

MRC GLOBAL INC.  
Form 10-Q  
May 07, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012**

**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: 001-35479**

**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)

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

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

**(877)294-7574**

(Registrant's Telephone Number, including Area Code)

**20-5956993**  
(I.R.S. Employer

Identification No.)

**77010**  
(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 Company's common stock is traded on the New York Stock Exchange under the symbol MRC. There were 101,487,000 shares of the registrant's common stock, par value \$0.01 per share, issued and outstanding as of May 4, 2012.

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## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

|  | March 31,<br>2012   | December 31,<br>2011 |
|--|---------------------|----------------------|
| <i>(In thousands, except per share amounts)</i>  |                     |                      |
| <b>Assets</b>  |                     |                      |
| Current assets:  |                     |                      |
| Cash   | \$ 58,833           | \$ 46,127            |
| Accounts receivable, net   | 871,227             | 791,280              |
| Inventories, net   | 1,022,851           | 899,064              |
| Other current assets   | 17,598              | 11,437               |
| <b>Total current assets</b>  | <b>1,970,509</b>    | <b>1,747,908</b>     |
| Other assets   | 44,767              | 39,212               |
| Property, plant and equipment, net   | 114,173             | 107,430              |
| Intangible assets:   |                     |                      |
| Goodwill, net  | 568,811             | 561,270              |
| Other intangible assets, net   | 780,198             | 771,867              |
|  | <b>1,349,009</b>    | <b>1,333,137</b>     |
|  | <b>\$ 3,478,458</b> | <b>\$ 3,227,687</b>  |
| <b>Liabilities and stockholders equity</b>   |                     |                      |
| Current liabilities:   |                     |                      |
| Trade accounts payable   | \$ 555,556          | \$ 479,584           |
| Accrued expenses and other current liabilities   | 142,500             | 108,973              |
| Income taxes payable   | 26,133              | 11,950               |
| Deferred revenue   | 2,440               | 4,450                |
| Deferred income taxes  | 69,155              | 68,210               |
| <b>Total current liabilities</b>   | <b>795,784</b>      | <b>673,167</b>       |
| Long-term obligations:   |                     |                      |
| Long-term debt, net  | 1,611,960           | 1,526,740            |
| Deferred income taxes  | 287,585             | 288,985              |
| Other liabilities  | 18,108              | 17,933               |
|  | <b>1,917,653</b>    | <b>1,833,658</b>     |
| Commitments and contingencies  |                     |                      |
| Stockholders equity:   |                     |                      |
| Common stock, \$0.01 par value per share; 500,000 shares authorized, issued and outstanding March 2012 84,442, issued and outstanding December 2011 84,427 | 844                 | 844                  |
| Preferred stock, \$0.01 par value per share; 100,000 shares authorized, no shares issued and outstanding   |                     |                      |
| Additional paid-in capital   | 1,284,790           | 1,282,949            |
| Retained (deficit)   | (499,257)           | (536,791)            |
| Accumulated other comprehensive loss   | (21,356)            | (26,140)             |
|  | <b>765,021</b>      | <b>720,862</b>       |
|  | <b>\$ 3,478,458</b> | <b>\$ 3,227,687</b>  |

*See notes to consolidated financial statements*

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## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

|  | <b>Three Months Ended</b>                       |                           |
|--|---|---------------------------|
|  | <b>March 31,<br/>2012</b>                       | <b>March 31,<br/>2011</b> |
|  | <i>(In thousands, except per share amounts)</i> |                           |
| Sales  | <b>\$ 1,382,632</b>                             | <b>\$ 991,813</b>         |
| Cost of sales  | <b>1,146,071</b>                                | 844,847                   |
| <b>Gross profit</b>                                    | <b>236,561</b>                                  | 146,966                   |
| Selling, general and administrative expenses           | <b>146,384</b>                                  | 117,357                   |
| <b>Operating income</b>                                | <b>90,177</b>                                   | 29,609                    |
| Other income (expense):                                |   |                           |
| Interest expense                                       | <b>(33,717)</b>                                 | (33,500)                  |
| Write off of debt issuance costs                       | <b>(1,685)</b>                                  |                           |
| Change in fair value of derivative instruments         | <b>2,125</b>                                    | 1,868                     |
| Other, net   | <b>1,747</b>                                    | 205                       |
|  | <b>(31,530)</b>                                 | (31,427)                  |
| Income (loss) before income taxes                      | <b>58,647</b>                                   | (1,818)                   |
| Income tax expense (benefit)                           | <b>21,113</b>                                   | (690)                     |
| Net income (loss)                                      | <b>\$ 37,534</b>                                | <b>\$ (1,128)</b>         |
| Basic earnings (loss) per common share                 | <b>\$ 0.44</b>                                  | <b>\$ (0.01)</b>          |
| Diluted earnings (loss) per common share               | <b>\$ 0.44</b>                                  | <b>\$ (0.01)</b>          |
| Weighted-average common shares, basic                  | <b>84,437</b>                                   | 84,413                    |
| Weighted-average common shares, diluted                | <b>84,756</b>                                   | 84,413                    |
| <i>See notes to consolidated financial statements.</i> |   |                           |

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

|                             | <b>Three Months Ended</b> |                   |
|-----------------------------|---------------------------|-------------------|
|                             | <b>March 31,</b>          | <b>March 31,</b>  |
|                             | <b>2012</b>               | <b>2011</b>       |
|                             | <i>(In thousands)</i>     |                   |
| Net income (loss)           | <b>\$ 37,534</b>          | <b>\$ (1,128)</b> |
| Other comprehensive income  | <b>4,784</b>              | <b>10,467</b>     |
| <b>Comprehensive income</b> | <b>\$ 42,318</b>          | <b>\$ 9,339</b>   |

*See notes to condensed consolidated financial statements.*

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

*(In thousands)*

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2012  | March 31,<br>2011 |
| <b>Operating activities</b>  |                    |                   |
| Net income (loss)  | \$ 37,534          | \$ (1,128)        |
| Adjustments to reconcile net income (loss) to net cash provided by operations: |                    |                   |
| Depreciation and amortization  | 4,131              | 4,003             |
| Amortization of intangibles  | 12,317             | 12,443            |
| Equity-based compensation expense  | 1,841              | 1,483             |
| Deferred income tax benefit  | (2,110)            | (1,127)           |
| Amortization of debt issuance costs  | 2,326              | 2,990             |
| Write off of debt issuance costs   | 1,685              |                   |
| Increase in LIFO reserve   | 6,900              | 10,065            |
| Change in fair value of derivative instruments                                 | (2,125)            | (1,868)           |
| Provision for uncollectible accounts   | 727                | (278)             |
| Non-operating losses and other items not using cash                            | 700                | 2,264             |
| Changes in operating assets and liabilities:                                   |                    |                   |
| Accounts receivable  | (44,150)           | 8,257             |
| Inventories  | (68,807)           | (24,706)          |
| Income taxes payable   | 14,044             | 2,983             |
| Other current assets   | (5,834)            | 539               |
| Accounts payable   | 43,816             | (10,685)          |
| Deferred revenue   | (2,026)            | (4,137)           |
| Accrued expenses and other current liabilities                                 | 17,346             | 4,714             |
| Net cash provided by operations  | 18,315             | 5,812             |
| <b>Investing activities</b>  |                    |                   |
| Purchases of property, plant and equipment                                     | (4,458)            | (1,964)           |
| Proceeds from the disposition of property, plant and equipment                 | 1,195              | 140               |
| Acquisition of the assets and operations of OneSteel Piping Systems            | (72,816)           |                   |
| Proceeds from the sale of assets held for sale                                 |                    | 10,933            |
| Other investment and notes receivable transactions                             | (3,813)            | 2,830             |
| Net cash (used in) provided by investing activities                            | (79,892)           | 11,939            |
| <b>Financing activities</b>  |                    |                   |
| Net proceeds (payments) on/from revolving credit facilities                    | 114,146            | (30,830)          |
| Payments on long-term obligations  | (31,456)           |                   |
| Debt issuance costs paid   | (7,099)            |                   |
| Net cash provided by (used in) financing activities                            | 75,591             | (30,830)          |
| Increase (decrease) in cash  | 14,014             | (13,079)          |
| Effect of foreign exchange rate on cash  | (1,308)            | (1,043)           |
| Cash beginning of period   | 46,127             | 56,202            |
| Cash end of period   | \$ 58,833          | \$ 42,080         |
| <b>Supplemental disclosures of cash flow information:</b>                      |                    |                   |
| Cash paid for interest   | \$ 7,444           | \$ 5,470          |
| Cash paid (received) for income taxes  | \$ 9,982           | \$ (2,753)        |

*See notes to consolidated financial statements.*



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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MRC GLOBAL INC.

**NOTE 1 BACKGROUND AND BASIS OF PRESENTATION**

**Business Operations:** MRC Global Inc. is a holding company headquartered in Houston, Texas. We are a majority owned subsidiary of PVF Holdings LLC. Our wholly owned subsidiaries, McJunkin Red Man Corporation and its subsidiaries, are global distributors of pipe, valves, fittings ( PVF ) and related products and services across each of the upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining, petrochemical processing and general industrials) markets. We have branches in principal industrial, hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia and Australasia. Our products are obtained from a broad range of suppliers.

**Basis of Presentation:** The consolidated financial statements include the accounts of MRC Global Inc. and its wholly owned and majority owned subsidiaries (collectively referred to as the Company or by such terms as we, our or us ). All material intercompany balances and transactions have been eliminated in consolidation. Investments in our unconsolidated joint ventures, over which we exercise significant influence, but do not control, are accounted for by the equity method. Our unconsolidated joint ventures, along with our percentage of ownership of each, are: (a) TFCX Finland Oy (50%) and (b) Transmark DRW GmbH (50%). As of March 31, 2012 and December 31, 2011, our total investment in these entities was insignificant. In April 2012, we sold our interest in Transmark DRW GmbH.

