%
Consolidated	\$ 518.1	\$ 548.0	\$ (29.9)	(5)%
<i>Selling, general and administrative expenses:</i>				
North America	\$ 386.7	\$ 400.9	\$ (14.2)	(4)%
International	65.0	10.7	54.3	507%
Consolidated	\$ 451.7	\$ 411.6	\$ 40.1	10%
<i>Goodwill and intangibles impairment charge:</i>				
North America	\$	\$ 386.1	\$ (386.1)	(100)%
International				
Consolidated	\$	\$ 386.1	\$ (386.1)	(100)%
<i>Operating income (loss):</i>				
North America	\$ 56.0	\$ (253.5)	\$ 308.9	122%
International	10.4	3.8	7.2	225%
Consolidated	\$ 66.4	(249.7)	\$ 316.1	127%
Interest expense	(139.6)	(116.5)	(23.1)	20%
Other, net	(2.0)	11.4	(13.4)	(118)%
Income tax benefit (expense)	23.4	15.0	8.4	56%
Net (loss)	\$ (51.8)	\$ (339.8)	\$ 288.0	85%
Adjusted Gross Margin	\$ 663.2	\$ 493.5	\$ 169.7	34%
Adjusted EBITDA	\$ 224.2	\$ 218.5	\$ 5.7	3%

**Sales.** Our sales were \$3,845.5 million for the year ended December 31, 2010, as compared to \$3,661.9 million for the year ended December 31, 2009, an increase of 5%.

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*North American Segment* Although sales were down slightly year-over-year, we started to see signs of an improving economy beginning in the fourth quarter of 2009. The previous year's results included the carryover effect from high average capital and other expenditures during 2008, which was evident in our strong results through the first four months of 2009. As the economic environment in which we operate improved, including the year-over-year growth in rig counts and commodity prices, our sales followed. The fourth quarter of 2010 represented our fifth consecutive quarter of revenue growth. During the year ended December 31, 2010, the U.S. Gross Domestic Product ( GDP ) expanded by 2.9%, compared with a 2.6% contraction during the year ended December 31, 2009.

*International Segment* Internationally, the inclusion of a full year's results of MRC Transmark, as compared to only two months in 2009 following its acquisition on October 31, 2009, drove the overall increase we experienced in sales. However, our business environment weakened in 2010 due to reduced capital and other expenditures and project delays by our customers, especially in our downstream sector.

Sales of energy carbon steel tubular products accounted for approximately 38% and 40% of our total sales for the years ended December 31, 2010 and 2009. The change in sales of our energy carbon steel tubular products from 2009 to 2010 can be attributed to an increase in volumes. Substantially all of our energy carbon steel tubular products are sold in North America. Our valves, fittings, flanges and other products are not as susceptible to significant price fluctuations and pricing was largely consistent with 2009 levels.

We operate in many foreign countries and are subject to foreign currency rate fluctuations. Approximately 20% of our 2010 revenues were generated in domiciles outside of the United States, compared to 12% in 2009 (principally as a result of the acquisition of MRC Transmark at the end of October 2009).

**Gross Margin.** Our North American gross margin decreased to \$442.7 million (12.3% of sales) in 2010, from \$534.1 million (14.8% of sales) in 2009. During the year ended December 31, 2010, we recognized \$74.6 million in increased cost of sales related to our use of the LIFO method of accounting for inventory costs, compared to a \$115.6 million decrease in cost of sales for the year ended December 31, 2009. Also, during the year ended December 31, 2009, we recognized a \$46.5 million inventory write-down; there was no significant inventory write-down during the year ended December 31, 2010. In addition, during 2011 we continued to liquidate higher cost inventory, from the carryover effect of 2008. These factors resulted in a reduction in our gross margins from 2009 to 2010.

Internationally, our margin remained strong, increasing to 29.5% of sales in 2010 from 26.8% of sales in 2009.

