

MRC GLOBAL INC.  
Form 10-K  
February 20, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

20-5956993  
(I.R.S. Employer

Identification No.)

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2 Houston Center, 909 Fannin, Suite 3100

Houston, Texas 77010  
(Address of Principal Executive Offices) (Zip Code)

(877) 294-7574

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock New York Stock Exchange

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

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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

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

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

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Large accelerated filer    Accelerated filer

Non-accelerated filer    Smaller reporting company

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

The Company's common stock is listed on the New York Stock Exchange under the symbol "MRC". The aggregate market value of voting common stock held by non-affiliates was \$2,886 million as of the close of trading as reported on the New York Stock Exchange on June 30, 2014. There were 102,101,892 shares of the registrant's common stock, par value \$0.01 per share, issued and outstanding as of February 13, 2015.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement relating to the 2015 Annual Meeting of Stockholders, to be filed within 120 days of the end of the fiscal year covered by this report, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## PART I

Unless otherwise indicated or the context otherwise requires, all references to “the Company”, “MRC Global”, “MRC”, “we”, “us”, “our”, and the “registrant” refer to MRC Global Inc. and its consolidated subsidiaries.

### ITEM 1.BUSINESS

#### General

We are the largest global industrial distributor of pipe, valves and fittings (“PVF”) and related products and services to the energy industry based on sales and hold 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 processing and general industrials) sectors. We offer more than 230,000 SKUs, including an extensive array of PVF, oilfield supply, automation, instrumentation and other general and specialty industry supply products from our global network of suppliers. Through our U.S., Canadian, and International segments, we serve our more than 21,000 customers through over 400 service locations. We are diversified by geography, the industry sectors we serve and the products we sell.

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

We have benefited historically from several growth trends within the energy industry, including high levels of customer expansion and maintenance expenditures. Several factors have driven the long-term growth in spending, including underinvestment in North American energy infrastructure, production and capacity constraints, and market expectations of future improvements in the oil, natural gas, refined products, petrochemical and other industrial sectors. Project activities, including exploration for oil and natural gas, facility expansions or new construction projects, are more commonly associated with a customer’s capital expenditures budget. These projects can be more sensitive to global oil and natural gas prices and general economic conditions. We mitigate our exposure to price volatility by limiting the length of any price-protected contracts and we believe that we have the ability to pass price increases on to the marketplace.

MRC Global Inc. was incorporated in Delaware on November 20, 2006. Our principal executive office is located at 2 Houston Center, 909 Fannin Street, Suite 3100, Houston, Texas 77010. Our telephone number is (877) 294-7574. Our website address is [www.mrcglobal.com](http://www.mrcglobal.com). Information contained on our website is expressly not incorporated by reference into this document.

#### Business Strategy

As an industrial distributor of PVF and related products to the energy industry, our strategy is focused on growth, margin enhancement and the development of long term customer relationships within the markets we serve. Our strategic objectives are to increase our market share by executing global preferred supplier contracts with new and existing customers, growing organically and completing acquisitions.

We believe that global preferred supplier agreements allow us to better serve our customers' needs and provide the customer with a global platform in which to buy their products. The agreements vary by customer; however, in most cases, we are the preferred supplier, and while there are no minimum purchase requirements, we gain a larger proportion of the customer's spending in our product categories. In addition, through system integration, we believe transactions with these customers can be more streamlined. We strive to add scope to these arrangements in various ways including adding geographies, product lines, inventory management and inventory logistics.

Our approach to expanding existing markets and accessing new markets is multifaceted. We seek to expand our geographic footprint, pursue strategic acquisitions and cultivate relationships with our existing customer base. We work with our customers to develop innovative supply-chain solutions that enable us to consistently deliver the high quality products they need when they need them. By being a consistent and reliable partner, we are able to grow our market share with both new and existing customers.



We continually broaden our product offering and supplier base. Product expansion opportunities include alloy, chrome, stainless products, gaskets, seals, safety and other industrial supply products. We are focused on higher margin products such as valves, valve automation and high alloy products.

We also target growth with our mid-sized customers and diversification of our midstream customer base. We do this through detailed account planning and by educating potential customers on the offerings and logistics services we provide.

Our acquisition strategy is focused on those that will broaden our international geographic footprint, in certain energy intensive regions, or those that expand our product offerings in stainless and alloy. We also consider “bolt-on” acquisitions that supplement our PVF leadership position.