**NOTE 2 TRANSACTIONS****Acquisitions**

In March 2012, we acquired the operations and assets of OneSteel Piping Systems, now known as MRC Piping Systems Australia ( MRC PSA ). MRC PSA is a leading PVF distributor supplying the oil and gas, mining and mineral processing industries in Australia. The preliminary purchase price for this acquisition was \$72.8 million subject to a working capital adjustment. Although not finalized, the working capital adjustment is currently estimated to be a payment by us in the second quarter of 2012 of approximately \$16.1 million. Because we recently consummated the acquisition, we have not yet completed the determination of the fair values of certain tangible and intangible assets acquired or liabilities assumed. The impact of this acquisition is not material to our financial statements.

**NOTE 3 INVENTORIES**

The composition of our inventory is as follows (in thousands):

|  | March 31,<br>2012   | December 31,<br>2011 |
|--|---------------------|----------------------|
| Finished goods inventory at average cost:                  |                     |                      |
| Energy carbon steel tubular products                       | \$ 507,286          | \$ 488,938           |
| Valves, fittings, flanges and all other products           | 714,614             | 601,706              |
|  | 1,221,900           | 1,090,644            |
| Less: Excess of average cost over LIFO cost (LIFO reserve) | (182,022)           | (175,122)            |
| Less: Other inventory reserves                             | (17,027)            | (16,458)             |
|  | <b>\$ 1,022,851</b> | <b>\$ 899,064</b>    |

**Table of Contents****NOTE 4 LONG-TERM DEBT**

The significant components of our long-term debt are as follows (in thousands):

|   | March 31,<br>2012   | December 31,<br>2011 |
|---|---------------------|----------------------|
| 9.50% senior secured notes due 2016, net of discount of \$17,432 and \$18,358 | <b>\$ 1,032,568</b> | \$ 1,031,642         |
| Global ABL Facility   | <b>570,473</b>      |                      |
| ABL Credit Facility   |                     | 456,411              |
| MRC Transmark term loan facility  |                     | 30,824               |
| MRC Transmark factoring facility  | <b>8,544</b>        | 7,189                |
| Other   | <b>375</b>          | 674                  |
|   | <b>1,611,960</b>    | 1,526,740            |
| Less current portion  |                     |                      |
|   | <b>\$ 1,611,960</b> | \$ 1,526,740         |

In March 2012, we entered into a new multi-currency global asset-based revolving credit facility (the Global ABL Facility) which replaced our then existing asset-based lending credit facility (ABL Credit Facility), our MRC Transmark term loan and revolving credit facility and our MRC Transmark overdraft facility. The five-year Global ABL Facility is comprised of \$1.25 billion of total revolving credit facilities, including \$1.025 billion in the United States, \$145 million in Canada, \$12 million in the United Kingdom, \$52 million in Australia, \$9 million in the Netherlands and \$7 million in Belgium. The facility contains an accordion feature that allows us to increase the principal amount of the facility by up to \$300 million.

Each of our wholly owned material U.S. subsidiaries guarantees the obligations of our borrower subsidiaries under the Global ABL Facility. Obligations under the U.S. tranche are primarily secured, subject to certain exceptions, by a first-priority security interest in the accounts receivable, inventory and related assets of our wholly owned, material U.S. subsidiaries. The obligations of any of our foreign borrower subsidiaries are primarily secured, subject to certain exceptions, by:

a first-priority security interest in the accounts receivable, inventory and related assets of the foreign subsidiary and the wholly owned material U.S. subsidiaries and

a first-priority pledge by the foreign borrower subsidiary of the equity interests of its direct wholly owned restricted subsidiaries incorporated in the relevant borrower jurisdictions and intercompany debt instruments held by the foreign borrower subsidiary.

No property of our foreign subsidiaries secures the U.S. tranche. The security interest in accounts receivable, inventory and related assets of the U.S. borrower subsidiaries ranks prior to the security interest in this collateral which secures our 9.5% senior secured notes.

Each of our foreign borrower subsidiaries has a separate stand alone borrowing base that limits the foreign subsidiary's ability to borrow under its respective tranche, provided that the foreign subsidiaries may utilize excess availability under the U.S. tranche to borrow amounts in excess of their respective borrowing bases (but not to exceed the applicable commitment amount for the foreign subsidiary's jurisdiction), which utilization will reduce availability under the U.S. tranche dollar for dollar.

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Our ability to borrow in each jurisdiction, other than Belgium, under the facility is limited by a borrowing base in that jurisdiction equal to 85% of eligible receivables, plus the lesser of 70% of eligible inventory and 85% of appraised net orderly liquidation value of the inventory. In Belgium, our borrowing is limited by a borrowing base in Belgium equal to:

for Belgian inventory subject to a pledge under Belgian law, 50% of the lesser of 70% of the net book value and 85% of the appraised net orderly liquidation value of eligible inventory; and

for Belgian inventory subject to a possessory pledge under Belgian law, 70% of the net book value and 85% of the appraised net orderly liquidation value of eligible inventory.

The facility initially bears interest at LIBOR plus a margin of 1.75%; from and after September 1, 2012 the margin will vary between 1.50% and 2.00% based on our fixed charge coverage ratio.

**Interest Rate Swaps and Forward Foreign Exchange Contracts:** We use derivative financial instruments to help manage our exposure to interest rate risk and fluctuations in foreign currencies.

Effective March 31, 2012, our previously outstanding \$500 million interest rate swap contract to pay interest at a fixed rate of approximately 1.77% and receive 1-month LIBOR variable interest rate payments monthly, expired. We have several additional interest rate swap derivatives, with notional amounts approximating \$19 million in the aggregate. All of our derivative instruments are freestanding and, accordingly, changes in their fair market value are recorded in earnings.

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

|  | March 31, 2012 |             | December 31, 2011 |             |
|--|----------------|-------------|-------------------|-------------|
|  | Assets         | Liabilities | Assets            | Liabilities |
| Derivatives not designated as hedging instruments: |                |             |                   |             |
| Foreign exchange forward contracts <sup>(1)</sup>  | \$ 63          | \$          | \$                | \$ 144      |
| Interest rate contracts <sup>(1)</sup>             |                | 92          |                   | 2,010       |

- (1) Included in Accrued expenses and other current liabilities in our consolidated balance sheets. The total notional amount of our interest rate swaps was approximately \$19 million and \$519 million at March 31, 2012 and December 31, 2011. The total notional amount of our forward foreign exchange contracts was approximately \$74 million and \$39 million at March 31, 2012 and December 31, 2011.

The table below provides data about the amount of net gains recognized in our consolidated statements of operations related to our derivative instruments (in thousands):

|  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2012     | March 31, 2011 |
| Derivatives not designated as hedging instruments: |                    |                |
| Interest rate contracts                            | \$ 1,922           | \$ 1,590       |
| Foreign exchange forward contracts                 | 203                | 278            |

**NOTE 5 STOCKHOLDERS EQUITY****Preferred Stock**

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Our Board of Directors has the authority to issue shares and set the terms of the shares of preferred stock. As of March 31, 2012 and December 31, 2011, we had authorized 150,000,000 shares of preferred stock, however, there were no shares of preferred stock issued or outstanding.

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In April 2012, our Articles of Incorporation were amended to reduce the number of shares of authorized preferred stock from 150,000,000 to 100,000,000.

**Common Stock**

In February 2012, our Board of Directors and our shareholder approved a two-for-one reverse stock split which reduced the number of shares of common stock outstanding by one half. All share and per share amounts have been adjusted retroactively to reflect this change.

In April 2012, our Articles of Incorporation were amended to increase the number of shares of common stock authorized from 400,000,000 to 500,000,000.

**Stock Options and Restricted Stock**

Our 2007 Stock Option Plan permitted the grant of stock options to its employees, directors and consultants for up to 3.8 million shares of new common stock. The options were not to be granted with an exercise price less than the fair market value of the Company's common stock on the date of the grant, nor for a term exceeding ten years. Vesting generally occurred over a five year period on the anniversaries of the date specified in the employees' respective option agreements, subject to accelerated vesting under certain circumstances set forth in the option agreements. We expense the fair value of the stock option grants on a straight-line basis over the vesting period. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options.

Under the terms of our 2007 Restricted Stock Plan, up to 500,000 shares of restricted stock could have been granted at the direction of the Board of Directors and vesting generally occurred in one-fourth increments on the second, third, fourth and fifth anniversaries of the date specified in the employees' respective restricted stock agreements, subject to accelerated vesting under certain circumstances set forth in the restricted stock agreements. Fair value is based on the fair value of our stock on the date of issuance. We expense the fair value of the restricted stock grants on a straight-line basis over the vesting period.

No stock options were granted or exercised during the first quarter of 2012. In January 2012, 14,451 shares of restricted stock vested. In February 2012, 15,561 shares of restricted stock were granted to two members of the board of directors.

In April 2012, we replaced the 2007 Stock Option Plan and the 2007 Restricted Stock Plan with the 2011 Omnibus Incentive Plan. All of the shares under the prior plans that had not been previously awarded or subject to prior grants were released. The 2011 Omnibus Incentive Plan has 3,250,000 shares reserved for issuance pursuant to the plan. The plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. No awards under this plan were granted in the first quarter of 2012.

