

MRC GLOBAL INC.  
Form 10-Q  
November 06, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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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 SEPTEMBER 30, 2015

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  
(I.R.S. Employer)

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(State or Other Jurisdiction of Identification No.)  
Incorporation or Organization)

2 Houston Center, 909 Fannin Street, 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 [ X ] 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 [ X ]

The Company's common stock is traded on the New York Stock Exchange under the symbol "MRC". There were 102,202,599 shares of the registrant's common stock (excluding 797,542 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of October 30, 2015.



Table Of Contents

INDEX TO QUARTERLY REPORT ON FORM 10-Q

| Page                           |  |
|--------------------------------|--|
| PART I – FINANCIAL INFORMATION |  |
| ITEM 1                         | <u>financial statements (UNAUDITED)</u> 1  |
|                                | <u>Condensed Consolidated Balance Sheets – September 30, 2015 and December 31, 2014</u> 1  |
|                                | <u>Condensed Consolidated Statements of INCOME – Three and nine MONTHS ended september 30, 2015 AND september 30, 2014</u> 2               |
|                                | <u>Condensed Consolidated Statements of cOMPREHENSIVE INCOME – Three AND nine months Ended september 30, 2015 and september 30, 2014</u> 3 |
|                                | <u>Condensed CONSOLIDATED STATEMENTS OF cash flows – nine MONTHS ENDEd september 30, 2015 and september 30, 2014</u> 4                     |
|                                | <u>Notes to the Condensed Consolidated Financial Statements – september 30, 2015</u> 5   |
| ITEM 2.                        | <u>management’s discussion and analysis of financial condition and results of operations</u> 12  |
| ITEM 3.                        | <u>quantitative and qualitative disclosures about market risk</u> 25   |
| ITEM 4.                        | <u>controls and procedures</u> 25  |
| PART II – OTHER INFORMATION    |  |
| ITEM 1.                        | <u>LEGAL PROCEEDINGS</u> 26  |
| ITEM                           | <u>RISK FACTORS</u> 26   |
| 1a.                            |  |
| ITEM 2.                        | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> 26  |
| ITEM 3.                        | <u>Defaults Upon Senior Securities</u> 27  |
| ITEM 4.                        | <u>MINING SAFETY DISCLOSURES</u> 27  |
| ITEM 5.                        | <u>other information</u> 27  |
| ITEM 6.                        | <u>Exhibits</u> 28   |



Table Of Contents

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

## MRC GLOBAL INC.

|  | September 30,<br>2015                    | December 31,<br>2014 |
|--|--|----------------------|
|  | (In thousands, except per share amounts) |                      |
| Assets   |  |                      |
| Current assets:                                |  |                      |
| Cash   | \$ 32,944                                | \$ 25,064            |
| Accounts receivable, net                       | 663,841                                  | 974,454              |
| Inventories, net                               | 894,233                                  | 1,186,946            |
| Other current assets                           | 37,528                                   | 35,698               |
| Total current assets                           | 1,628,546                                | 2,222,162            |
| Other assets                                   | 25,749                                   | 28,534               |
| Property, plant and equipment, net             | 117,535                                  | 116,001              |
| Intangible assets:                             |  |                      |
| Goodwill, net                                  | 780,519                                  | 806,006              |
| Other intangible assets, net                   | 646,045                                  | 701,118              |
|  | \$ 3,198,394                             | \$ 3,873,821         |
| Liabilities and stockholders' equity           |  |                      |
| Current liabilities:                           |  |                      |
| Trade accounts payable                         | \$ 387,606                               | \$ 538,943           |
| Accrued expenses and other current liabilities | 116,481                                  | 167,825              |
| Deferred income taxes                          | 65,671                                   | 69,435               |
| Current portion of long-term debt              | 7,935                                    | 7,935                |
| Total current liabilities                      | 577,693                                  | 784,138              |
| Long-term obligations:                         |  |                      |
| Long-term debt, net                            | 655,858                                  | 1,445,709            |
| Deferred income taxes                          | 214,144                                  | 223,705              |
| Other liabilities                              | 21,501                                   | 23,054               |
| Commitments and contingencies                  |  |                      |

|  |              |              |
|--|--------------|--------------|
| 6.5% Series A Convertible Perpetual Preferred Stock, \$0.01 par value; authorized 363 shares; 363 and no shares issued and outstanding, respectively | 355,467      | -            |
| Stockholders' equity:  |              |              |
| Common stock, \$0.01 par value per share: 500,000 shares authorized, 102,202 and 102,095 issued and outstanding, respectively                        | 1,022        | 1,022        |
| Additional paid-in capital   | 1,663,502    | 1,655,696    |
| Retained deficit   | (68,541)     | (122,625)    |
| Accumulated other comprehensive loss   | (222,252)    | (136,878)    |
|  | 1,373,731    | 1,397,215    |
|  | \$ 3,198,394 | \$ 3,873,821 |

Table Of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

## MRC GLOBAL INC.

|  | Three Months Ended                       |                       | Nine Months Ended     |                       |
|--|--|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2015                    | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
|  | (In thousands, except per share amounts) |                       |                       |                       |
| Sales  | \$ 1,071,189                             | \$ 1,618,146          | \$ 3,561,543          | \$ 4,421,120          |
| Cost of sales                                  | 886,034                                  | 1,340,103             | 2,950,549             | 3,651,523             |
| Gross profit                                   | 185,155                                  | 278,043               | 610,994               | 769,597               |
| Selling, general and administrative expenses   | 142,044                                  | 184,842               | 460,395               | 541,518               |
| Operating income                               | 43,111                                   | 93,201                | 150,599               | 228,079               |
| Other expense:                                 |  |                       |                       |                       |
| Interest expense                               | (10,070)                                 | (14,925)              | (38,365)              | (45,436)              |
| Write off of debt issuance costs               | -  | -                     | (3,249)               | -                     |
| Change in fair value of derivative instruments | 1,670                                    | 2,593                 | 534                   | (1,667)               |
| Other, net                                     | 844                                      | (4,677)               | (2,404)               | (7,961)               |
| Income before income taxes                     | 35,555                                   | 76,192                | 107,115               | 173,015               |
| Income tax expense                             | 19,536                                   | 26,058                | 45,756                | 60,061                |
| Net income                                     | 16,019                                   | 50,134                | 61,359                | 112,954               |
| Series A preferred stock dividends             | 5,982                                    | -                     | 7,275                 | -                     |
| Net income available to common stockholders    | \$ 10,037                                | \$ 50,134             | \$ 54,084             | \$ 112,954            |
| Basic earnings per common share                | \$ 0.10                                  | \$ 0.49               | \$ 0.53               | \$ 1.11               |
| Diluted earnings per common share              | \$ 0.10                                  | \$ 0.49               | \$ 0.53               | \$ 1.10               |
| Weighted-average common shares, basic          | 102,187                                  | 102,035               | 102,157               | 101,982               |
| Weighted-average common shares, diluted        | 102,529                                  | 102,860               | 102,417               | 102,875               |



See notes to condensed consolidated financial statements.

2

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Table Of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
|  | (In thousands)        |                       |                       |                       |
| Net income                               | \$ 16,019             | \$ 50,134             | \$ 61,359             | \$ 112,954            |
| Other comprehensive loss                 |                       |                       |                       |                       |
| Foreign currency translation adjustments | (43,644)              | (44,415)              | (85,374)              | (35,285)              |
| Comprehensive (loss) income              | \$ (27,625)           | \$ 5,719              | \$ (24,015)           | \$ 77,669             |

See notes to condensed consolidated financial statements.