Certain purchasing costs and warehousing activities (including receiving, inspection, and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross profit may not be comparable to others who may include these expenses as a component of costs of goods sold. Purchasing and warehousing activities costs approximated \$25.5 million and \$24.4 million for the years ended December 31, 2010 and 2009.

**Adjusted Gross Margin.** Our Adjusted Gross Margin was \$663.2 million (or 17.2% of sales) for the year ended December 31, 2010, as compared to \$493.5 million (or 13.5% of sales) for the year ended December 31, 2009.

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The following table reconciles Adjusted Gross Margin to gross margin (in millions):

	2010	Year Ended December 31,		Percentage of Revenue
		Percentage of Revenue	2009	
Gross margin, as reported	\$ 518.1	13.5%	\$ 548.0	15.0%
Depreciation and amortization	16.6	0.4%	14.5	0.4%
Amortization of intangibles	53.9	1.4%	46.6	1.3%
Increase in LIFO reserve	74.6	1.9%	(115.6)	(3.2)%
<b>Adjusted Gross Margin</b>	<b>\$ 663.2</b>	<b>17.2%</b>	<b>\$ 493.5</b>	<b>13.5%</b>

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses were \$451.7 million (or 11.7% of sales) for the year ended December 31, 2010, as compared to \$411.6 million (or 11.2% of sales) for the year ended December 31, 2009. This increase is attributable to our International operations where SG&A expenses increased \$54.3 million as the result of the inclusion of a full year of expenses of MRC Transmark as compared to only two months of activity in 2009 following its October 31, 2009 acquisition. Our North American SG&A expenses as a percentage of sales decreased to 10.8% from 11.1%, as we implemented various cost savings initiatives, including reducing employee headcount by 2%, to right size our operations in light of the economic environment we faced.

**Goodwill and Intangibles Impairment Charge.** During 2009, our earnings progressively decreased due to the reductions in our customers expenditure programs caused by the global economic recession, reductions in oil and natural gas commodity prices and other factors. These reductions resulted in reduced demand for our products and lower sales prices and margins, which altered our view of our marketplace. Consequently, we revised certain long-term projections for our business, which, in turn, impacted its estimated fair value. We concluded that the carrying value of our North American goodwill and our indefinite lived trade names exceeded their fair value resulting in a non-cash goodwill and intangibles impairment charge in the amount of \$386.1 million during the year ended December 31, 2009. There was no such goodwill and intangibles impairment charge recorded during the year ended December 31, 2010.

**Operating Income (Loss).** Operating income was \$66.4 million for the year ended December 31, 2010, as compared to an operating loss of \$249.7 million for the year ended December 31, 2009, an improvement of \$316.1 million. The results of 2009 were negatively impacted by the \$386.1 million non-cash goodwill and intangibles impairment charge, as well as the \$46.5 million non-cash inventory write-down. Excluding these non-cash items, operating income declined by \$116.5 million principally as a result of reduced gross margins from North American operations.

**Interest Expense.** Our interest expense was \$139.6 million for the year ended December 31, 2010, as compared to \$116.5 million for the year ended December 31, 2009. The increase was due to a higher weighted-average interest rate, including the impact of our interest rate swap agreements and various commitment fees, which increased to 8.5% during 2010 from 6.6% in 2009. The issuance of our Notes in December 2009 and February 2010 had the impact of increasing the interest rate that we pay on \$1.05 billion of debt by approximately 250 basis points. Also, in connection with the amendment to our then-existing principal revolving credit facility, the interest rate and commitment fees on such facility increased by approximately 200 basis points and 12.5 basis points, respectively.

**Other Income (Expense).** We use derivative instruments to help manage our exposure to interest rate risks and certain foreign currency risks. The change in the fair market value of our derivatives reduced earnings by \$4.9 million for the year ended December 31, 2010 and increased earnings by \$8.9 million for the year ended December 31, 2009.

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***Income Tax Benefit (Expense).*** Our income tax benefit was \$23.4 million for the year ended December 31, 2010, as compared to income tax benefit of \$15.0 million