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Accumulated other comprehensive loss in the accompanying consolidated balance sheets consists of the following (in thousands):

|                                      | March 31,<br>2012 | December 31,<br>2011 |
|--------------------------------------|-------------------|----------------------|
| Currency translation adjustments     | \$ (20,838)       | \$ (25,622)          |
| Pension related adjustments          | (518)             | (518)                |
| Accumulated other comprehensive loss | \$ (21,356)       | \$ (26,140)          |

**Earnings per Share**

Earnings per share are calculated in the table below (in thousands, except per share amounts).

|                                    | Three Months Ended |                   |
|------------------------------------|--------------------|-------------------|
|                                    | March 31,<br>2012  | March 31,<br>2011 |
| Net income (loss)                  | \$ 37,534          | \$ (1,128)        |
| Average basic shares outstanding   | 84,437             | 84,413            |
| Effect of dilutive securities      | 319                |                   |
| Average diluted shares outstanding | 84,756             | 84,413            |
| Net income (loss) per share:       |                    |                   |
| Basic                              | \$ 0.44            | \$ (0.01)         |
| Diluted                            | \$ 0.44            | \$ (0.01)         |

Stock options and shares of restricted stock are disregarded in this calculation if they are determined to be anti-dilutive. For the three months ended March 31, 2012 and 2011, our anti-dilutive stock options approximated 2.3 million and 2.0 million. Our anti-dilutive restricted stock for the three months ended March 31, 2011 approximated 0.1 million.

**NOTE 6 SEGMENT INFORMATION**

We operate as two business segments, North America and International. Our North American segment consists of our operations in the United States and Canada. Our International segment consists of our operations outside of North America, principally Europe, Asia and Australasia. These segments represent our business of selling pipe, valves and fittings to the energy and industrial sectors, across each of the upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining, petrochemical processing and general industrials) markets.

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The following table presents financial information for each segment (in millions):

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2012  | March 31,<br>2011 |
| <b>Sales</b>                                |                    |                   |
| North America                               | \$ 1,260.9         | \$ 932.4          |
| International                               | 121.7              | 59.4              |
| Consolidated revenues                       | \$ 1,382.6         | \$ 991.8          |
| <b>Depreciation and amortization</b>        |                    |                   |
| North America                               | \$ 3.1             | \$ 3.5            |
| International                               | 1.0                | 0.5               |
| Total depreciation and amortization expense | \$ 4.1             | \$ 4.0            |
| <b>Amortization of intangibles</b>          |                    |                   |
| North America                               | \$ 10.6            | \$ 11.0           |
| International                               | 1.7                | 1.4               |
| Total amortization of intangibles expense   | \$ 12.3            | \$ 12.4           |
| <b>Operating income</b>                     |                    |                   |
| North America                               | \$ 84.8            | \$ 27.9           |
| International                               | 5.4                | 1.7               |
| Total operating income                      | 90.2               | 29.6              |
| <b>Interest expense</b>                     | (33.7)             | (33.5)            |
| <b>Other income</b>                         | 2.1                | 2.1               |
| <b>Income (loss) before income taxes</b>    | \$ 58.6            | \$ (1.8)          |
|   | March              | December 31,      |
|   | 31,<br>2012        | 2011              |
| <b>Goodwill</b>                             |                    |                   |
| North America                               | \$ 512.0           | \$ 512.1          |
| International                               | 56.8               | 49.2              |
| Total goodwill                              | \$ 568.8           | \$ 561.3          |
| <b>Total assets</b>                         |                    |                   |
| North America                               | \$ 3,066.5         | \$ 2,923.3        |
| International                               | 412.0              | 304.4             |
| Total assets                                | \$ 3,478.5         | \$ 3,227.7        |

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Our net sales by product line are as follows (in thousands):

| Type  | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2012  | March 31,<br>2011 |
| <b>Energy carbon steel tubular products:</b>                                      |                    |                   |
| Line pipe   | \$ 290,353         | \$ 174,493        |
| Oil country tubular goods   | 221,221            | 157,833           |
|   | \$ 511,574         | \$ 332,326        |
| <b>Valves, fittings, flanges and other products:</b>                              |                    |                   |
| Valves and specialty products   | \$ 331,832         | \$ 262,114        |
| Carbon steel fittings and flanges and stainless steel and alloy pipe and fittings | 276,526            | 189,343           |
| Other   | 262,700            | 208,030           |
|   | \$ 871,058         | \$ 659,487        |

**NOTE 7 FAIR VALUE MEASUREMENTS**

We used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value.

**Interest Rate Contracts:** Interest rate contracts are reported at fair value utilizing Level 2 inputs. We obtain dealer quotations to value our interest rate swap agreements. These quotations rely on observable market inputs such as yield curves and other market-based factors.

**Foreign Exchange Forward Contracts:** Foreign exchange forward contracts are reported at fair value utilizing Level 2 inputs, as the fair value is based on broker quotes for the same or similar derivative instruments.

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The following table presents assets and liabilities measured at fair value on a recurring basis, and the basis for that measurement (in thousands):

|                                    | Fair Value Measurements at Reporting Date Using |  |   |   |
|------------------------------------|---|--|---|---|
|                                    | Total   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>March 31, 2012</b>              |   |  |   |   |
| Assets:                            |   |  |   |   |
| Foreign exchange forward contracts | \$ 63   | \$   | \$ 63   | \$  |
| Liabilities:                       |   |  |   |   |
| Interest rate swap agreements      | 92  |  | 92  |   |
| <b>December 31, 2011</b>           |   |  |   |   |
| Assets:                            | \$  | \$   | \$  | \$  |
| Liabilities:                       |   |  |   |   |
| Foreign exchange forward contracts | 144   |  | 144   |   |
| Interest rate swap agreements      | 2,010   |  | 2,010   |   |

The following table presents the carrying value and estimated fair value of our financial instruments that are carried at adjusted historical cost (in thousands):

|  | March 31, 2012 |                      | December 31, 2011 |                      |
|--|----------------|----------------------|-------------------|----------------------|
|  | Carrying Value | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| <b>Financial assets</b>                |                |                      |                   |                      |
| Cash                                   | \$ 58,833      | \$ 58,833            | \$ 46,127         | \$ 46,127            |
| Accounts receivable, net               | 871,227        | 871,227              | 791,280           | 791,280              |
| <b>Financial liabilities</b>           |                |                      |                   |                      |
| Trade accounts payable                 | 555,556        | 555,556              | 479,584           | 479,584              |
| Accrued expenses and other liabilities | 142,500        | 142,500              | 108,973           | 108,973              |
| Long-term debt                         | 1,611,960      | 1,706,460            | 1,526,740         | 1,542,490            |

The carrying values of our financial instruments, including cash and cash equivalents, accounts receivable, trade accounts payable and accrued liabilities, approximate fair value because of the short maturity of these financial instruments.

We estimated the fair value of the senior secured notes using quoted market prices as of March 31, 2012 and December 31, 2011.

The carrying value of our Global ABL Facility and remaining portions of our long-term debt approximate their fair values.

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**NOTE 8 COMMITMENTS AND CONTINGENCIES**

***Litigation***

*Asbestos Claims.* We are involved in various legal proceedings and claims, both as a plaintiff and a defendant, which arise in the ordinary course of business. These legal proceedings include claims that individuals brought against a large number of defendant entities, including us, seeking damages for injuries that certain products containing asbestos allegedly caused. As of March 31, 2012, we are a defendant in lawsuits involving approximately 1,011 of these claims. Each claim involves allegations of exposure to asbestos-containing materials by an individual or his or her family members. The complaints typically name many defendants. In a majority of these lawsuits, little or no information is known regarding the nature of the plaintiff's alleged injuries or their connection with products that we distributed. Through March 31, 2012, lawsuits involving 11,874 claims have been brought against us. No asbestos lawsuit has resulted in a judgment against us to date, with the majority being settled, dismissed or otherwise resolved.

There has been an increase in the number of claims filed since the fiscal year ending December 31, 2007. We believe that this increase is primarily due to an increase in the marketing efforts by personal injury law firms in West Virginia and Pennsylvania. Although we do not know whether this is a trend that will continue in the near term, in the long term, we anticipate that asbestos-related litigation against us will decrease as the incidence of asbestos-related disease in the general U.S. population decreases.

We annually conduct analyses of our asbestos-related litigation to estimate the adequacy of the reserve for pending and probable asbestos-related claims. These analyses consist of separately estimating our reserve with respect to pending claims (both those scheduled for trial and those for which a trial date had not been scheduled), mass filings (including lawsuits brought in West Virginia each involving many, in some cases over a hundred, plaintiffs, which include little information regarding the nature of each plaintiff's claim and historically have rarely resulted in any payments to plaintiff) and probable future claims. A key element of the analysis is categorizing our claims by the type of disease the plaintiffs allege and developing benchmark estimated settlement values for each claim category based on our historical settlement experience. These estimated settlement values are applied to each of our pending individual claims. With respect to pending claims where the disease type is unknown, the outcome is projected based on historic experience. The reserve with respect to mass filings is estimated by determining the number of individual plaintiffs included in the mass filings likely to have claims resulting in settlements based on our historical experience with mass filings. Finally, we estimate the value of probable claims that plaintiffs may assert against us over the next 15 years based on public health estimates of future incidences of certain asbestos-related diseases in the general U.S. population. Estimated settlement values are applied to those projected claims. Our annual assessment, dated September 30, 2011, projected that our payments to asbestos claimants over the next 15 years are estimated to range from \$5 million to \$11 million. Given these estimates and existing insurance coverage that historically has been available to cover substantial portions of our past payments to claimants and defense costs, we believe that our current accruals and associated estimates relating to pending and probable asbestos-related litigation likely to be asserted over the next 15 years are currently adequate. Our belief that our accruals and associated estimates are currently adequate, however, relies on a number of significant assumptions, including:

That our future settlement payments, disease mix and dismissal rates will be materially consistent with historic experience;

That future incidences of asbestos-related diseases in the U.S. will be materially consistent with current public health estimates;

That the rates at which future asbestos-related mesothelioma incidences result in compensable claims filings against us will be materially consistent with its historic experience;

That insurance recoveries for settlement payments and defense costs will be materially consistent with historic experience;

That legal standards (and the interpretation of these standards) applicable to asbestos litigation will not change in material respects;

That there are no materially negative developments in the claims pending against us; and

That key co-defendants in current and future claims remain solvent.

