

McJunkin Red Man Corp
Form 424B3
March 06, 2012
Table of Contents

Filed Pursuant to Rule 424(b)(3)

Registration Statement No. 333-173037

PROSPECTUS SUPPLEMENT

(To Prospectus dated July 11, 2011)

MCJUNKIN RED MAN CORPORATION

\$1,050,000,000

9.50% Senior Secured Notes due December 15, 2016

Attached hereto and incorporated by reference herein is our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 5, 2012. This Prospectus Supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, dated July 11, 2011, with respect to the 9.50% Senior Secured Notes due December 15, 2016, including any amendments or supplements thereto.

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE RISK FACTORS BEGINNING ON PAGE 11 OF THE PROSPECTUS FOR A DISCUSSION OF CERTAIN FACTORS THAT YOU SHOULD CONSIDER IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus has been prepared for and will be used by Goldman, Sachs & Co. in connection with offers and sales of the notes in market-making transactions. These transactions may occur in the open market or may be privately negotiated at prices related to prevailing market prices at the time of sales or at negotiated prices. Goldman, Sachs & Co. may act as principal or agent in these transactions. We will not receive any proceeds of such sales.

GOLDMAN, SACHS & CO.

Edgar Filing: McJunkin Red Man Corp - Form 424B3

March 6, 2012

Table of Contents

**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)

Delaware

20-5956993

Edgar Filing: McJunkin Red Man Corp - Form 424B3

(State or Other Jurisdiction of
Incorporation or Organization)

(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.

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
ITEM 1. <u>BUSINESS</u>	1
ITEM 1A. <u>RISK FACTORS</u>	20
ITEM 1B. <u>UNRESOLVED STAFF COMMENTS</u>	36
ITEM 2. <u>PROPERTIES</u>	36
ITEM 3. <u>LEGAL PROCEEDINGS</u>	36
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	37
PART II	
ITEM 5. <u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	38
ITEM 6. <u>SELECTED FINANCIAL DATA</u>	39
ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	45
ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	73
ITEM 8. <u>FINANCIAL STATEMENTS</u>	74
ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	75
ITEM 9A. <u>CONTROLS AND PROCEDURES</u>	75
ITEM 9B. <u>OTHER INFORMATION</u>	75
PART III	
ITEM 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	76
ITEM 11. <u>EXECUTIVE COMPENSATION</u>	83
ITEM 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	108
ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	111
ITEM 14. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	118
PART IV	
ITEM 15. <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	119

Table of Contents

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

Table of Contents

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. 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.

Table of Contents

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.

Table of Contents

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)

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.

Table of Contents

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), The National Petroleum Council (www.npc.org)*

(2) Source *Department of Energy, EIA (www.eia.gov)*

Table of Contents

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)*

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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
Energy carbon steel tubular products:			
Line Pipe	23%	19%	20%
OCTG	18%	21%	21%
	41%	40%	41%
Valves, fittings, flanges and other products:			
Valves and Specialty Products	19%	20%	18%
Carbon Steel Fittings and Flanges and Stainless Steel and Alloy Pipe and Fittings	18		