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)

x **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)

Delaware	**20-5956993**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
2 Houston Center, 909 Fannin, Suite 3100	
Houston, Texas	**77010**
(Address of Principal Executive Offices)	**(Zip Code)**

(877)294-7574

(Registrant s Telephone Number, including Area 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 x 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 x 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	x	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 x

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, 2012	December 31, 2011
	(In thousands, except per share amounts)	
Assets		
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
Total current assets	**1,970,509**	1,747,908
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
	1,349,009	1,333,137
	$ 3,478,458	$ 3,227,687
Liabilities and stockholders equity		
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
Total current liabilities	**795,784**	673,167
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
	1,917,653	1,833,658
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)
	765,021	720,862
	$ 3,478,458	$ 3,227,687

See notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

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

See notes to consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

	Three Months Ended	
	March 31, 2012	**March 31, 2011**
	(In thousands)	
Net income (loss)	**$ 37,534**	$ (1,128)
Other comprehensive income	**4,784**	10,467
Comprehensive income	**$ 42,318**	$ 9,339

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, 2012	Three Months Ended March 31, 2011
Operating activities		
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
Investing activities		
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
Financing activities		
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
Supplemental disclosures of cash flow information:		
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, 2012	December 31, 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)
	$ 1,022,851	$ 899,064

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NOTE 4 LONG-TERM DEBT

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

	March 31, 2012	December 31, 2011
9.50% senior secured notes due 2016, net of discount of $17,432 and $18,358	**$ 1,032,568**	$ 1,031,642
Global ABL Facility	**570,473**	
ABL Credit Facility		456,411
MRC Transmark term loan facility		30,824
MRC Transmark factoring facility	**8,544**	7,189
Other	**375**	674
	1,611,960	1,526,740
Less current portion		
	$ 1,611,960	$ 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 Sepember 1, 2012 the margin will vary between 1.50% and 2.00% based on our fixed charge coverge 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[(1)]	**$ 63**	**$**	$	$ 144
Interest rate contracts[(1)]		**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

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 occured 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

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

	March 31, 2012	December 31, 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, 2012	March 31, 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, 2012	Three Months Ended March 31, 2011
Sales		
North America	**$ 1,260.9**	$ 932.4
International	**121.7**	59.4
Consolidated revenues	**$ 1,382.6**	$ 991.8
Depreciation and amortization		
North America	**$ 3.1**	$ 3.5
International	**1.0**	0.5
Total depreciation and amortization expense	**$ 4.1**	$ 4.0
Amortization of intangibles		
North America	**$ 10.6**	$ 11.0
International	**1.7**	1.4
Total amortization of intangibles expense	**$ 12.3**	$ 12.4
Operating income		
North America	**$ 84.8**	$ 27.9
International	**5.4**	1.7
Total operating income	**90.2**	29.6
Interest expense	**(33.7)**	(33.5)
Other income	**2.1**	2.1
Income (loss) before income taxes	**$ 58.6**	$ (1.8)

	March 31, 2012	December 31, 2011
Goodwill		
North America	**$ 512.0**	$ 512.1
International	**56.8**	49.2
Total goodwill	**$ 568.8**	$ 561.3
Total assets		
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, 2012	Three months ended March 31, 2011
Energy carbon steel tubular products:		
Line pipe	**$ 290,353**	$ 174,493
Oil country tubular goods	**221,221**	157,833
	$ 511,574	$ 332,326
Valves, fittings, flanges and other products:		
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)
March 31, 2012				
Assets:				
Foreign exchange forward contracts	**$ 63**	**$**	**$ 63**	**$**
Liabilities:				
Interest rate swap agreements	**92**		**92**	
December 31, 2011				
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
Financial assets				
Cash	**$ 58,833**	**$ 58,833**	$ 46,127	$ 46,127
Accounts receivable, net	**871,227**	**871,227**	791,280	791,280
Financial liabilities				
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.

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.

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
Total current assets	0.9	1,338.7	6.1	629.3	(4.5)	1,970.5
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
	$ 772.0	$ 3,679.2	$ 617.4	$ 825.5	$ (2,415.6)	$ 3,478.5
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
Total current liabilities	1.3	531.4	36.4	231.2	(4.5)	795.8
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
	$ 772.0	$ 3,679.2	$ 617.4	$ 825.5	$ (2,415.6)	$ 3,478.5

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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
Total current assets	1.6	1,303.5	2.3	469.8	(29.3)	1,747.9
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
	$ 726.9	$ 3,465.1	$ 583.3	$ 633.7	$ (2,181.3)	$ 3,227.7
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
Total current liabilities	0.2	465.9	51.4	185.0	(29.3)	673.2
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
	$ 726.9	$ 3,465.1	$ 583.3	$ 633.7	$ (2,181.3)	$ 3,227.7

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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)

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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

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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&n				