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If any of these assumptions prove to be materially different in light of future developments, liabilities related to asbestos-related litigation may be materially different than amounts accrued or estimated. Further, while we anticipate that additional claims will be filed in the future, we are unable to predict with any certainty the number, timing and magnitude of such future claims.

*Other Legal Claims and 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.

*Product Claims.* 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 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 is not expected to have a material adverse effect on our business, financial condition or results of operations.

*NiSource Claim.* In the summer of 2010, our customer NiSource, Inc. notified us that certain polyethylene pipe that PolyPipe, Inc. manufactured may be defective. NiSource requested that the Company and PolyPipe repair and replace the allegedly defective pipe and reimburse NiSource for the costs of locating and removing the pipe. When installing the pipe, NiSource did not track where the pipe was installed, so to locate the allegedly defective pipe, NiSource has embarked on a program of potholing or digging holes by possible sites where the pipe was used to locate the serial numbers of the pipe that may be defective. This has caused NiSource to test locations far in excess of the locations where the allegedly defective pipe may have been used.

On April 28, 2011, PolyPipe filed a petition in the District Court in Cooke County, Texas against the Company and NiSource seeking, among other things, a declaratory judgment that PolyPipe was not responsible for the costs relating to the NiSource's alleged failure to track and record the installation locations of the pipe and NiSource's expenditures to implement a potential remediation plan including finding the pipe and removing the pipe. On June 1, 2011, the Court entered an order of non-suit, dismissing PolyPipe's claims without prejudice to their re-filing the same claims.

NiSource is in the process of locating where the allegedly defective pipe was used while the parties discuss a possible resolution of their respective claims. NiSource has asserted that the Company and PolyPipe are liable for the costs of finding the allegedly defective pipe. Under its contract with NiSource, the Company is not liable for consequential damages. The Company believes that this applies to damages such as finding the allegedly defective pipe. To the extent that pipe is actually defective, the Company may be liable under its warranty to replace the defective pipe. The Company believes that PolyPipe, as the manufacturer of the pipe, is ultimately liable for any manufacturing defects. The Company believes that the ultimate outcome of NiSource's claim will not be material.

*Former Shareholder Litigation.* On July 30, 2010, an action was brought against the Company in Delaware Chancery Court by a former shareholder of our predecessor, McJunkin Corporation, on his own behalf and as trustee for a trust, alleging the Company has not fully complied with a contractual obligation to divest of certain non-core assets contained in the December 2006 merger agreement, and seeking damages and equitable relief. The parties subsequently reached a settlement agreement whereby the Company agreed to distribute \$1.9 million to the former shareholders (excluding the plaintiffs in the litigation) and both parties have released each other from their respective claims. The Company signed the final settlement documents in February 2012, and the court dismissed the case in March 2012.

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***Customer Contracts***

We have contracts and agreements with many of our customers that dictate certain terms of our sales arrangements (pricing, deliverables, etc.). While we make every effort to abide by the terms of these contracts, certain provisions are complex and often subject to varying interpretations. Under the terms of these contracts, our customers have the right to audit our adherence to the contract terms. Historically, any settlements that have resulted from these customer audits have been immaterial to our consolidated financial statements.

***Purchase Commitments***

We have purchase obligations consisting primarily of inventory purchases made in the normal course of business to meet operating needs. While our vendors often allow us to cancel these purchase orders without penalty, in certain cases, cancellations may subject us to cancellation fees or penalties depending on the terms of the contract.

***Warranty Claims***

We are involved from time to time in various warranty claims, which arise in the ordinary course of business. Historically, any settlements that have resulted from these warranty claims have been immaterial to our consolidated financial statements.

**NOTE 9 GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS**

In December 2009 and February 2010, McJunkin Red Man Corporation (presented as Issuer in the following tables), a 100%-owned subsidiary of MRC Global Inc. (presented as Parent in the following tables), issued senior secured notes due December 15, 2016. The senior secured notes are fully and unconditionally, and jointly and severally, guaranteed on a senior basis by MRC Global Inc. and substantially all existing and future 100%-owned domestic restricted subsidiaries of McJunkin Red Man Corporation (collectively, the Guarantors ). All other subsidiaries of McJunkin Red Man Corporation, whether direct or indirect, do not guarantee the senior secured notes (the Non-Guarantors ).

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The following condensed consolidating financial statements present the results of operations, comprehensive income, financial position and cash flows of (1) the Parent, (2) the Issuer, (3) the Guarantors, (4) the Non-Guarantors, and (5) eliminations to arrive at the information for MRC Global Inc. on a consolidated basis. Separate financial statements and other disclosures concerning the Guarantors are not presented because management does not believe such information is material to investors. Therefore, each of the Guarantors is combined in the presentation below.

**Condensed Consolidated Balance Sheets***(in millions)*

|                                    | March 31, 2012  |                   |                 |                 |                     |                   |
|------------------------------------|-----------------|-------------------|-----------------|-----------------|---------------------|-------------------|
|                                    | Parent          | Issuer            | Guarantors      | Non-Guarantors  | Elim                | Total             |
| Cash                               | \$ 0.1          | \$ 5.0            | \$ 0.5          | \$ 53.2         | \$                  | \$ 58.8           |
| Accounts receivable, net           | 0.7             | 601.3             |                 | 269.2           |                     | 871.2             |
| Inventory, net                     |                 | 725.7             |                 | 297.2           |                     | 1,022.9           |
| Income taxes receivable            | 0.1             | 4.4               |                 |                 | (4.5)               |                   |
| Other current assets               |                 | 2.3               | 5.6             | 9.7             |                     | 17.6              |
| <b>Total current assets</b>        | <b>0.9</b>      | <b>1,338.7</b>    | <b>6.1</b>      | <b>629.3</b>    | <b>(4.5)</b>        | <b>1,970.5</b>    |
| Investment in subsidiaries         | 762.3           | 734.3             |                 |                 | (1,496.6)           |                   |
| Intercompany receivable            | 7.3             | 315.6             | 591.6           |                 | (914.5)             |                   |
| Other assets                       | 1.5             | 36.9              | 0.1             | 6.3             |                     | 44.8              |
| Property, plant and equipment, net |                 | 44.5              | 19.6            | 50.1            |                     | 114.2             |
| Goodwill                           |                 | 512.0             |                 | 56.8            |                     | 568.8             |
| Other intangible assets, net       |                 | 697.2             |                 | 83.0            |                     | 780.2             |
|                                    | <b>\$ 772.0</b> | <b>\$ 3,679.2</b> | <b>\$ 617.4</b> | <b>\$ 825.5</b> | <b>\$ (2,415.6)</b> | <b>\$ 3,478.5</b> |
| Trade accounts payable             | \$ 0.1          | \$ 376.2          | \$ 0.6          | \$ 178.7        | \$                  | \$ 555.6          |
| Accrued expenses                   | 1.2             | 81.5              | 8.3             | 51.5            |                     | 142.5             |
| Income taxes payable               |                 |                   | 28.1            | 2.5             | (4.5)               | 26.1              |
| Deferred revenue                   |                 | 1.7               |                 | 0.7             |                     | 2.4               |
| Deferred income taxes              |                 | 72.0              | (0.6)           | (2.2)           |                     | 69.2              |
| <b>Total current liabilities</b>   | <b>1.3</b>      | <b>531.4</b>      | <b>36.4</b>     | <b>231.2</b>    | <b>(4.5)</b>        | <b>795.8</b>      |
| Long-term debt, net                |                 | 1,551.1           |                 | 60.9            |                     | 1,612.0           |
| Intercompany payable               |                 | 555.9             |                 | 358.6           | (914.5)             |                   |
| Deferred income taxes              | 5.7             | 267.7             | 0.5             | 13.7            |                     | 287.6             |
| Other liabilities                  |                 | 10.8              | 0.2             | 7.1             |                     | 18.1              |
| Stockholders' equity               | 765.0           | 762.3             | 580.3           | 154.0           | (1,496.6)           | 765.0             |
|                                    | <b>\$ 772.0</b> | <b>\$ 3,679.2</b> | <b>\$ 617.4</b> | <b>\$ 825.5</b> | <b>\$ (2,415.6)</b> | <b>\$ 3,478.5</b> |