### Operations

Our business is segregated into three geographical operating segments, our U.S., Canadian, and International operations. These segments represent our business of providing PVF and related products and services to the energy and industrial industries, across each of the upstream, midstream and downstream sectors. Financial information regarding our reportable segments appears in “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 13 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

Our U.S. segment represented approximately 74% of our consolidated revenues in 2014. We maintain distribution operations throughout the country with concentrations in the most active oil and natural gas producing regions. Our network is comprised of 134 branch locations, 9 distribution centers, 13 valve automation service centers and 102 third-party pipe yards.

Our Canadian segment represented approximately 11% of our consolidated revenues in 2014. Our distribution operations extend throughout the western part of Canada with concentrations in Alberta and western Saskatchewan. In Canada, we have 40 branch locations, one distribution center, one valve automation service center and 21 third-party pipe yards.

Our International segment represented approximately 15% of our consolidated revenues in 2014. This segment includes 61 branch locations located throughout Europe, Asia, Australasia and the Middle East with seven distribution centers in the United Kingdom, Norway, Singapore, the Netherlands, the United Arab Emirates and Australia. We also maintain 20 valve automation service centers in Europe, Asia and Australia.

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

- Valves, Automation and Instrumentation. Product offering includes ball, butterfly, gate, globe, check, needle and plug valves which are manufactured from cast steel, stainless/alloy steel, forged steel, carbon steel or cast and ductile iron. Valves are generally used in oilfield and industrial applications to control direction, velocity and pressure of fluids and gases within transmission networks. Other products include lined corrosion resistant piping systems, control valves,

valve automation and top work components used for regulating flow and on/off service, and a wide range of steam and instrumentation products used in various process applications within our refinery, petrochemical and general industrial sectors.

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

- Line Pipe. Carbon line pipe is typically used in high-yield, high-stress and abrasive applications such as the gathering and transmission of oil, natural gas and phosphates.

- Oil Country Tubular Goods (“OCTG”). OCTG includes casing (used for production and to line the well bore) and tubing pipe (used to extract oil or natural gas from wells) and is either classified as carbon or alloy depending on the grade of material.

- Other. Other includes natural gas distribution products, oilfield supplies, and other industrial products such as mill and safety and electrical supplies. Natural gas distribution products include risers, meters, polyethylene pipe and fittings and

various other components and industrial supplies used primarily in the distribution of natural gas to residential and commercial customers. We offer a comprehensive range of oilfield and industrial supplies and completion equipment, and products offered include high density polyethylene pipe, fittings and rods. Additionally, we can supply a wide range of specialized production equipment including meter runs, tanks and separators used in our upstream sector.

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

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

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

**Suppliers:** We source the products we distribute from a global network of suppliers in over 45 countries. Our suppliers benefit from access to our diversified customer base and, by consolidating customer orders, we benefit from stronger purchasing power and preferred vendor programs. Our purchases from our 25 largest suppliers in 2014 approximated 44% of our total purchases, with our single largest supplier constituting approximately 6%. We are the largest customer for many of our suppliers, and we source a significant majority of the products we distribute directly from the manufacturer. The remainder of the products we distribute are sourced from manufacturer representatives, trading companies and, in some instances, other distributors.

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

central and critical position in the global PVF supply chain.

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

**Sales and Marketing:** We distribute our products to a wide variety of end-users, and we have operations in 20 countries and direct sales into over 90 countries around the world. Our broad distribution network and customer base allow us to capitalize on our extensive inventory offering. Local relationships, depth of inventory, service and timely delivery are critical to the sales process in the PVF distribution industry. Our sales efforts are customer and product driven and provide a system that is more responsive to changing customer and product needs than a traditional, fully centralized structure.

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

Our over 500 account managers and outside sales representatives develop relationships with prospective and existing customers in an effort to better understand their needs and to increase the number of our products specified or approved by a given customer. Outside sales representatives may be branch outside sales representatives, focused on customer relationships in specific geographies, or technical outside sales representatives, who focus on specific products and provide detailed technical support to customers. Internationally, for valve sales, the majority of our sales force is comprised of qualified engineers who are able to meet complex customer requirements, select optimal solutions from a range of products to increase customers' efficiency and lower total product lifecycle costs.