3

Table Of Contents

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

|   | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|
|   | September 30,<br>2015 | September 30,<br>2014 |
|   | (In thousands)        |                       |
| Operating activities  |                       |                       |
| Net income  | \$ 61,359             | \$ 112,954            |
| Adjustments to reconcile net income to net cash provided by (used in) operations: |                       |                       |
| Depreciation and amortization   | 15,114                | 17,075                |
| Amortization of intangibles   | 45,913                | 53,209                |
| Equity-based compensation expense   | 8,282                 | 7,468                 |
| Deferred income tax benefit   | (17,477)              | (25,178)              |
| Amortization of debt issuance costs   | 3,339                 | 3,822                 |
| Write off of debt issuance costs  | 3,249                 | -                     |
| (Decrease) increase in LIFO reserve   | (30,082)              | 5,907                 |
| Change in fair value of derivative instruments                                    | (534)                 | 1,667                 |
| Provision for uncollectible accounts  | 1,677                 | 941                   |
| Foreign currency losses   | 4,360                 | 1,798                 |
| Other non-cash items  | (73)                  | 1,318                 |
| Changes in operating assets and liabilities:                                      |                       |                       |
| Accounts receivable   | 283,457               | (226,789)             |
| Inventories   | 289,205               | (83,186)              |
| Income taxes payable  | (4,969)               | 17,179                |
| Other current assets  | (3,330)               | (6,632)               |
| Accounts payable  | (136,440)             | 38,397                |
| Accrued expenses and other current liabilities                                    | (42,436)              | 11,414                |
| Net cash provided by (used in) operations   | 480,614               | (68,636)              |
| Investing activities  |                       |                       |
| Purchases of property, plant and equipment  | (23,781)              | (10,051)              |
| Proceeds from the disposition of property, plant and equipment                    | 994                   | 1,231                 |
| Acquisitions, net of cash acquired  | -                     | (346,992)             |

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|  |             |        |             |        |
|--|-------------|--------|-------------|--------|
| Other investment and notes receivable transactions               | (3,631)     |        | 1,342       |        |
| Net cash used in investing activities                            | (26,418)    |        | (354,470)   |        |
| Financing activities   |             |        |             |        |
| Payments on revolving credit facilities                          | (1,102,190) |        | (1,148,750) |        |
| Proceeds from revolving credit facilities                        | 566,835     |        | 1,585,509   |        |
| Payments on long-term obligations                                | (255,951)   |        | (5,951)     |        |
| Proceeds from issuance of preferred stock, net of issuance costs | 355,467     |        | -           |        |
| Dividend paid on series A preferred stock                        | (4,260)     |        | -           |        |
| Debt issuance costs paid   | (1,361)     |        | (3,606)     |        |
| Proceeds from exercise of stock options                          | 314         |        | 2,145       |        |
| Tax benefit on stock options                                     | -           |        | 186         |        |
| Other  | (331)       |        | -           |        |
| Net cash (used in) provided by financing activities              | (441,477)   |        | 429,533     |        |
| Increase in cash   |             |        |             |        |
| Increase in cash   | 12,719      |        | 6,427       |        |
| Effect of foreign exchange rate on cash                          | (4,839)     |        | (485)       |        |
| Cash -- beginning of period                                      | 25,064      |        | 25,188      |        |
| Cash -- end of period  | \$          | 32,944 | \$          | 31,130 |
| Supplemental disclosures of cash flow information:               |             |        |             |        |
| Cash paid for interest   | \$          | 35,009 | \$          | 42,891 |
| Cash paid for income taxes                                       | \$          | 70,213 | \$          | 67,706 |
| See notes to condensed consolidated financial statements.        |             |        |             |        |

Table Of Contents

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. Our wholly owned 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) sectors. We have branches in principal industrial, hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia, the Middle East and Kazakhstan. Our products are obtained from a broad range of suppliers.

**Basis of Presentation:** We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2015. We have derived our condensed consolidated balance sheet as of December 31, 2014 from the audited consolidated financial statements for the year ended December 31, 2014. You should read these condensed consolidated financial statements in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014.

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.

**Recent Accounting Pronouncements:** In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. The

FASB recently voted to defer the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are beginning to evaluate the effect of the adoption of ASU 2014-09 on our consolidated financial statements and the implementation approach to be used.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2015. We expect to adopt this guidance in 2016. As of September 30, 2015, our debt issuance costs totaled \$14.0 million, which is reported in other assets.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 provides guidance on simplifying the measurement of inventory. The current standard is to measure inventory at lower of cost or market; where market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 updates this guidance to measure inventory at the lower of cost or net realizable value; where net realizable value is considered to be the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. We expect to adopt this guidance in 2016. This amendment is not expected to have a material impact on the Company's financial position, results of operation, or cash flows.

Table Of Contents

## NOTE 2 – INVENTORIES

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

|  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Finished goods inventory at average cost:                  |                       |                      |
| Energy carbon steel tubular products                       | \$ 337,036            | \$ 497,146           |
| Valves, fittings, flanges and all other products           | 696,975               | 857,063              |
|  | 1,034,011             | 1,354,209            |
| Less: Excess of average cost over LIFO cost (LIFO reserve) | (112,580)             | (142,662)            |
| Less: Other inventory reserves                             | (27,198)              | (24,601)             |
|  | \$ 894,233            | \$ 1,186,946         |

Our inventory quantities are expected to be reduced for the year, resulting in a liquidation of a last-in, first out (“LIFO”) inventory layer that was carried at a lower cost prevailing from a prior year, as compared with current costs in the current year (a “LIFO decrement”). A LIFO decrement results in the erosion of layers created in earlier years, and, therefore, a LIFO layer is not created for years that have decrements. For the three and nine months ended September 30, 2015, the effect of this LIFO decrement increased cost of sales by approximately \$4.1 million and \$7.7 million, respectively. There was no LIFO decrement in 2014.

## NOTE 3 – LONG-TERM DEBT

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

|  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Senior Secured Term Loan B, net of discount of \$2,122 and \$3,693 | \$ 525,508            | \$ 779,888           |

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|                       |            |              |
|-----------------------|------------|--------------|
| Global ABL Facility   | 138,282    | 673,716      |
| Other                 | 3          | 40           |
|                       | 663,793    | 1,453,644    |
| Less: Current portion | 7,935      | 7,935        |
|                       | \$ 655,858 | \$ 1,445,709 |

Senior Secured Term Loan B: We have a seven-year Senior Secured Term Loan B (the “Term Loan”) with an original principal amount of \$793.5 million which amortizes in equal quarterly installments of 1% per year with the balance payable in November 2019 when the facility matures. Subject to securing additional lender commitments, the Term Loan allows for incremental increases in facility size up to an aggregate of \$200 million, plus an additional amount such that the Company’s senior secured leverage ratio (as defined under the Term Loan) would not exceed 3.50 to 1.00. MRC Global (US) Inc. (formerly known as McJunkin Red Man Corporation) is the borrower under this facility, which is guaranteed by MRC Global Inc. as well as all of its wholly owned U.S. subsidiaries. In addition, it is secured by a second lien on the assets securing our Global ABL Facility (which includes accounts receivable, inventory and related assets) and a first lien on substantially all of the other assets of MRC Global Inc. and those of its U.S. subsidiaries, as well as a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of first tier, non-U.S. subsidiaries. We are required to repay the Term Loan with certain asset sales and insurance proceeds, certain debt proceeds and 50% of excess cash flow (reducing to 25% if our senior secured leverage ratio is no more than 2.75 to 1.00 and 0% if our senior secured leverage ratio is no more than 2.50 to 1.00). In addition, the Term Loan contains a number of customary restrictive covenants.

The interest rate for the Term Loan, including the amortization of original issue discount, was 4.89% as of September 30, 2015 and 5.10% at December 31, 2014. In June 2015, we repaid \$250 million of the balance outstanding under the Term Loan with proceeds from the issuance of preferred stock.



Table Of Contents

Global ABL Facility: We have a \$1.05 billion multi-currency global asset-based revolving credit facility (the “Global ABL Facility”) that matures in July 2019. This facility is comprised of \$977 million in revolver commitments in the United States, \$30 million in Norway, \$20 million in Canada, \$5 million in the United Kingdom, \$10 million in Australia, \$4 million in the Netherlands and \$4 million in Belgium. It contains an accordion feature that allows us to increase the principal amount of the facility by up to \$300 million, subject to securing additional lender commitments.

MRC Global Inc. and each of its current and future wholly owned material U.S. subsidiaries guarantee the obligations of our borrower subsidiaries under the Global ABL Facility. Additionally, each of our non-U.S. borrower subsidiaries guarantees the obligations of our other non-U.S. borrower subsidiaries under the Global ABL Facility. Outstanding obligations are generally secured by a first priority security interest in accounts receivable, inventory and related assets.

The interest rate for the Global ABL Facility was 2.23% and 1.84% as of September 30, 2015 and December 31, 2014, respectively. Excess Availability, as defined under our Global ABL Facility, was \$616.1 million as of September 30, 2015.