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|                                    | December 31, 2011 |                   |                 |                 |                     |                   |
|------------------------------------|-------------------|-------------------|-----------------|-----------------|---------------------|-------------------|
|                                    | Parent            | Issuer            | Guarantors      | Non-Guarantors  | Elim                | Total             |
| Cash                               | \$ 0.1            | \$ 4.8            | \$ 0.2          | \$ 41.0         | \$                  | \$ 46.1           |
| Accounts receivable, net           | 0.7               | 585.9             |                 | 204.7           |                     | 791.3             |
| Inventory, net                     |                   | 682.1             |                 | 217.0           |                     | 899.1             |
| Income taxes receivable            | 0.8               | 28.5              |                 |                 | (29.3)              |                   |
| Other current assets               |                   | 2.2               | 2.1             | 7.1             |                     | 11.4              |
| <b>Total current assets</b>        | <b>1.6</b>        | <b>1,303.5</b>    | <b>2.3</b>      | <b>469.8</b>    | <b>(29.3)</b>       | <b>1,747.9</b>    |
| Investment in subsidiaries         | 718.0             | 607.1             |                 |                 | (1,325.1)           |                   |
| Intercompany receivable            | 7.3               | 258.3             | 561.3           |                 | (826.9)             |                   |
| Other assets                       |                   | 31.8              | 0.1             | 7.3             |                     | 39.2              |
| Property, plant and equipment, net |                   | 45.2              | 19.6            | 42.6            |                     | 107.4             |
| Goodwill                           |                   | 512.0             |                 | 49.3            |                     | 561.3             |
| Other intangible assets, net       |                   | 707.2             |                 | 64.7            |                     | 771.9             |
|                                    | <b>\$ 726.9</b>   | <b>\$ 3,465.1</b> | <b>\$ 583.3</b> | <b>\$ 633.7</b> | <b>\$ (2,181.3)</b> | <b>\$ 3,227.7</b> |
| Trade accounts payable             | \$                | \$ 328.1          | \$ 2.5          | \$ 149.0        | \$                  | \$ 479.6          |
| Accrued expenses                   | 0.2               | 63.1              | 12.4            | 33.3            |                     | 109.0             |
| Income taxes payable               |                   |                   | 37.1            | 4.2             | (29.3)              | 12.0              |
| Deferred revenue                   |                   | 3.7               |                 | 0.7             |                     | 4.4               |
| Deferred income taxes              |                   | 71.0              | (0.6)           | (2.2)           |                     | 68.2              |
| <b>Total current liabilities</b>   | <b>0.2</b>        | <b>465.9</b>      | <b>51.4</b>     | <b>185.0</b>    | <b>(29.3)</b>       | <b>673.2</b>      |
| Long-term debt, net                |                   | 1,469.8           |                 | 56.9            |                     | 1,526.7           |
| Intercompany payable               |                   | 530.2             |                 | 296.7           | (826.9)             |                   |
| Deferred taxes                     | 5.7               | 269.7             | 1.0             | 12.6            |                     | 289.0             |
| Other liabilities                  | 0.1               | 11.5              | 0.2             | 6.1             |                     | 17.9              |
| Stockholders' equity               | 720.9             | 718.0             | 530.7           | 76.4            | (1,325.1)           | 720.9             |
|                                    | <b>\$ 726.9</b>   | <b>\$ 3,465.1</b> | <b>\$ 583.3</b> | <b>\$ 633.7</b> | <b>\$ (2,181.3)</b> | <b>\$ 3,227.7</b> |

**Table of Contents****Condensed Consolidated Statements of Operations***(in millions)*

|                                  | Three Months Ended March 31, 2012 |         |            |                |           |            |
|----------------------------------|-----------------------------------|---------|------------|----------------|-----------|------------|
|                                  | Parent                            | Issuer  | Guarantors | Non-Guarantors | Elim      | Total      |
| Sales                            | \$                                | 1,052.7 | \$         | \$ 329.9       | \$        | \$ 1,382.6 |
| Cost of sales                    |                                   | 883.5   | 1.0        | 261.5          |           | 1,146.0    |
| Gross profit                     |                                   | 169.2   | (1.0)      | 68.4           |           | 236.6      |
| Operating expenses               | 0.3                               | 69.6    | 25.9       | 50.6           |           | 146.4      |
| Operating (loss) income          | (0.3)                             | 99.6    | (26.9)     | 17.8           |           | 90.2       |
| Other (expense) income           |                                   | (128.0) | 104.4      | (8.0)          |           | (31.6)     |
| (Loss) income before taxes       | (0.3)                             | (28.4)  | 77.5       | 9.8            |           | 58.6       |
| Equity in earnings of subsidiary | 37.7                              | 55.9    |            |                | (93.6)    |            |
| Income tax (benefit)             | (0.1)                             | (10.2)  | 27.9       | 3.5            |           | 21.1       |
| Net income (loss)                | \$ 37.5                           | \$ 37.7 | \$ 49.6    | \$ 6.3         | \$ (93.6) | \$ 37.5    |

|                                  | Three Months Ended March 31, 2011 |          |            |                |           |          |
|----------------------------------|-----------------------------------|----------|------------|----------------|-----------|----------|
|                                  | Parent                            | Issuer   | Guarantors | Non-Guarantors | Elim      | Total    |
| Sales                            | \$                                | \$ 771.5 | \$         | \$ 220.3       | \$        | \$ 991.8 |
| Cost of sales                    |                                   | 667.1    | 0.9        | 176.8          |           | 844.8    |
| Gross profit                     |                                   | 104.4    | (0.9)      | 43.5           |           | 147.0    |
| Operating expenses               | 0.2                               | 61.2     | 20.5       | 35.5           |           | 117.4    |
| Operating (loss) income          | (0.2)                             | 43.2     | (21.4)     | 8.0            |           | 29.6     |
| Other (expense) income           |                                   | (94.1)   | 68.8       | (6.1)          |           | (31.4)   |
| (Loss) income before taxes       | (0.2)                             | (50.9)   | 47.4       | 1.9            |           | (1.8)    |
| Equity in earnings of subsidiary | (1.0)                             | 30.0     |            |                | (29.0)    |          |
| Income tax (benefit)             | (0.1)                             | (19.9)   | 17.6       | 1.7            |           | (0.7)    |
| Net (loss) income                | \$ (1.1)                          | \$ (1.0) | \$ 29.8    | \$ 0.2         | \$ (29.0) | \$ (1.1) |

**Table of Contents***Condensed Consolidated Statements of Comprehensive Income**(in millions)*

|                            | Three Months Ended March 31, 2012 |         |            |                |           |         |
|----------------------------|-----------------------------------|---------|------------|----------------|-----------|---------|
|                            | Parent                            | Issuer  | Guarantors | Non-Guarantors | Elim      | Total   |
| Net income                 | \$ 37.5                           | \$ 37.7 | \$ 49.6    | \$ 6.3         | \$ (93.6) | \$ 37.5 |
| Other comprehensive income | 4.8                               | 4.8     |            | (1.2)          | (3.6)     | 4.8     |
| Comprehensive income       | \$ 42.3                           | \$ 42.5 | \$ 49.6    | \$ 5.1         | \$ (97.2) | \$ 42.3 |

|                            | Three Months Ended March 31, 2011 |          |            |                |           |          |
|----------------------------|-----------------------------------|----------|------------|----------------|-----------|----------|
|                            | Parent                            | Issuer   | Guarantors | Non-Guarantors | Elim      | Total    |
| Net income                 | \$ (1.1)                          | \$ (1.0) | \$ 29.8    | \$ 0.2         | \$ (29.0) | \$ (1.1) |
| Other comprehensive income | 10.4                              | 10.4     |            | 3.7            | (14.1)    | 10.4     |
| Comprehensive income       | \$ 9.3                            | \$ 9.4   | \$ 29.8    | \$ 3.9         | \$ (43.1) | \$ 9.3   |

**Table of Contents****Condensed Consolidated Statements of Cash Flows***(in millions)*

|                                   | Three Months Ended March 31, 2012 |           |            |                |        |         |
|-----------------------------------|-----------------------------------|-----------|------------|----------------|--------|---------|
|                                   | Parent                            | Issuer    | Guarantors | Non-Guarantors | Elim   | Total   |
| Cash flows provided by (used in): |                                   |           |            |                |        |         |
| Operating activities              | \$ 1.6                            | \$ (22.1) | \$ 1.2     | \$ 37.6        | \$     | \$ 18.3 |
| Investing activities              | (1.6)                             | (47.6)    | (1.0)      | (75.2)         | 45.5   | (79.9)  |
| Financing activities              |                                   | 73.6      |            | 47.5           | (45.5) | 75.6    |
| Increase (decrease) in cash       |                                   | 3.9       | 0.2        | 9.9            |        | 14.0    |
| Effect of exchange rate on cash   |                                   | (3.7)     |            | 2.4            |        | (1.3)   |
| Cash beginning of period          | 0.1                               | 4.8       | 0.2        | 41.0           |        | 46.1    |
| Cash end of period                | \$ 0.1                            | \$ 5.0    | \$ 0.4     | \$ 53.3        | \$     | \$ 58.8 |

|                                   | Three Months Ended March 31, 2011 |         |            |                |      |         |
|-----------------------------------|-----------------------------------|---------|------------|----------------|------|---------|
|                                   | Parent                            | Issuer  | Guarantors | Non-Guarantors | Elim | Total   |
| Cash flows provided by (used in): |                                   |         |            |                |      |         |
| Operating activities              | \$ (0.1)                          | \$ 33.8 | \$ 3.6     | \$ (31.5)      | \$   | \$ 5.8  |
| Investing activities              | (0.1)                             | 12.7    | (3.6)      | 2.9            |      | 11.9    |
| Financing activities              |                                   | (43.3)  |            | 12.5           |      | (30.8)  |
| Increase (decrease) in cash       | (0.2)                             | 3.2     |            | (16.1)         |      | (13.1)  |
| Effect of exchange rate on cash   |                                   | (1.3)   |            | 0.3            |      | (1.0)   |
| Cash beginning of period          | 1.1                               | 4.4     |            | 50.7           |      | 56.2    |
| Cash end of period                | \$ 0.9                            | \$ 6.3  | \$         | \$ 34.9        | \$   | \$ 42.1 |

**Table of Contents****NOTE 10 SUBSEQUENT EVENTS**

In April 2012, we completed the initial public offering of 22,727,273 shares of common stock at a stock price of \$21.00 per share. In connection with the offering, MRC Global Inc. sold 17,045,455 shares resulting in aggregate net proceeds to us of approximately \$333.9 million after deducting underwriting discounts and estimated offering expenses. A selling stockholder sold the remaining 5,681,818 shares. The \$333.9 million of proceeds were used to repay advances on the Global ABL Facility. The following unaudited pro forma condensed balance sheet reflects the transaction as if it had occurred on March 31, 2012.