To address the needs of our customer base, our inside sales force of over 890 customer service representatives is responsible for processing orders generated by new and existing customers as well as by our outside sales force. The customer service representatives develop order packages based on specific customer needs, interface with manufacturers to determine product availability, ensure on-time delivery and establish pricing of materials and services based on guidelines and predetermined metrics that management establishes.

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

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

We have a diverse customer base of over 21,000 customers. We are not dependent on any one customer or group of customers. A majority of our customers are offered terms of net 30 days (payment is due within 30 days of the date of the invoice). Customers generally have the right to return products we have sold, subject to certain conditions and limitations, although returns have historically been immaterial to our sales. For the year ended December 31, 2014, our 25 largest customers represented approximately 47% of our total sales, with our single largest customer constituting approximately 5%. For many of our largest customers, we are often their sole or primary PVF provider by sector or geography, their largest or second largest supplier in aggregate or, in certain instances, the sole provider for their upstream, midstream and downstream procurement needs. We believe that many customers for which we are not the exclusive or comprehensive sole source PVF provider will continue to reduce their number of suppliers in an effort to reduce costs and administrative burdens and focus on their core operations. As such, we believe these customers will seek to select PVF distributors with the most extensive product offering and broadest geographic presence. Furthermore, we believe our business will benefit as companies in the energy industry continue to consolidate and the larger, resulting companies look to larger distributors such as ourselves as their sole or primary source PVF provider.

**Backlog:** 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 instances. Our backlog at December 31, 2014 was \$1.093 billion including \$767 million, \$66 million and \$260 million in our US,

Canadian and International segments, respectively. Our backlog at December 31, 2013 was \$758 million including \$470 million, \$90 million and \$198 million in our US, Canadian and International segments, respectively. 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 substantially all of the sales in our backlog will be realized in 2015.

**Competition:** We are the largest PVF distributor to the energy industry based on sales. The broad PVF distribution industry is fragmented and includes large, nationally recognized distributors, major regional distributors and many smaller local distributors. The principal methods of competition include offering prompt local service, fulfillment capability, breadth of product and service offerings, price and total costs to the customer. Our competitors include nationally recognized PVF distributors, such as Distribution NOW, Ferguson Enterprises (a subsidiary of Wolseley, plc), Marubeni-Itochu, Van Leeuwen, Shale-Inland and Sumitomo, several large regional or product-specific competitors and many local, family-owned and privately held PVF distributors.

Employees: We have approximately 4,900 employees of which 203 employees belong to a union and are covered by collective bargaining agreements. We also have 47 employees in Australia that are not members of a union but are covered by union negotiated agreements. We consider our relationships with our employees to be good.

For a breakdown of our annual revenues by geography, see “Note 13—Segment, Geographic and Product Line Information” to the audited consolidated financial statements as of December 31, 2014.

#### Environmental Matters

We are subject to a variety of federal, state, local, foreign and provincial environmental, health and safety laws, regulations and permitting requirements, including those governing the discharge of pollutants or hazardous substances into the air, soil or water, the generation, handling, use, management, storage and disposal of, or exposure to, hazardous substances and wastes, the responsibility to investigate, remediate, monitor and clean up contamination and occupational health and safety. Fines and penalties may be imposed for non-compliance with applicable environmental, health and safety requirements and the failure to have or to comply with the terms and conditions of required permits. Historically, the costs to comply with environmental and health and safety requirements have not been material to our financial position, results of operations or cash flows. We are not aware of any pending environmental compliance or remediation matters that, in the opinion of management, are reasonably likely to have a material effect on our business, financial position or results of operations or cash flows. However, the failure by us to comply with applicable environmental, health and safety requirements could result in fines, penalties, enforcement actions, employee, neighbor or other third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup, or regulatory or judicial orders requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Under certain laws and regulations, such as the U.S. federal Superfund law or its foreign equivalents, the obligation to investigate, remediate, monitor and clean up contamination at a facility may be imposed on current and former owners, lessees or operators or on persons who may have sent waste to that facility for disposal. Liability under these laws and regulations may be imposed without regard to fault or to the legality of the activities giving rise to the contamination. Although we are not aware of any active litigation against us under the U.S. federal Superfund law or its state or foreign equivalents, contamination has been identified at several of our current and former facilities, and we have incurred and will continue to incur costs to investigate, remediate, monitor and clean up these conditions. Moreover, we may incur liabilities in connection with environmental conditions currently unknown to us relating to our prior, existing or future owned or leased sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired. We believe that indemnities contained in certain of our acquisition agreements may cover certain environmental conditions existing at the time of the acquisition subject to certain terms, limitations and conditions. However, if these indemnification provisions terminate or if the indemnifying parties do not fulfill their indemnification obligations, we may be subject to liability with respect to the environmental matters that those indemnification provisions address.