NOTE 4- INCOME TAXES

For interim periods, our income tax expense is computed based upon our estimated annual effective tax rate. Our effective tax rates for the three and nine months ended September 30, 2015 were 54.9% and 42.7%, respectively. The effective tax rates for the three and nine months ended September 30, 2014 were 34.2% and 34.7%, respectively. The increase in our 2015 effective tax rates are the result of a higher expected tax rate for the full year of 42.6% due primarily to changes in our International segment, including lower than previously forecasted pre-tax profits, pre-tax losses in certain jurisdictions with no corresponding tax benefit, and the recognition of a valuation allowance for certain deferred tax assets during the quarter.

NOTE 5 – STOCKHOLDERS’ EQUITY

Preferred Stock Issuance

In June 2015, we issued 363,000 shares of Series A Convertible Perpetual Preferred Stock (the “Preferred Stock”) and received gross proceeds of \$363 million. The Preferred Stock ranks senior to our common stock with respect to dividend rights and rights on liquidation, winding-up and dissolution. The Preferred Stock has a stated value of \$1,000 per share, and holders of Preferred Stock are entitled to cumulative dividends payable quarterly in cash at a rate of 6.50% per annum. Holders of Preferred Stock are entitled to vote together with the holders of the common stock as a single class, in each case, on an as-converted basis, except where a separate class vote of the common stockholders is required by law. Holders of Preferred Stock have certain limited special approval rights, including with respect to the issuance of pari passu or senior equity securities of the Company.

The Preferred Stock is convertible at the option of the holders into shares of common stock at an initial conversion rate of 55.9284 shares of common stock for each share of Preferred Stock, which represents an initial conversion price

of approximately \$17.88 per share of common stock, subject to adjustment. On or after the fifth anniversary of the initial issuance of the Preferred Stock, the Company will have the option to redeem, in whole but not in part, all the outstanding shares of Preferred Stock, subject to certain redemption price adjustments on the basis of the date of the conversion. We may elect to convert the Preferred Stock, in whole but not in part, into the relevant number of shares of common stock on or after the 54th month after the initial issuance of the Preferred Stock if the last reported sale price of the common stock has been at least 150% of the conversion price then in effect for a specified period. The conversion rate is subject to customary anti-dilution and other adjustments.

#### Equity Compensation Plans

Our 2011 Omnibus Incentive Plan originally had 3,250,000 shares reserved for issuance under the plan. In April 2015, our shareholders approved an additional 4,250,000 shares for reservation for issuance under 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. Since the adoption of the 2011 Omnibus Incentive Plan, the Company's Board of Directors has periodically granted stock options, restricted stock awards, restricted stock units and performance-based stock units to directors and employees. Options and stock appreciation

Table Of Contents

rights may not be granted at prices less than the fair market value of our common stock on the date of the grant, nor for a term exceeding ten years. For employees, vesting generally occurs ratably over a three to five year period on the anniversaries of the date specified in the employees' respective stock option, restricted stock award, restricted stock unit and performance award agreements, subject to accelerated vesting under certain circumstances set forth in the agreements. Vesting for directors generally occurs on the one-year anniversary of the grant date. In February 2015, 514,805 shares of restricted stock, 195,082 performance stock unit awards and 72,259 of restricted stock units were granted to employees. In April and June of 2015, 171,716 and 1,198 shares of restricted stock were granted to employees. In August and September of 2015, 7,339 and 1,947 shares of restricted stock were granted to employees. To date, before consideration of forfeitures, 3,485,200 shares have been granted to management, members of our Board of Directors and key employees under this plan. A Monte Carlo simulation is completed to estimate the fair value of performance-based stock unit awards with a stock price performance component. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options. We expense the fair value of equity grants on a straight-line basis over the vesting period.

## Accumulated Other Comprehensive Loss

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

|                                      | September 30,<br>2015 | December 31,<br>2014 |
|--------------------------------------|-----------------------|----------------------|
| Currency translation adjustments     | \$ (221,639)          | \$ (136,265)         |
| Pension related adjustments          | (613)                 | (613)                |
| Accumulated other comprehensive loss | \$ (222,252)          | \$ (136,878)         |
| Earnings per Share                   |                       |                      |

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

| Three Months Ended    |                       | Nine Months Ended     |                       |
|-----------------------|-----------------------|-----------------------|-----------------------|
| September 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |

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|   |    |         |    |         |    |         |    |         |
|---|----|---------|----|---------|----|---------|----|---------|
| Net income                                  | \$ | 16,019  | \$ | 50,134  | \$ | 61,359  | \$ | 112,954 |
| Less: Dividends on Series A Preferred Stock |    | 5,982   |    | -       |    | 7,275   |    | -       |
| Net income available to common stockholders | \$ | 10,037  | \$ | 50,134  | \$ | 54,084  | \$ | 112,954 |
| <br>  |    |         |    |         |    |         |    |         |
| Average basic shares outstanding            |    | 102,187 |    | 102,035 |    | 102,157 |    | 101,982 |
| Effect of dilutive securities               |    | 342     |    | 825     |    | 260     |    | 893     |
| Average diluted shares outstanding          |    | 102,529 |    | 102,860 |    | 102,417 |    | 102,875 |
| <br>  |    |         |    |         |    |         |    |         |
| Net income per share:                       |    |         |    |         |    |         |    |         |
| Basic                                       | \$ | 0.10    | \$ | 0.49    | \$ | 0.53    | \$ | 1.11    |
| Diluted                                     | \$ | 0.10    | \$ | 0.49    | \$ | 0.53    | \$ | 1.10    |

Equity awards and shares of Preferred Stock are disregarded in the calculation of diluted earnings per share if they are determined to be anti-dilutive. For the three and nine months ended September 30, 2015, all of the shares of the newly issued Preferred Stock were anti-dilutive. For the three months ended September 30, 2015 and 2014, we had approximately 3.8 million and 1.1 million anti-dilutive stock options, respectively. For the nine months ended September 30, 2015 and 2014, we had approximately 3.8 million and 1.0 million anti-dilutive stock options,

Table Of Contents

respectively. There were no anti-dilutive restricted stock or performance stock unit awards for the three and nine months ended September 30, 2015 and 2014.

## NOTE 6 – SEGMENT INFORMATION

We operate as three business segments, U.S., Canada and International. Our International segment consists of our operations outside of the U.S. and Canada. These segments represent our business of selling PVF and related products and services 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) sectors.

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

|                            | Three Months Ended    |                       | Nine Months Ended     |                       |
|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                            | September 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Sales                      |                       |                       |                       |                       |
| U.S.                       | \$ 865.4              | \$ 1,205.2            | \$ 2,793.5            | \$ 3,268.7            |
| Canada                     | 69.4                  | 161.2                 | 266.4                 | 477.5                 |
| International              | 136.4                 | 251.7                 | 501.6                 | 674.9                 |
| Sales                      | \$ 1,071.2            | \$ 1,618.1            | \$ 3,561.5            | \$ 4,421.1            |
| Operating income           |                       |                       |                       |                       |
| U.S.                       | \$ 46.4               | \$ 76.2               | \$ 147.1              | \$ 194.8              |
| Canada                     | 0.6                   | 7.7                   | 8.5                   | 20.5                  |
| International              | (3.9)                 | 9.3                   | (5.0)                 | 12.8                  |
| Operating income           | 43.1                  | 93.2                  | 150.6                 | 228.1                 |
| Interest expense           | (10.1)                | (14.9)                | (38.4)                | (45.4)                |
| Other, net                 | 2.5                   | (2.1)                 | (5.1)                 | (9.6)                 |
| Income before income taxes | \$ 35.5               | \$ 76.2               | \$ 107.1              | \$ 173.1              |
|                            | September 30,<br>2015 | December 31,<br>2014  |                       |                       |
| Total assets               |                       |                       |                       |                       |
| U.S.                       | \$ 2,627.6            | \$ 3,111.9            |                       |                       |
| Canada                     | 141.5                 | 204.1                 |                       |                       |
| International              | 429.3                 | 557.8                 |                       |                       |

|              |    |         |    |         |
|--------------|----|---------|----|---------|
| Total assets | \$ | 3,198.4 | \$ | 3,873.8 |
|--------------|----|---------|----|---------|

9

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Table Of Contents

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

| Type   | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Energy carbon steel tubular products:  |                       |                       |                       |                       |
| Line pipe  | \$ 194,491            | \$ 323,149            | \$ 702,430            | \$ 818,509            |
| Oil country tubular goods (OCTG)   | 64,055                | 148,093               | 248,587               | 412,223               |
|  | \$ 258,546            | \$ 471,242            | \$ 951,017            | \$ 1,230,732          |
| Valves, fittings, flanges and other products:  |                       |                       |                       |                       |
| Valves and specialty products  | \$ 359,918            | \$ 530,536            | \$ 1,166,621          | \$ 1,449,248          |
| Carbon steel fittings and flanges and<br>stainless steel and alloy pipe and fittings | 222,420               | 330,444               | 741,422               | 929,349               |
| Other  | 230,305               | 285,924               | 702,483               | 811,791               |
|  | \$ 812,643            | \$ 1,146,904          | \$ 2,610,526          | \$ 3,190,388          |

## NOTE 7 – FAIR VALUE MEASUREMENTS

From time to time, we use derivative financial instruments to help manage our exposure to interest rate risk and fluctuations in foreign currencies. All of our derivative instruments are freestanding and, accordingly, changes in their fair market value are recorded in earnings. As of September 30, 2015, we do not have any interest rate swap agreements. Foreign exchange forward contracts and options 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. The total notional amount of our forward foreign exchange contracts and options was approximately \$36.5 million and \$77.9 million at September 30, 2015 and December 31, 2014, respectively. We had approximately \$1.3 million and \$1.6 million recorded as assets on our consolidated balance sheets as of September 30, 2015 and December 31, 2014, respectively.