|  | Actual as of<br>March 31, 2012 | Pro forma<br>adjustments | Pro forma<br>as of<br>March 31, 2012 |
|--|--------------------------------|--------------------------|--------------------------------------|
| <b>Assets</b>                              |                                |                          |                                      |
| Total current assets                       | \$ 1,970,509                   | \$                       | \$ 1,970,509                         |
| Other assets                               | 44,767                         |                          | 44,767                               |
| Property, plant and equipment, net         | 114,173                        |                          | 114,173                              |
| Intangible assets                          | 1,349,009                      |                          | 1,349,009                            |
| <br>                                       |                                |                          |                                      |
| Total assets                               | \$ 3,478,458                   |                          | \$ 3,478,458                         |
| <b>Liabilities and stockholders equity</b> |                                |                          |                                      |
| Total current liabilities                  | \$ 795,784                     | \$                       | \$ 795,784                           |
| Long-term debt, net                        | 1,611,960                      | (333,900)                | 1,278,060                            |
| Other long term liabilities                | 305,693                        |                          | 305,693                              |
| Shareholders equity:                       |                                |                          |                                      |
| Common stock                               | 844                            | 170                      | 1,014                                |
| Preferred stock                            |                                |                          |                                      |
| Additional paid-in capital                 | 1,284,790                      | 333,730                  | 1,618,520                            |
| Retained (deficit)                         | (499,257)                      |                          | (499,257)                            |
| Other comprehensive income                 | (21,356)                       |                          | (21,356)                             |
| <br>                                       |                                |                          |                                      |
| Total equity                               | 765,021                        | 333,900                  | 1,098,921                            |
| <br>                                       |                                |                          |                                      |
| Total liabilities and equity               | \$ 3,478,458                   | \$                       | \$ 3,478,458                         |

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### **ITEM 2. 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. 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 Quarterly Report on Form 10-Q) 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;

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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;

risks related to our customers credit;

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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;

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

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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 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

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and chemical, 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 150 third party pipe yards located in the most active oil and natural gas regions in North America. Our International segment includes over 40 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.

### **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.

*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.

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**Recent Trends and Outlook**

During the first quarter of 2012, oil prices remained strong with an average price of approximately \$103 per barrel for West Texas Intermediate ( WTI ), which was approximately 9% above the average for the first quarter of 2011. Natural gas prices declined to an average price of \$2.44/Mcf (Henry Hub) for the first quarter of 2012 from an average of \$4.07/Mcf in the first quarter of 2011. At March 31, 2012, the natural gas price was \$2.00/Mcf (Henry Hub). Behind the strength of oil prices, North American drilling activity has increased 12% in the first three months of 2012 as compared to the same period of 2011. We continue to see a shift in rig utilization from natural gas to oil, with average oil drilling representing over 65% of the total North American rig count during the first three months of 2012 up from 52% for the same time period in 2011.

Activity levels in the upstream sector remain strong. In the U.S., the average total rig count was up 16% in the first quarter of 2012 as compared to the first quarter of 2011. Continued development within the Eagle Ford and Bakken shale regions and the Permian Basin primarily drove this increase in rig count. In Canada, the average total rig count for the first quarter of 2012 was flat as compared to the same period in 2011. However, maintenance, repair and operations ( MRO ) activity, particularly in the heavy oil and tar sands regions has remained strong, mitigating the downturn experienced in shallow natural gas drilling elsewhere in Canada.

The midstream sector, which includes gathering, transmission pipelines and natural gas utilities, is our fastest growing sector. New wells coming on line and the continued need for infrastructure within the shale basins has driven this growth in gathering and transmission. As a result of the shift in E&P activity from natural gas to oil, we have experienced a shifting in activity from the primarily natural gas regions of the Barnett, Haynesville, Woodford, and Fayetteville shales to the Bakken, Eagle Ford, and Niobrara shales and the Permian Basin, which are heavier producing regions for oil and natural gas liquids. At the same time, increasing focus on pipeline integrity work and the need for utilities to repair or replace aging pipeline infrastructure has had a similar positive impact on the gas utilities portion of our midstream business.

Our downstream and other industrials sector performance continues to improve. Within refining, market participants still appear cautious with respect to major capital spending because of international refining capacity additions, higher crude oil prices and relatively low margins relative to longer term historical levels. However, we believe there will be increased turnaround activity by our major customers in our U.S. refining sector in 2012 and 2013 due to customers' delays in routine turnaround activity for maintenance and repair in recent years.

Internationally we continue to see some improvement in prospects, although in Europe the outlook will be partly driven by Eurozone sentiment that will impact market confidence. Our Australasian business benefitted from the March 2012 acquisition of MRC PSA and early indications of business activity post acquisition are encouraging. Refining customers remain cautious particularly with the shift in production from Europe to Asia.

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 March 31, 2012 was \$948 million, including \$775 million in our North American segment and \$173 million in our International segment. We believe the key drivers for our business in our primary end markets remain strong, and we expect full year 2012 revenues to be between \$5.4 and \$5.6 billion. Due to our improved first quarter performance and our favorable product mix in our inventory from our 2011 inventory rebalance and purchasing strategy, we expect our Adjusted Gross Profit percentage to be 18% to 19% and Adjusted EBITDA percentage to be between 8.0% and 8.5% in 2012.

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The following table shows key industry indicators for the three months ended March 31, 2012 and 2011:

|  | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|
|  | <b>March 31,<br/>2012</b> | <b>March 31,<br/>2011</b> |
| <i>Average Rig Count(1):</i>             |                           |                           |
| United States                            | 1,990                     | 1,716                     |
| Canada                                   | 585                       | 587                       |
| Total North America                      | 2,575                     | 2,303                     |
| International                            | 1,189                     | 1,166                     |
| Total Worldwide                          | 3,764                     | 3,469                     |
| <i>Average Oil Rig Count(1):</i>         |                           |                           |
| United States                            | 1,262                     | 813                       |
| Canada                                   | 418                       | 385                       |
| Total North America                      | 1,680                     | 1,198                     |
| <i>Average Natural Gas Rig Count(1):</i> |                           |                           |
| United States                            | 725                       | 900                       |
| Canada                                   | 165                       | 184                       |
| Total North America                      | 890                       | 1,084                     |
| <i>Average Commodity Prices(2):</i>      |                           |                           |
| WTI crude oil (per barrel)               | \$ 102.87                 | \$ 94.07                  |
| Brent crude oil (per barrel)             | \$ 118.71                 | \$ 105.45                 |
| Natural gas (\$/Mcf)                     | \$ 2.44                   | \$ 4.07                   |
| Average Monthly Well Permits(3)          | 5,962                     | 5,018                     |
| 3:2:1 Crack Spread(4)                    | \$ 36.25                  | \$ 23.55                  |
| PMI Index (5)                            | 53.4                      | 59.7                      |

(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

The breakdown of our sales by sector for the three months ended March 31, 2012 and 2011 was as follows:

|                                  | <b>Three Months Ended</b> |      |                       |      |
|----------------------------------|---------------------------|------|-----------------------|------|
|                                  | <b>March 31, 2012</b>     |      | <b>March 31, 2011</b> |      |
| Upstream                         | \$ 649.8                  | 47%  | \$ 466.2              | 47%  |
| Midstream                        | 359.5                     | 26%  | 228.1                 | 23%  |
| Downstream and other industrials | 373.3                     | 27%  | 297.5                 | 30%  |
|                                  | \$ 1,382.6                | 100% | \$ 991.8              | 100% |

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Sales to the upstream sector totaled \$649.8 million for the three months ended March 31, 2012 compared to \$466.2 million for the same period in 2011, an increase of 39%.

In the midstream sector, we generated revenue growth of 58% to \$359.5 million in the first three months of 2012 as compared to \$228.1 million the first three months of 2011. Revenue from our gathering and transmission customers increased 40% in the first quarter of 2012 as compared to 2011, while revenue from our natural gas utilities customers increased approximately 67% in the first quarter of 2012 as compared to 2011.

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Our downstream and other industrials sector sales improved 25% to \$373.3 million in the first quarter of 2012 as compared to \$297.5 million in the first quarter of 2011. Approximately half of this growth was attributable to our international acquisitions of MRC SPF and MRC PSA which are more heavily weighted toward downstream and other industrials than the business as a whole. In North America, the downstream sector grew 12% over this same time period.

**Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011**

For the three months ended March 31, 2012 and 2011 the following table summarizes our results of operations (in millions). Corporate administrative costs are included in the North American segment.

|  | Three Months Ended<br>March 31, |          | \$ Change | % Change |
|--|---------------------------------|----------|-----------|----------|
|  | 2012                            | 2011     |           |          |
| <i>Sales:</i>  |                                 |          |           |          |
| North America  | \$ 1,260.9                      | \$ 932.4 | \$ 328.5  | 35.2%    |
| International  | 121.7                           | 59.4     | 62.3      | 104.9%   |
| Consolidated   | \$ 1,382.6                      | \$ 991.8 | \$ 390.8  | 39.4%    |
| <i>Gross profit:</i>                                 |                                 |          |           |          |
| North America  | \$ 204.2                        | \$ 129.2 | \$ 75.0   | 58.0%    |
| International  | 32.4                            | 17.8     | 14.6      | 82.0%    |
| Consolidated   | \$ 236.6                        | \$ 147.0 | \$ 89.6   | 61.0%    |
| <i>Selling, general and administrative expenses:</i> |                                 |          |           |          |
| North America  | \$ 119.4                        | \$ 101.3 | \$ 18.1   | 17.9%    |
| International  | 27.0                            | 16.1     | 10.9      | 67.7%    |
| Consolidated   | \$ 146.4                        | \$ 117.4 | \$ 29.0   | 24.7%    |
| <i>Operating income:</i>                             |                                 |          |           |          |
| North America  | \$ 84.8                         | \$ 27.9  | \$ 56.9   | 203.9%   |
| International  | 5.4                             | 1.7      | 3.7       | 217.6%   |
| Consolidated   | \$ 90.2                         | \$ 29.6  | \$ 60.6   | 204.7%   |
| Interest expense                                     | (33.7)                          | (33.5)   | (0.2)     | 0.6%     |
| Write off of deferred financing fees                 | (1.7)                           |          | (1.7)     | N/M      |
| Other, net   | 3.8                             | 2.1      | 1.7       | 81.0%    |
| Income tax (expense) benefit                         | (21.1)                          | 0.7      | (21.8)    | N/M      |
| Net income (loss)                                    | \$ 37.5                         | \$ (1.1) | \$ 38.6   | N/M      |
| Adjusted Gross Profit                                | \$ 259.9                        | \$ 173.5 | \$ 86.4   | 49.8%    |
| Adjusted EBITDA                                      | \$ 115.2                        | \$ 60.0  | \$ 55.2   | 92.0%    |

**Sales.** Sales include the revenue recognized from the sale 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 increased 39% to \$1,382.6 million for the three months ended March 31, 2012 as compared to \$991.8 million for the three months ended March 31, 2011.

**North American Segment** Our North American sales increased to \$1,260.9 million for the three months ended March 31, 2012 from \$932.4 million for the three months ended March 31, 2011. The 35% increase was due to an increase in volume related to the improved business

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environment, 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.

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**International Segment** Our International sales increased to \$121.7 million for the three months ended March 31, 2012 from \$59.4 million for the same period in 2011. Approximately \$48.5 million of this increase was due to the acquisition of MRC SPF in June 2011 and the acquisition of MRC PSA in March of 2012. The remainder of the increase is due to an improvement in activity in Europe and Asia.

**Gross Profit.** Our gross profit was \$236.6 million (17.1% of sales) for the three months ended March 31, 2012 as compared to \$147.0 million (14.8% of sales) for the three months ended March 31, 2011. The 230 basis points improvement in gross profit percentage was driven by a favorable change in product mix and the leveraging of the fixed cost component of cost of sales.

**North American Segment** Gross profit for our North American segment increased to \$204.2 million (16.2% of sales) for the three months ended March 31, 2012 from \$129.2 million (13.9% of sales) for the three months ended March 31, 2011. The increase of \$75.0 million was due primarily to an increase in the volume of products sold year over year. The rig count increased 12% for that same period.

**International Segment** Gross profit for our International segment increased to \$32.4 million (26.6% of sales) for the three months ended March 31, 2012 from \$17.8 million (30.0% of sales) for the three months ended March 31, 2011, an improvement of \$14.6 million. The increase in gross profit was largely attributable to the acquisitions of MRC SPF and MRC PSA, while the remainder of the increase is due to organic growth in sales for the international segment, particularly in Europe and Asia. The decrease in the gross profit percentage reflects the change in the mix of products resulting from the acquisitions of MRC SPF and MRC PSA.

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 that may include these expenses as a component of cost of sales. Purchasing and warehousing costs approximated \$8.2 million and \$6.2 million for the three months ended March 31, 2012 and 2011.

**Adjusted Gross Profit.** Adjusted Gross Profit increased to \$259.9 million (18.8% of sales) for the three months ended March 31, 2012 from \$173.5 million (17.5% of sales) for the three months ended March 31, 2011, an improvement of \$86.4 million. We define Adjusted Gross Profit 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 Profit 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 in which they have been involved. Similarly, gross profit results 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 Profit is a useful indicator of our operating performance because Adjusted Gross Profit measures our Company's operating performance without regard to acquisition transaction-related amortization expenses. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

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

|                               | Three Months Ended March 31, |                       |                 |                       |
|-------------------------------|------------------------------|-----------------------|-----------------|-----------------------|
|                               | 2012                         | Percentage of Revenue | 2011            | Percentage of Revenue |
| Gross profit, as reported     | \$ 236.6                     | 17.1%                 | \$ 147.0        | 14.8%                 |
| Depreciation and amortization | 4.1                          | 0.3%                  | 4.0             | 0.4%                  |
| Amortization of intangibles   | 12.3                         | 0.9%                  | 12.4            | 1.3%                  |
| Increase in LIFO reserve      | 6.9                          | 0.5%                  | 10.1            | 1.0%                  |
| <b>Adjusted Gross Profit</b>  | <b>\$ 259.9</b>              | <b>18.8%</b>          | <b>\$ 173.5</b> | <b>17.5%</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 \$146.4 million (10.6% of sales) for the three months ended March 31, 2012 as compared to \$117.4 million (11.8% of sales) for the three months ended March 31, 2011.

**North American Segment** Our North American SG&A increased to \$119.4 million for the three months ended March 31, 2012 from \$101.3 million for the three months ended March 31, 2011. The \$18.1 million increase was primarily due to additional personnel costs such as overtime and incentives and other costs directly related to the increase in business activity.

**International Segment** Our International segment's SG&A increased to \$27.0 million for the three months ended March 31, 2012 from \$16.1 million for the three months ended March 31, 2011. The \$10.9 million increase is primarily related to the March 2012 and mid-2011 acquisitions of MRC PSA and MRC SPF, respectively, while the remainder of the increase is due to the increase in business activity.

**Operating Income.** Operating income was \$90.2 million for the three months ended March 31, 2012, as compared to operating income of \$29.6 million for the three months ended March 31, 2011, an improvement of \$60.6 million.

**North American Segment** Operating income for our North American segment increased to \$84.8 million for the three months ended March 31, 2012 from \$27.9 million for the three months ended March 31, 2011. The improvement of \$56.9 million was driven by an increase in gross profit of \$75.0 million offset by a \$18.1 million increase in selling, general and administrative expenses.

**International Segment-** Operating income for our International segment increased to \$5.4 million for the three months ended March 31, 2012 from \$1.7 million for the three month ended March 31, 2011. The improvement of \$3.7 million was driven by an increase in gross profit of \$14.6 million offset by a \$10.9 million increase in selling, general and administrative expenses.

**Interest Expense.** Our interest expense was \$33.7 million for the three months ended March 31, 2012 as compared to \$33.5 million for the three months ended March 31, 2011.

**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 \$2.1 million and \$1.9 million during the three months ended March 31, 2012 and March 31, 2011, respectively. In March 2012, we refinanced certain of our credit facilities. As a result of their termination, we wrote off and expensed \$1.7 million in debt issuance costs.

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**Income Tax (Expense) Benefit.** Our income tax expense was \$21.1 million for the three months ended March 31, 2012, as compared to an income tax benefit of \$0.7 million for the three months ended March 31, 2011. Our effective tax rates were 36.0% and 38.0% for the three months ended March 31, 2012 and 2011, respectively. These rates differ from the federal statutory rate of 35% principally as a result of state income taxes and differing foreign income tax rates.

**Net Income (Loss).** Our net income was \$37.5 million for the three months ended March 31, 2012 as compared to a \$1.1 million net loss for the three months ended March 31, 2011, an improvement of \$38.6 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 \$115.2 million for the three months ended March 31, 2012, as compared to \$60.0 million for the three months ended March 31, 2011. This Adjusted EBITDA increase of \$55.2 million over that period was primarily due to the increase in gross profit and other factors noted above.

Adjusted EBITDA is an important measure under our Global 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 calculation of Adjusted EBITDA is consistent with the computation of Consolidated Cash flow, as defined in the indenture governing the Notes, except for the change in the LIFO reserve, which would not be an adjustment in determining Consolidated Cash Flow.

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

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2012</b>                         | <b>2011</b> |
| Net income (loss)                              | \$ 37.5                             | \$ (1.1)    |
| Income tax expense (benefit)                   | 21.1                                | (0.7)       |
| Interest expense                               | 33.7                                | 33.5        |
| Write off of debt issuance costs               | 1.7                                 |             |
| Depreciation and amortization                  | 4.1                                 | 4.0         |
| Amortization of intangibles                    | 12.3                                | 12.4        |
| Increase in LIFO reserve                       | 6.9                                 | 10.1        |
| Change in fair value of derivative instruments | (2.1)                               | (1.9)       |
| Equity-based compensation expense              | 1.8                                 | 1.5         |
| Legal and consulting expenses                  | (1.2)                               | 1.2         |
| Other non-cash expenses                        | (0.6)                               | 1.0         |
| Adjusted EBITDA                                | \$ 115.2                            | \$ 60.0     |

**Liquidity and Capital Resources**

Our primary sources of liquidity consist of cash generated from our operating activities, existing cash balances and borrowings under our existing revolving credit facilities. At March 31, 2012, our total liquidity including cash on hand was \$496 million. On a pro forma basis, taking into consideration the proceeds from our initial public offering, liquidity would have been \$830 million. Our ability to generate sufficient cash flows from our operating activities will continue to be primarily dependent on our sales of products and services to our customers at margins sufficient to cover our fixed and variable expenses. As of March 31, 2012 and December 31, 2011, we had cash and cash equivalents of \$58.8 million and \$46.1 million, respectively. As of March 31, 2012 and December 31, 2011, \$53.2 million and \$41.0 million of our cash and cash equivalents was maintained in the accounts of our various foreign

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subsidiaries and, if such amounts were transferred among countries or repatriated to the U.S., such amounts may be subject to additional tax liabilities, which would be recognized in our financial statements in the period during which such decision was made. We have the intent and ability to permanently reinvest the cash held by our foreign subsidiaries and there are currently no plans that require the repatriation of such amounts.