With the exception of long-term debt, the fair values of our financial instruments, including cash and cash equivalents, accounts receivable, trade accounts payable and accrued liabilities approximate carrying value. The carrying value of our debt was \$0.664 billion and \$1.454 billion at September 30, 2015 and December 31, 2014, respectively. We estimate the fair value of the Term Loan using Level 2 inputs, or quoted market prices. The fair value of our debt was

\$0.653 billion and \$1.407 billion at September 30, 2015 and December 31, 2014, respectively.

## NOTE 8– COMMITMENTS AND CONTINGENCIES

### Litigation

**Asbestos Claims.** We are one of many defendants in lawsuits that plaintiffs have brought seeking damages for personal injuries that exposure to asbestos allegedly caused. Plaintiffs and their family members have brought these lawsuits against a large volume of defendant entities as a result of the defendants' manufacture, distribution, supply or other involvement with asbestos, asbestos containing-products or equipment or activities that allegedly caused plaintiffs to be exposed to asbestos. These plaintiffs typically assert exposure to asbestos as a consequence of third-party manufactured products that our MRC Global (US) Inc. subsidiary purportedly distributed. As of September 30, 2015, we are named a defendant in approximately 478 lawsuits involving approximately 1,102 claims. No asbestos lawsuit has resulted in a judgment against us to date, with a majority being settled, dismissed or otherwise resolved. Applicable third-party insurance has substantially covered these claims, and insurance should continue to cover a substantial majority of existing and anticipated future claims. Accordingly, we have recorded a liability for our estimate of the most likely settlement of asserted claims and a related receivable from insurers for our estimated recovery, to the extent we believe that the amounts of recovery are probable. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.



Table Of Contents

**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, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

**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 our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

**Weatherford Claim.** In addition to PVF, our Canadian subsidiary, Midfield Supply (“Midfield”), now known as MRC Global (Canada) ULC, also distributed progressive cavity pumps and related equipment (“PCPs”) under a distribution agreement with Weatherford Canada Partnership (“Weatherford”) within a certain geographical area located in southern Alberta, Canada. In late 2005 and early 2006, Midfield hired new employees, including former Weatherford employees, as part of Midfield’s desire to expand its PVF business into northern Alberta. Shortly thereafter, many of these employees left Midfield and formed a PCP manufacturing, distribution and service company named Europump Systems Inc. (“Europump”) in 2006. A subsidiary of Halliburton Company purchased Europump in 2014. The distribution agreement with Weatherford expired in 2006. Midfield supplied Europump with PVF products that Europump distributed along with PCP pumps. In April 2007, Midfield purchased Europump’s distribution branches and began distributing and servicing Europump PCPs.

Pursuant to a complaint that Weatherford filed on April 11, 2006 in the Court of Queen’s Bench of Alberta, Judicial Bench of Edmonton (Action No. 060304628), Weatherford sued Europump, three of Europump’s part suppliers, Midfield, certain current and former employees of Midfield, and other related entities, asserting a host of claims including breach of contract, breach of fiduciary duty, misappropriation of confidential information related to the PCPs, unlawful interference with economic relations and conspiracy. The Company denies these allegations and contends that Midfield’s expansion and subsequent growth was the result of fair competition.

From 2006 through 2012, the case focused largely on Weatherford’s questioning of defense witnesses. In 2013, the defendants began substantive questioning of Weatherford and its witnesses. Discovery is ongoing and expected to last through late 2015. The case is scheduled for trial on January 16, 2017. The Company believes Weatherford’s claims are without merit and intends to defend them vigorously.

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 not been material 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.

Table Of Contents

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. As used in this Form 10-Q, unless otherwise indicated or the context otherwise requires, all references to the "Company", "MRC Global", "we", "our" or "us" refer to MRC Global Inc. and its consolidated subsidiaries. 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 that the facility imposes.

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 within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include those preceded by, followed by or including the words "will," "expect," "intended," "anticipated," "believe," "project," "forecast," "propose," "plan," "estimate," "enable," and other expressions, 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, most of which are difficult to predict and many of which are beyond our control, 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;
- 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' creditworthiness;

Table Of Contents

- the success of our acquisition strategies;
- the potential adverse effects associated with integrating acquisitions into our business and whether these acquisitions will yield their intended benefits;
- our significant indebtedness;
- the dependence on our subsidiaries for cash to meet our 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;
- the occurrence of cybersecurity incidents;
- loss of third-party transportation providers;
- potential inability to obtain necessary capital;
- risks related to adverse weather events or natural disasters;
- impairment of our goodwill or other intangible assets;
- 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 sanctions programs;
- risks associated with international instability and geopolitical developments;
- risks relating to ongoing evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act;

- the impact on us of changes in U.S. generally accepted accounting principles or tax laws or adverse positions taken by taxing authorities in the countries in which the company operates;
- our intention not to pay dividends on our common stock; and
- compliance with and changes in laws and regulations in the countries in which we operate.

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, based on sales, of pipe, valves, and fittings (“PVF”) and related products and services to the energy industry and hold a 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 and chemical, processing and general industrials) sectors. Our business is segregated into three geographical segments, consisting of our U.S., Canadian and International operations. We serve our customers in over 400 service locations. 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 21,000 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

Table Of Contents

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 25 years with our 25 largest 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 globally. 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. 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 exploration and production spending, additions and maintenance to pipeline mileage, refinery utilization and petrochemical and other industrial processing activity.
- **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.
- **Steel Prices, Availability and Supply and Demand.** Fluctuations in steel prices may lead to volatility in the pricing of the products we distribute. This is most evident in carbon steel tubular products. 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.
- **Carbon Steel Tubular Prices, Supply and Demand.** Volatility in carbon steel tubular prices can have a significant influence on our profitability. Carbon steel tubular prices are influenced not only from the material input costs but also

by the supply and demand of the product itself, which tends to be a larger component of the change in price. On the supply side, the amount of steel mill capacity, utilization and imports, all of which can have variability among sizes and grades, drives the price.

#### Recent Trends and Outlook

During the first nine months of 2015, the average oil price of West Texas Intermediate (“WTI”) decreased significantly to \$50.94 per barrel from \$99.97 per barrel in the first nine months of 2014. Natural gas prices decreased to an average price of \$2.80/Mcf (Henry Hub) for the first nine months of 2015 compared to \$4.57/Mcf (Henry Hub) for the first nine months of 2014. North American drilling rig activity decreased 43% in the first nine months of 2015 as compared to the first nine months of 2014.

With the sustained decline in both oil and natural gas prices, and forecasts indicating that prices will be at low levels throughout the remainder of 2015 and into 2016, we expect our customers’ spending, particularly those in the upstream sector within North America, will continue to decline in 2015 and 2016 as compared to 2014. These lower



Table Of Contents

spending trends will also affect our midstream business but to a much lesser extent than upstream as a result of midstream infrastructure projects that are continuing. The gas utilities component of our midstream business continues to be strong. The decline in oil prices has more modestly impacted the downstream sector, which has a higher base of maintenance, repair and operations (“MRO”) business, including turnarounds.