In March 2012, we entered into a new multi-currency global asset-based revolving credit facility (the Global ABL Facility) which replaced our then existing asset-based lending credit facility (ABL Credit Facility), our MRC Transmark term loan and revolving credit facility and our MRC Transmark overdraft facility. The five-year Global ABL Facility is comprised of \$1.25 billion of total revolving credit facilities, including \$1.025 billion in the United States, \$145 million in Canada, \$12 million in the United Kingdom, \$52 million in Australia, \$9 million in the Netherlands and \$7 million in Belgium. The facility contains an accordion feature that allows us to increase the principal amount of the facility by up to \$300 million.

Each of our wholly owned material U.S. subsidiaries guarantees the obligations of our borrower subsidiaries under the Global ABL Facility. Obligations under the U.S. tranche are primarily secured, subject to certain exceptions, by a first-priority security interest in the accounts receivable, inventory and related assets of our wholly owned, material U.S. subsidiaries. The obligations of any of our foreign borrower subsidiaries are primarily secured, subject to certain exceptions, by:

a first-priority security interest in the accounts receivable, inventory and related assets of the foreign subsidiary and the wholly owned material U.S. subsidiaries and

a first-priority pledge by the foreign borrower subsidiary of the equity interests of its direct wholly owned restricted subsidiaries incorporated in the relevant borrower jurisdictions and intercompany debt instruments held by the foreign borrower subsidiary.

No property of our foreign subsidiaries secures the U.S. tranche. The security interest in accounts receivable, inventory and related assets of the U.S. borrower subsidiaries ranks prior to the security interest in this collateral which secures our 9.5% senior secured notes.

Each of our foreign borrower subsidiaries has a separate stand alone borrowing base that limits the foreign subsidiary's ability to borrow under its respective tranche, provided that the foreign subsidiaries may utilize excess availability under the U.S. tranche to borrow amounts in excess of their respective borrowing bases (but not to exceed the applicable commitment amount for the foreign subsidiary's jurisdiction), which utilization will reduce availability under the U.S. tranche dollar for dollar.

Our ability to borrow in each jurisdiction, other than Belgium, under the facility is limited by a borrowing base in that jurisdiction equal to 85% of eligible receivables, plus the lesser of 70% of eligible inventory and 85% of appraised net orderly liquidation value of the inventory. In Belgium, our borrowing is limited by a borrowing base in Belgium equal to:

for Belgian inventory subject to a pledge under Belgian law, 50% of the lesser of 70% of the net book value and 85% of the appraised net orderly liquidation value of eligible inventory; and

for Belgian inventory subject to a possessory pledge under Belgian law, 70% of the net book value and 85% of the appraised net orderly liquidation value of eligible inventory.

The facility initially bears interest at LIBOR plus a margin of 1.75%; from and after September 1, 2012 the margin will vary between 1.50% and 2.00% based on our fixed charge coverage ratio.

We also have \$1.05 billion of 9.50% senior secured notes due December 15, 2016 (the notes) outstanding.

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In April 2012, we completed our initial public offering which generated net proceeds of approximately \$333.9 million. The proceeds were used to pay down borrowings against our Global ABL Facility.

Our credit ratings are below investment grade and, as such, could impact both our ability to raise new funds as well as the interest rates on our future borrowings. Our ability to incur additional debt is restricted by our existing obligations. We were in compliance with the covenants contained in the indenture governing our senior secured notes and various credit facilities as of and during the three months ended March 31, 2012 and we expect to be in compliance for the next twelve months.

***Cash Flows***

The following table sets forth our cash flows for the periods indicated below (in millions):

|  | <b>Three Months Ended</b> |           |
|--|---------------------------|-----------|
|  | <b>March 31,</b>          | March 31, |
|  | <b>2012</b>               | 2011      |
| Net cash (used in) provided by:                      |                           |           |
| Operating activities                                 | <b>\$ 18.3</b>            | \$ 5.8    |
| Investing activities                                 | <b>(79.9)</b>             | 11.9      |
| Financing activities                                 | <b>75.6</b>               | (30.8)    |
| Net increase (decrease) in cash and cash equivalents | <b>\$ 14.0</b>            | \$ (13.1) |

***Operating Activities***

Net cash provided by operating activities was \$18.3 million during the three months ended March 31, 2012 compared to net cash provided by operating activities of \$5.8 million during the three months ended March 31, 2011. The increase in net cash provided by operations was primarily the result of an increase in net income offset by working capital requirements necessary to meet the demands of increased business activity levels.

***Investing Activities***

Net cash used in investing activities was \$79.9 million for the three months ended March 31, 2012, compared \$11.9 million provided by for the three months ended March 31, 2011. The \$91.8 million increase in cash used in investing activities is primarily due to the acquisition of MRC PSA which required \$72.8 million of cash during the quarter. Although not finalized, the MRC PSA purchase price is subject to a working capital adjustment under which we currently expect to make a payment of approximately \$16.1 million during the second quarter of 2012. Our capital expenditures were \$4.5 million for the three months ended March 31, 2012 and \$2.0 million for the three months ended March 31, 2011. Excluding acquisitions, we expect capital expenditures in 2012 to be \$20 million to \$22 million. This level of capital expenditures is typical for our business.

***Financing Activities***

Net cash provided by financing activities was \$75.6 million for the three months ended March 31, 2012, compared to net cash used in financing activities of \$30.8 million used for the three months ended March 31, 2011. These activities generally reflect advances and payments on our revolving credit facilities. During the three months ended March 31, 2012, we advanced \$114.1 million under such facilities primarily to fund the acquisition of MRC PSA as well as the \$31.5 million repayment of the MRC Transmark term loan facility. By contrast, for the same period in 2011 we repaid \$30.8 million under these facilities.

***New Accounting Standards***

There have been no developments with respect to recently issued accounting standards, the expected adoption of which would materially impact our consolidated financial statements, aside from those disclosed in our consolidated financial statements and notes thereto for the year ended December 31, 2011, see Item 7: Management's Discussion and Analysis of Financial Condition and Results from Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.



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### ***Critical Accounting Policies***

The preparation of financial statement, in conformity with accounting principles generally accepted in the United States of America, requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable. If actual amounts are ultimately different from these estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimates are made and when there are different estimates that management reasonably could have made, which would have a material impact on the presentation of our financial condition, changes in our financial condition or results of operations. For a description of our critical accounting policies, see Item 7: Management's Discussion and Analysis of Financial Condition and Results from Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risk, see Item 7A: Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Evaluation of disclosure controls and procedures.***

As of March 31, 2012, we have reviewed, under the direction of our Chief Executive Officer and Chief Financial Officer, the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

#### ***Changes in internal control over financial reporting.***

There were no changes in our internal control over financial reporting that occurred during the first three months of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II-OTHER INFORMATION**

**ITEM 1. 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 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 Note 8 Commitments and Contingencies to our unaudited condensed financial statements.

**ITEM 1A. RISK FACTORS**

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results are described in Item 2 of Part I above and in Part I, Item 1a of our most recently posted Annual Report on Form 10-K under Risk Factors . There has been no material change in those risk factors.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINING SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

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| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 3.1           | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K (File No. 001-35479) filed with the SEC on April 17, 2012).   |
| 3.2           | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K (File No. 001-35479) filed with the SEC on April 17, 2012).   |
| 10.1          | Amended and Restated Loan, Security and Guarantee Agreement, dated as of March 27, 2012, among McJunkin Red Man Corporation, Greenbrier Petroleum Corporation, McJunkin Red Man Development Corporation, Midway Tristate Corporation, Milton Oil & Gas Company, MRC Management Company, Ruffner Realty Company and The South Texas Supply Company, Inc., as U.S. Borrowers and Guarantors, MRC Transmark Pty Ltd and MRC SPF Pty Ltd., as Australian Borrowers, MRC Transmark NV, as a Belgian Borrower, Midfield Supply ULC, as a Canadian Borrower, MRC Transmark B.V. and MRC Transmark International B.V., as Dutch Borrowers, MRC Transmark Holdings UK Limited, MRC Transmark Limited, MRC Transmark (Dragon) Limited and MRC SPF Scanfit Limited, as UK Borrowers, any other Borrower party thereto from time to time and certain Persons party thereto from time to time as Guarantors, certain financial institutions, as lenders, Bank of America, N.A., as Administrative Agent and Collateral Agent, and Barclays Bank PLC and Wells Fargo Capital Finance LLC, as Co-Syndication Agents (incorporated by reference to Exhibit 10.1 to Amendment No. 2 to the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-178980), filed with the SEC on March 28, 2012). |
| 10.2          | Registration Rights Agreement between MRC Global Inc. and PVF Holding LLC, dated as of April 11, 2012.  |
| 10.2.1        | Amendment No. 2 to the Amended and Restated Registration Rights Agreement, dated as of April 11, 2012, by and among MRC Global Inc, PVF Holdings LLC and the other parties thereto.   |
| 10.3          | Form of Indemnification Agreement between MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) and Directors (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-178980), filed with the SEC on March 6, 2012).  |
| 10.3.1        | Form of Indemnification Agreement between MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) and Executive Officers (incorporated by reference to Exhibit 10.4.1 to Amendment No. 1 to the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-178980), filed with the SEC on March 6, 2012).   |
| 10.4          | Governance Agreement, by and between MRC Global Inc. and PVF Holdings LLC, dated as of April 11, 2012.  |
| 31.1          | Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2          | Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32            | Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MRC GLOBAL INC.

By: /s/ James E. Braun  
James E. Braun

Executive Vice President and Chief Financial  
Officer

Date: May 7, 2012