Because we anticipated 2015 would be a challenging year, we have taken steps during the year to reduce our operating costs. We implemented hiring and salary freezes and eliminated approximately 525 full-time positions. As a result of these actions, we recorded pre-tax severance and restructuring charges of \$9.4 million in the first nine months of 2015. Excluding the impact of acquisitions, we have reduced our headcount by approximately 775, or 15%, over the past six quarters. Beginning in the fourth quarter, we plan to take additional voluntary and involuntary cost reduction measures affecting approximately 250 employees. We will continue to monitor the business outlook and take actions as appropriate in response to negative changes in that outlook, which may require additional severance and restructuring charges. In addition to these efforts to address costs, we are also actively managing our investment in working capital to an appropriate level. To the extent customer spending in 2016 and beyond decline to levels below current expectations, additional actions may be required to reduce operating costs and working capital levels further. In such a situation, we may also incur charges related to impairment of the carrying value of certain assets, including goodwill and other intangible assets.

During the second quarter of 2015, we issued \$363 million of 6.5% Series A Convertible Perpetual Preferred Stock (“Preferred Stock”). The proceeds of this transaction were used to repay outstanding indebtedness under our Global ABL and Term Loan facilities. We believe that this transaction strengthened our capital structure and enhances our financial flexibility to execute on our growth strategy.

We determine backlog by the amount of unshipped customer orders, either specific or general in nature (including orders held under pipe programs), which the customer may revise or cancel in certain circumstances.

At September 30, 2015, total backlog was \$659 million, including \$461 million in our U.S. segment, \$32 million in our Canadian segment and \$166 million in our International segment. At December 31, 2014, total backlog was \$1.093 billion, including \$767 million in our U.S. segment, \$66 million in our Canadian segment and \$260 million in our International segment. At September 30, 2014, total backlog was \$1.254 billion, including \$882 million in our U.S. segment, \$74 million in our Canadian segment and \$297 million in our International segment. There can be no assurance that the backlog amounts will ultimately be realized as revenue or that we will earn a profit on the backlog of orders, but we expect that a substantial majority of sales in our backlog will be realized in the next twelve months.

|                        | Three Months Ended    |                       | Nine Months Ended     |                       |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                        | September 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Average Rig Count (1): |                       |                       |                       |                       |
| United States          | 866                   | 1,903                 | 1,059                 | 1,845                 |
| Canada                 | 190                   | 386                   | 200                   | 370                   |
| International          | 1,132                 | 1,348                 | 1,187                 | 1,344                 |
| Total                  | 2,188                 | 3,637                 | 2,446                 | 3,559                 |

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Average Commodity Prices (2):

|                              |    |       |    |        |    |       |    |        |
|------------------------------|----|-------|----|--------|----|-------|----|--------|
| WTI crude oil (per barrel)   | \$ | 46.49 | \$ | 97.87  | \$ | 50.94 | \$ | 99.97  |
| Brent crude oil (per barrel) | \$ | 50.44 | \$ | 101.90 | \$ | 55.31 | \$ | 106.56 |
| Natural gas (\$/Mcf)         | \$ | 2.76  | \$ | 3.96   | \$ | 2.80  | \$ | 4.57   |

|                                       |          |          |          |          |
|---------------------------------------|----------|----------|----------|----------|
| Average Monthly U.S. Well Permits (3) | 3,604    | 6,479    | 3,753    | 6,493    |
| 3:2:1 Crack Spread (4)                | \$ 20.93 | \$ 18.29 | \$ 22.33 | \$ 20.66 |

(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-Rig Data (U.S.)

(4) Source- Bloomberg

Table Of Contents

## Results of Operations

## Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014

The breakdown of our sales by sector for the three months ended September 30, 2015 and 2014 was as follows (in millions):

|                                  | Three Months Ended |      | September 30, 2014 |      |
|----------------------------------|--------------------|------|--------------------|------|
|                                  | September 30, 2015 |      | September 30, 2014 |      |
| Upstream                         | \$ 378.8           | 35%  | \$ 753.1           | 47%  |
| Midstream                        | 370.0              | 35%  | 474.3              | 29%  |
| Downstream and other industrials | 322.4              | 30%  | 390.7              | 24%  |
|                                  | \$ 1,071.2         | 100% | \$ 1,618.1         | 100% |

For the three months ended September 30, 2015 and 2014, the following table summarizes our results of operations (in millions):

|   | Three Months Ended |                    | \$ Change  | % Change |
|---|--------------------|--------------------|------------|----------|
|   | September 30, 2015 | September 30, 2014 |            |          |
| Sales:                                      |                    |                    |            |          |
| U.S.  | \$ 865.4           | \$ 1,205.2         | \$ (339.8) | (28.2%)  |
| Canada                                      | 69.4               | 161.2              | (91.8)     | (56.9%)  |
| International                               | 136.4              | 251.7              | (115.3)    | (45.8%)  |
| Consolidated                                | \$ 1,071.2         | \$ 1,618.1         | \$ (546.9) | (33.8%)  |
| Operating income (loss):                    |                    |                    |            |          |
| U.S.  | \$ 46.4            | \$ 76.2            | \$ (29.8)  | (39.1%)  |
| Canada                                      | 0.6                | 7.7                | (7.1)      | (92.2%)  |
| International                               | (3.9)              | 9.3                | (13.2)     | N/M      |
| Consolidated                                | 43.1               | 93.2               | (50.1)     | (53.8%)  |
| Interest expense                            | (10.1)             | (14.9)             | 4.8        | (32.2%)  |
| Other income (expense)                      | 2.5                | (2.1)              | 4.6        | N/M      |
| Income tax expense                          | (19.5)             | (26.1)             | 6.6        | (25.3%)  |
| Net income                                  | 16.0               | 50.1               | (34.1)     | (68.1%)  |
| Series A preferred stock dividends          | (6.0)              | -                  | (6.0)      | N/M      |
| Net income available to common stockholders | \$ 10.0            | \$ 50.1            | \$ (40.1)  | (80.0%)  |

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|                           |    |       |    |       |    |         |         |
|---------------------------|----|-------|----|-------|----|---------|---------|
| Adjusted Gross Profit (1) | \$ | 190.1 | \$ | 307.7 | \$ | (117.6) | (38.2%) |
| Adjusted EBITDA (1)       | \$ | 51.3  | \$ | 132.3 | \$ | (81.0)  | (61.2%) |

(1) Adjusted Gross Profit and Adjusted EBITDA are non-GAAP financial measures. For a reconciliation of these measures to an equivalent GAAP measure, see pages 18-19 herein.

Sales. Sales include the revenue recognized from the sale of the products we distribute, the services we provide to customers and freight billings to customers, less cash discounts taken by customers in return for their early payment of our invoices to them. Our sales were \$1,071.2 million for the three months ended September 30, 2015 as compared to \$1,618.1 million for the three months ended September 30, 2014. The \$546.9 million decrease in sales reflected a \$44 million impact of the decline in foreign currencies in areas where we operate compared to the U.S. dollar.

Table Of Contents

**U.S. Segment**—Our U.S. sales decreased to \$865.4 million for the three months ended September 30, 2015 from \$1,205.2 million for the three months ended September 30, 2014. This \$339.8 million, or 28.2%, decrease reflected a \$227 million decrease in the upstream sector, a \$96 million decrease in the midstream sector and a modest decrease in the downstream sector. The decrease in sales in the third quarter of 2015 as compared to the same period in 2014 was caused by decreased customer spending related to the decline in oil and natural gas prices and the resulting decline in rig count.

**Canadian Segment**—Our Canadian sales decreased to \$69.4 million for the three months ended September 30, 2015 from \$161.2 million for the three months ended September 30, 2014. This \$91.8 million, or 56.9%, decrease reflected an \$81 million decrease in the upstream business also due to a decrease in customer spending.

Approximately \$14 million, or 15%, of the total decline was a result of the weaker Canadian dollar relative to the U.S. dollar.

**International Segment**—Our International sales decreased to \$136.4 million for the three months ended September 30, 2015 from \$251.7 million for the same period in 2014. The \$115.3 million, or 45.8%, decrease reflected the combined impact of lower project activity and deferral of MRO expenditures particularly in Norway, the U.K., Australia and the Netherlands. The impact of the decline in the foreign currencies in areas where we operate compared to the U.S. dollar accounted for \$30 million, or 26%, of the total decline.

**Gross Profit.** Our gross profit was \$185.2 million (17.3% of sales) for the three months ended September 30, 2015 as compared to \$278.0 million (17.2% of sales) for the three months ended September 30, 2014. Gross profit for the three months ended September 30, 2015 benefited from lower product costs reflected in our last-in, first-out (“LIFO”) inventory costing methodology. LIFO resulted in a reduction of cost of sales of \$15.0 million in third quarter of 2015 compared to an increase in cost of sales of \$3.9 million in the third quarter of 2014. Excluding the impact of LIFO, gross profit declined 130 basis points primarily as the result of the impact of customer pricing pressures related to the decline in oil prices and sales mix changes.

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 were \$8.5 million and \$11.4 million for the three months ended September 30, 2015 and 2014, respectively.

**Adjusted Gross Profit.** Adjusted Gross Profit decreased to \$190.1 (17.7% of sales) for the three months ended September 30, 2015 from \$307.7 million (19.0% of sales) for the three months ended September 30, 2014, a decrease of \$117.6 million. Adjusted Gross Profit is a non-GAAP financial measure. 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. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. 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.

17

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Table Of Contents

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

|                                     | Three Months Ended    |                          |                       |                          |
|-------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                     | September 30,<br>2015 | Percentage<br>of Revenue | September 30,<br>2014 | Percentage<br>of Revenue |
| Gross profit, as reported           | \$ 185.2              | 17.3%                    | \$ 278.0              | 17.2%                    |
| Depreciation and amortization       | 4.9                   | 0.4%                     | 6.5                   | 0.4%                     |
| Amortization of intangibles         | 15.0                  | 1.4%                     | 19.3                  | 1.2%                     |
| (Decrease) increase in LIFO reserve | (15.0)                | (1.4%)                   | 3.9                   | 0.2%                     |
| Adjusted Gross Profit               | \$ 190.1              | 17.7%                    | \$ 307.7              | 19.0%                    |

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 SG&A. Also contained in this category are certain items that are nonoperational in nature, including certain costs of acquiring and integrating other businesses. Our SG&A expenses were \$142.0 million for the three months ended September 30, 2015 as compared to \$184.8 million for the three months ended September 30, 2014. SG&A for the third quarter of 2015 included \$0.7 million of severance and restructuring charges resulting from cost reductions efforts. In the third quarter of 2014, we incurred \$2.6 million of severance and related charges and \$5.7 million of charges related to the cancellation of certain executive employment agreements, \$2.5 million of which represented the accelerated recognition of equity-based compensation expense with previously issued awards. Excluding these amounts, SG&A decreased \$35.2 million. Approximately \$10.1 million of the decrease was due to the impact of the foreign currencies in the countries in which we operate relative to the U.S. dollar. The remaining decrease was attributable to volume-related declines and the cost reduction efforts we have made.

Operating Income. Operating income was \$43.1 million for the three months ended September 30, 2015, as compared to \$93.2 million for the three months ended September 30, 2014, a decrease of \$50.1 million.

U.S. Segment—Operating income for our U.S. segment decreased to \$46.4 million for the three months ended September 30, 2015 from \$76.2 million for the three months ended September 30, 2014. The decrease in operating income of \$29.8 million was driven by lower revenue due to decreased customer spending offset by a reduction in SG&A expenses.

Canadian Segment—Operating income for our Canadian segment decreased to \$0.6 million for the three months ended September 30, 2015 from \$7.7 million for the three months ended September 30, 2014. The decrease of \$7.1 million reflected the decline in sales offset by corresponding reductions in SG&A.

International Segment—Our International segment incurred an operating loss of \$3.9 million for the three months ended September 30, 2015 as compared to operating income of \$9.3 million for the three months ended September 30, 2014. The decrease of \$13.2 million was the result of lower sales offset by corresponding reductions in SG&A.

Interest Expense. Our interest expense was \$10.1 million for the three months ended September 30, 2015 as compared to \$14.9 million for the three months ended September 30, 2014. This represented a decrease of \$4.8 million resulting from lower average debt levels. During the third quarter of 2015, total debt was reduced by \$184 million with positive cash flows from operations.

Other income (expense), net. Our other income was \$2.5 million for the three months ended September 30, 2015 compared to expense of \$2.1 million in for the three months ended September 30, 2014.

Income Tax Expense. Our income tax expense was \$19.5 million for the three months ended September 30, 2015 as compared to \$26.1 million for the three months ended September 30, 2014. Our effective tax rates were 54.9% and 34.2% for the three months ended September 30, 2015 and 2014, respectively. Our rates generally differ from the U.S. federal statutory rate of 35% as a result of state income taxes and differing, generally lower, foreign income tax rates. The increase in the effective tax rate to 54.9% in the third quarter of 2015 was a result of a higher expected tax rate for the full year of 42.6% due primarily to changes in our International segment including lower than previously



Table Of Contents

forecasted pre-tax profits, pre-tax losses in certain jurisdictions with no corresponding tax benefit, and the recognition of a valuation allowance for certain deferred tax assets during the third quarter.

**Net Income.** Our net income was \$16.0 million for the three months ended September 30, 2015 as compared to \$50.1 million for the three months ended September 30, 2014, a decrease of \$34.1 million.

**Adjusted EBITDA.** We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles and certain other expenses (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, a non-GAAP financial measure, was \$51.3 million (4.8% of sales) for the three months ended September 30, 2015, as compared to \$132.3 million (8.2% of sales) for the three months ended September 30, 2014.

We believe Adjusted EBITDA 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 is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted EBITDA.

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

|  | Three Months Ended    |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2015 | September 30,<br>2014 |
| Net income   | \$ 16.0               | \$ 50.1               |
| Income tax expense   | 19.5                  | 26.1                  |
| Interest expense   | 10.1                  | 14.9                  |
| Depreciation and amortization                                  | 4.9                   | 6.5                   |
| Amortization of intangibles                                    | 15.0                  | 19.3                  |
| (Decrease) increase in LIFO reserve                            | (15.0)                | 3.9                   |
| Change in fair value of derivative instruments                 | (1.7)                 | (2.6)                 |
| Equity-based compensation expense                              | 2.9                   | 3.4                   |
| Severance and restructuring charges                            | 0.7                   | 2.6                   |
| Cancellation of executive employment agreements (cash portion) | -                     | 3.2                   |
| Foreign currency (gains) losses                                | (1.1)                 | 4.9                   |
| Adjusted EBITDA  | \$ 51.3               | \$ 132.3              |

Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014

The breakdown of our sales by sector for the nine months ended September 30, 2015 and 2014 was as follows (in millions):

|                                  | Nine Months Ended  |      | September 30, 2014 |      |
|----------------------------------|--------------------|------|--------------------|------|
|                                  | September 30, 2015 |      | September 30, 2014 |      |
| Upstream                         | \$ 1,360.1         | 38%  | \$ 2,088.0         | 47%  |
| Midstream                        | 1,168.3            | 33%  | 1,201.7            | 27%  |
| Downstream and other industrials | 1,033.1            | 29%  | 1,131.4            | 26%  |
|                                  | \$ 3,561.5         | 100% | \$ 4,421.1         | 100% |

Table Of Contents

For the nine months ended September 30, 2015 and 2014, the following table summarizes our results of operations (in millions):

|   | Nine Months Ended     |                       |            |          |
|---|-----------------------|-----------------------|------------|----------|
|   | September 30,<br>2015 | September 30,<br>2014 | \$ Change  | % Change |
| Sales:                                      |                       |                       |            |          |
| U.S.  | \$ 2,793.5            | \$ 3,268.7            | \$ (475.2) | (14.5%)  |
| Canada                                      | 266.4                 | 477.5                 | (211.1)    | (44.2%)  |
| International                               | 501.6                 | 674.9                 | (173.3)    | (25.7%)  |
| Consolidated                                | \$ 3,561.5            | \$ 4,421.1            | \$ (859.6) | (19.4%)  |
| Operating income (loss):                    |                       |                       |            |          |
| U.S.  | \$ 147.1              | \$ 194.8              | \$ (47.7)  | (24.5%)  |
| Canada                                      | 8.5                   | 20.5                  | (12.0)     | (58.5%)  |
| International                               | (5.0)                 | 12.8                  | (17.8)     | N/M      |
| Consolidated                                | 150.6                 | 228.1                 | (77.5)     | (34.0%)  |
| Interest expense                            | (38.4)                | (45.4)                | 7.0        | (15.4%)  |
| Other expense                               | (5.1)                 | (9.6)                 | 4.5        | (46.9%)  |
| Income tax expense                          | (45.7)                | (60.1)                | 14.4       | (24.0%)  |
| Net income                                  | 61.4                  | 113.0                 | (51.6)     | (45.7%)  |
| Series A preferred stock dividends          | (7.3)                 | -                     | (7.3)      | N/M      |
| Net income available to common stockholders | \$ 54.1               | \$ 113.0              | \$ (58.9)  | (52.1%)  |
| Adjusted Gross Profit (1)                   | \$ 641.9              | \$ 845.8              | \$ (203.9) | (24.1%)  |
| Adjusted EBITDA (1)                         | \$ 201.1              | \$ 322.5              | \$ (121.4) | (37.6%)  |

(1) Adjusted Gross Profit and Adjusted EBITDA are non-GAAP financial measures. For a reconciliation of these measures to an equivalent GAAP measure, see pages 21-23 herein.

Sales. Our sales were \$3,561.5 million for the nine months ended September 30, 2015 as compared to \$4,421.1 million for the nine months ended September 30, 2014. The \$859.6 million decrease in sales reflected a \$132 million impact of the decline in foreign currencies in areas where we operate compared to the U.S. dollar.

U.S. Segment—Our U.S. sales decreased to \$2,793.5 million for the nine months ended September 30, 2015 from \$3,268.7 million for the nine months ended September 30, 2014. This \$475.2 million, or 14.5%, decrease reflected

a \$430.9 million decrease in the upstream sector and modest declines in the midstream and downstream sectors. The decline in all sectors reflects the anticipated decrease in customer spending related to the decline in oil and natural gas prices and the resulting decline in rig count.

Canadian Segment—Our Canadian sales decreased to \$266.4 million for the nine months ended September 30, 2015 from \$477.5 million for the nine months ended September 30, 2014. This \$211.1 million, or 44.2%, decrease reflected a \$198.9 million decrease in the upstream business due to a decrease in customer spending. Approximately \$39 million, or 19%, of the total decline was a result of the weaker Canadian dollar relative to the U.S. dollar.

International Segment—Our International sales decreased to \$501.6 million for the nine months ended September 30, 2015 from \$674.9 million for the same period in 2014. The decrease of \$173.3 million, or 25.7%, reflected the combined impact of lower project activity and deferral of MRO expenditures particularly in Norway, the

Table Of Contents

U.K., Australia and the Netherlands. This included the impact of the decline in the foreign currencies in areas where we operate compared to the U.S. dollar, which accounted for \$93 million, or 54%, of the total decline.

**Gross Profit.** Our gross profit was \$611.0 million (17.2% of sales) for the nine months ended September 30, 2015 as compared to \$769.6 million (17.4% of sales) for the nine months ended September 30, 2014. Gross profit for the nine months ended September 30, 2015 benefited from lower product costs reflected in our LIFO inventory costing methodology. LIFO resulted in a reduction of cost of sales of \$30.1 million in first nine months of 2015 compared to an increase in cost of sales of \$5.9 million in the first nine months of 2014. Excluding the impact of LIFO, gross profit declined 110 basis points primarily as the result of the impact of customer pricing pressures related to the decline in oil prices and sales mix changes.

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 were \$28.0 million and \$34.7 million for the nine months ended

September 30, 2015 and 2014, respectively.

**Adjusted Gross Profit.** Adjusted Gross Profit decreased to \$641.9 (18.0% of sales) for the nine months ended September 30, 2015 from \$845.8 million (19.1% of sales) for the nine months ended September 30, 2014, a decrease of \$203.9 million. Adjusted Gross Profit is a non-GAAP financial measure. 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. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. 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.

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

| Nine Months Ended |            |               |            |
|-------------------|------------|---------------|------------|
| September 30,     | Percentage | September 30, | Percentage |

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|                                     | 2015     | of Revenue | 2014     | of Revenue |
|-------------------------------------|----------|------------|----------|------------|
| Gross profit, as reported           | \$ 611.0 | 17.2%      | \$ 769.6 | 17.4%      |
| Depreciation and amortization       | 15.1     | 0.3%       | 17.1     | 0.4%       |
| Amortization of intangibles         | 45.9     | 1.3%       | 53.2     | 1.2%       |
| (Decrease) increase in LIFO reserve | (30.1)   | (0.8%)     | 5.9      | 0.1%       |
| Adjusted Gross Profit               | \$ 641.9 | 18.0%      | \$ 845.8 | 19.1%      |

Selling, General and Administrative Expenses. Our SG&A expenses were \$460.4 million for the nine months ended September 30, 2015 as compared to \$541.5 million for the nine months ended September 30, 2014. SG&A for the first nine months of 2015 included \$9.4 million of severance and restructuring charges resulting from cost reduction efforts as well as \$5.5 million of incremental expense related to our MSD and Hypyteck acquisitions. In the first nine months of 2014, we incurred \$7.5 million of severance and related charges and \$5.7 million of charges related to the cancellation of certain executive employment agreements, \$2.5 million of which represented the accelerated recognition of equity-based compensation expense with previously issued awards. Excluding these amounts, SG&A decreased \$82.8 million. Approximately \$29.4 million of the decrease was due to the impact of weaker foreign currencies in the countries in which we operate relative to the U.S. dollar. The remaining decrease was attributable to volume-related declines and the cost reduction efforts we have made.

Operating Income. Operating income was \$150.6 million for the nine months ended September 30, 2015, as compared to \$228.1 million for the nine months ended September 30, 2014, a decrease of \$77.5 million.

Table Of Contents

U.S. Segment—Operating income for our U.S. segment decreased to \$147.1 million for the nine months ended September 30, 2015 from \$194.8 million for the nine months ended September 30, 2014. The decrease in operating income of \$47.7 million was driven by lower sales due to decreased customer spending offset by a reduction in SG&A expenses. Severance expenses negatively impacted operating income by \$3.5 million and \$6.8 million for the nine months ended September 30, 2015 and 2014, respectively.

Canadian Segment—Operating income for our Canadian segment decreased to \$8.5 million for the nine months ended September 30, 2015 from \$20.5 million for the nine months ended September 30, 2014. The decrease of \$12.0 million reflected the decline in sales offset by corresponding reductions in SG&A.

International Segment—Our International segment incurred an operating loss of \$5.0 million for the nine months ended September 30, 2015 as compared to operating income of \$12.8 million for nine months ended September 30, 2014. The decrease of \$17.8 million was the result of lower sales offset by corresponding reductions in SG&A. Severance expenses negatively impacted operating income by \$5.2 million and \$2.8 million for the nine months ended September 30, 2015 and 2014, respectively.

Interest Expense. Our interest expense was \$38.4 million for the nine months ended September 30, 2015 as compared to \$45.4 million for the nine months ended September 30, 2014. The decrease of \$7.0 million can be attributed to lower average debt levels. During the first nine months of 2015, total debt was reduced by \$790 million with \$355 million of net proceeds from our June 2015 Preferred Stock issuance combined with positive cash flows from operations.

Other income (expense), net. Our other expense was \$5.1 million for the nine months ended September 30, 2015 compared to \$9.6 million for the nine months ended September 30, 2014. The first nine months of 2015 included a \$3.2 million write off of debt issuance costs, foreign currency losses of \$4.3 million and a \$0.5 million gain on the change in the fair value of derivatives as compared to a foreign currency loss of \$1.8 million and a \$1.7 million loss on the change of fair value of derivatives in the nine months of 2014. Additionally, the nine months ended September 30, 2014 included a \$6.2 million charge related to the sale of our Canadian progressive cavity pump business.

Income Tax Expense. Our income tax expense was \$45.7 million for the nine months ended September 30, 2015 as compared to \$60.1 million for the nine months ended September 30, 2014. Our effective tax rates were 42.7% and 34.7% for the nine months ended September 30, 2015 and 2014, respectively. Our rates generally differ from the U.S. federal statutory rate of 35% as a result of state income taxes and differing, generally lower, foreign income tax rates. The increase in the effective tax rate to 42.7% for the nine months ended September 30, 2015 was due primarily to changes in our International segment including lower than previously forecasted pre-tax profits, pre-tax losses in certain jurisdictions with no corresponding tax benefit, and the recognition of a valuation allowance for certain deferred tax assets during the third quarter.

Net Income. Our net income was \$61.4 million for the nine months ended September 30, 2015 as compared to \$113.0 million for the nine months ended September 30, 2014, a decrease of \$51.6 million.

Adjusted EBITDA. We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles and certain other expenses (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, a non-GAAP financial measure, was \$201.1 million (5.6% of sales) for the nine months ended September 30, 2015, as compared to \$322.5 million (7.3% of sales) for the nine months ended September 30, 2014.

We believe Adjusted EBITDA 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 is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted EBITDA.



Table Of Contents

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

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2015 | September 30,<br>2014 |
| Net income   | \$ 61.4               | \$ 113.0              |
| Income tax expense   | 45.7                  | 60.1                  |
| Interest expense   | 38.4                  | 45.4                  |
| Depreciation and amortization                                  | 15.1                  | 17.1                  |
| Amortization of intangibles                                    | 45.9                  | 53.2                  |
| (Decrease) increase in LIFO reserve                            | (30.1)                | 5.9                   |
| Change in fair value of derivative instruments                 | (0.5)                 | 1.7                   |
| Equity-based compensation expense                              | 8.3                   | 7.4                   |
| Loss on sale of Canadian PCP business                          | -                     | 6.2                   |
| Write off of debt issuance costs                               | 3.2                   | -                     |
| Severance and restructuring charges                            | 9.4                   | 7.5                   |
| Cancellation of executive employment agreements (cash portion) | -                     | 3.2                   |
| Foreign currency losses  | 4.3                   | 1.8                   |
| Adjusted EBITDA  | \$ 201.1              | \$ 322.5              |

## Liquidity and Capital Resources

Our primary sources of liquidity consist of cash generated from our operating activities, existing cash balances and borrowings under our Global ABL Facility. At September 30, 2015, our total liquidity, including cash on hand, was \$649.0 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 September 30, 2015 and December 31, 2014, we had cash and cash equivalents of \$32.9 million and \$25.1 million, respectively. As of September 30, 2015 and December 31, 2014, \$32.9 million and \$22.2 million of our cash and cash equivalents, respectively, were maintained in the accounts of our various foreign subsidiaries. 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 would be made. We have the intent and ability to indefinitely reinvest the cash held by our foreign subsidiaries, and there are currently no plans that require the repatriation of this cash.

Our primary credit facilities consist of a seven-year Term Loan maturing in November 2019 with an original principal amount of \$793.5 million and a five-year \$1.05 billion Global ABL Facility that provides a \$977 million facility in the United States, a \$30 million facility in Norway, a \$20 million facility in Canada, a \$10 million facility in Australia, a \$5 million facility in the United Kingdom, a \$4 million facility in the Netherlands and a \$4 million facility in Belgium. As of September 30, 2015, the outstanding balance on our Term Loan, net of original issue discount, was \$525.5 million. The Global ABL Facility matures in July 2019. The Global ABL Facility contains an accordion feature that allows us to increase the principal amount of the facility by up to \$300 million, subject to additional lender commitments. As of September 30, 2015, we had \$616.1 million of Excess Availability, as defined under our Global ABL Facility. Availability is dependent on a borrowing base comprised of a percentage of eligible accounts receivable and inventory which is subject to redetermination from time to time.

Table Of Contents

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 our various credit facilities as of and during the nine months ended September 30, 2015.

We believe our sources of liquidity will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for at least the next twelve months. However, our future cash requirements could be higher than we currently expect as a result of various factors. Additionally, our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control. We may from time to time seek to raise additional debt or equity financing or re-price or refinance existing debt in the public or private markets, based on market conditions. Any such capital markets activities would be subject to market conditions, reaching final agreement with lenders or investors, and other factors, and there can be no assurance that we would successfully consummate any such transactions.

In November 2015, the Company’s board of directors authorized a share repurchase program for common stock of up to \$100 million. The program is scheduled to expire December 31, 2017. The shares may be repurchased at management’s discretion in the open market. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

## Cash Flows

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

|   | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|
|   | September 30,<br>2015 | September 30,<br>2014 |
| Net cash provided by (used in):           |                       |                       |
| Operating activities                      | \$ 480.6              | \$ (68.6)             |
| Investing activities                      | (26.4)                | (354.5)               |
| Financing activities                      | (441.5)               | 429.5                 |
| Net increase in cash and cash equivalents | \$ 12.7               | \$ 6.4                |

## Operating Activities

Net cash provided by operating activities was \$480.6 million during the nine months ended September 30, 2015 compared to net cash used in operating activities of \$68.6 million during the nine months ended September 30, 2014. The increase in cash provided by operations was primarily the result of decreased working capital requirements. Excluding the impact of acquisitions, working capital decreased \$387.2 million in the first nine months of 2015 as compared to an increase of \$227.7 million in the first nine months of 2014. The current year decline in working capital was impacted most significantly by a \$311 million and \$293 million reduction in accounts receivable

and inventory, respectively, caused by declining sales levels. We continue to actively manage our investment in working capital to an appropriate level given current market conditions.

#### Investing Activities

Net cash used in investing activities was \$26.4 million for the nine months ended September 30, 2015, compared to \$354.5 million for the nine months ended September 30, 2014. The \$328.1 million decrease in cash used in investing activities was the result of the acquisitions of Stream AS, MSD Engineering Pte. Limited, and Hypeck AS which required \$347.0 million of cash during the nine months ended September 30, 2014. Our capital expenditures were \$23.8 million for the nine months ended September 30, 2015 and \$10.1 million for the nine months ended September 30, 2014. We expect capital expenditures in 2015 to be approximately \$39 million which reflects our plan to implement a new information technology system in certain areas of the international segment.

#### Financing Activities

Net cash used in financing activities was \$441.5 million for the nine months ended September 30, 2015 compared to net cash provided by financing activities of \$429.5 million for the nine months ended September 30, 2014. In June 2015 we received \$355.5 million of net proceeds related to the issuance of Preferred Stock. We used these

Table Of Contents

proceeds to repay a portion of the outstanding borrowings under our Term Loan and our Global ABL Facility. Net repayments on our Global ABL Facility totaled \$535.4 million in the first nine months of 2015, compared to net borrowings of \$436.8 million in the first nine months of 2014.

Critical Accounting Policies

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make judgments, 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, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are primarily exposed to the market risk associated with unfavorable movements in interest rates, foreign currencies and steel price volatility. There have been no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

As of September 30, 2015, 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 nine months of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

25

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Table Of Contents

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 pending legal proceedings that are likely to have a material effect on our business, financial condition, 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 operations 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 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 financial condition, results of operations or cash flows.

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 consolidated 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 Part I, Item 2 of this Quarterly Report on Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 under “Risk Factors”.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

A summary of our purchases of MRC Global Inc. common stock during the third quarter of fiscal year 2015 is as follows:

| Total Number of Shares Purchased (1) | Average Price Paid per Share | Total number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|------------------------------|--|--|
| July 1 -                             |                              |  |  |
| July 31- August 1-                   | \$ -                         | -  | \$ -   |
| August 31- September 1-              | \$ -                         | -  | \$ -   |
| September 1- September 30            | \$ 13.15                     | -  | \$ -   |
| 87                                   |                              |  |  |

(1) We purchased 87 shares in connection with funding employee income tax withholding obligations arising upon the lapse of restrictions on restricted shares. There were no open-market repurchases.





Table Of Contents

Item 3. Defaults Upon Senior Securities

None.

Item 4. MINING SAFETY DISCLOSURES

None.

Item 5. Other Information

None.

27

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Table Of Contents

Item 6. Exhibits

| Number | Description  |
|--------|--|
| 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.

100\* The following  
financial  
information  
from MRC  
Global Inc.'s  
Quarterly Report  
on Form 10-Q  
for the period  
ended September  
30, 2015,  
formatted in  
Extensible  
Business  
Reporting  
Language  
(XBRL): (i) the  
Condensed  
Consolidated  
Balance Sheets  
at September 30,  
2015 and  
December 31,  
2014, (ii) the  
Condensed  
Consolidated  
Statements of  
Income for the

three and  
nine month  
periods  
ended September  
30, 2015 and  
2014, (iii) the  
Condensed  
Consolidated  
Statements of  
Comprehensive  
Income for the  
three and  
nine month  
periods ended  
September 30,  
2015 and 2014,  
(iv) the  
Condensed  
Consolidated  
Statements of  
Cash Flows for  
the nine month  
periods ended  
September  
30, 2015 and  
2014 and  
(v) Notes to the  
Condensed  
Consolidated  
Financial  
Statements.

101\* Interactive data  
file.

\* Filed herewith.

\*\* Furnished herewith.

Table Of Contents

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: November 6, 2015