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

In particular, legislation and regulations limiting emissions of greenhouse gases, including carbon dioxide associated with the burning of fossil fuels, are at various stages of consideration and implementation, at the international,

national, regional and state levels. In 2005, the Kyoto Protocol to the 1992 United Nations Framework Convention on Climate Change, which established a binding set of emission targets for greenhouse gases, became binding on the countries that ratified it. Attention is now focused on the development of a post-2012 international policy framework to guide international action to address climate change when the Kyoto Protocol expired in 2012. Certain states and regions have adopted or are considering legislation or regulation imposing overall caps or taxes on greenhouse gas emissions from certain sectors or facility categories or mandating the increased use of electricity from renewable energy sources. Similar legislation has been proposed at the federal level. In addition, the U.S Environmental Protection Agency (“EPA”) has implemented regulations that require permits for and reductions in greenhouse gas emissions for certain categories of emission sources, the most recent of which became effective in August 2012. Pursuant to the terms of a settlement agreement, the EPA is in the process of finalizing greenhouse gas emissions standards, known as New Source Performance Standards (“NSPS”), for new power plants, and issued proposed NSPS for existing power plants in October of 2014, which are expected to be finalized by summer of 2015. The settlement agreement also calls for NSPS for greenhouse gas emissions from oil refineries; however the EPA has not proposed such NSPS to date. NSPS for other oil refinery emissions were issued by the EPA pursuant to the settlement agreement in September 2012 and became effective in November 2012 with minor amendments effective in December 2013. These laws and regulations could negatively impact the market for the products we distribute and, consequently, our business.

In addition, federal, state, local, foreign and provincial laws, regulations and permitting requirements have been adopted or are being considered that could impose more stringent permitting, disclosure, wastewater and other waste disposal and well construction and



testing requirements on hydraulic fracturing, a practice involving the injection of water containing certain other substances into rock formations under pressure to stimulate production of hydrocarbons, particularly natural gas, from shale basin regions. Other states and the federal government are considering regulating this practice. These regulations include a variety of well construction, set back, wastewater disposal, emissions, baseline sampling, operational and disclosure requirements limiting how fracturing can be performed and requiring various degrees of disclosures regarding the contents of chemicals injected into the rock formations, as well as moratoria on all hydraulic fracturing activity. Any increased federal, regional or state regulation of hydraulic fracturing could reduce the demand for our products in these regions.

#### Exchange Rate Information

In this report, unless otherwise indicated, foreign currency amounts are converted into U.S. dollar amounts at the exchange rates in effect on December 31, 2014 and 2013 for balance sheet figures. Income statement figures are converted on a monthly basis, using each month's average conversion rate.

#### Available Information

Our website is located at [www.mrcglobal.com](http://www.mrcglobal.com). We make available free of charge on or through our internet website our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC.

## ITEM 1A. RISK FACTORS

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

### Risks Related to Our Business

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

A large portion of our revenue depends upon the level of capital and operating expenditures in the oil and natural gas industry, including capital and other expenditures in connection with exploration, drilling, production, gathering, transportation, refining and processing operations. Demand for the products we distribute and services we provide is particularly sensitive to the level of exploration, development and production activity of, and the corresponding capital and other expenditures by, oil and natural gas companies. A material decline in oil or natural gas prices could depress levels of exploration, development and production activity and, therefore, could lead to a decrease in our customers’ capital and other expenditures. If our customers’ expenditures decline, our business will suffer.

Volatile oil and gas prices affect demand for our products.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of other factors that are beyond our control. Any sustained decrease in capital expenditures in the oil and natural gas industry could have a material adverse effect on us.

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

- the level of domestic and worldwide oil and natural gas production and inventories;
- the level of drilling activity and the availability of attractive oil and natural gas field prospects, which governmental actions may affect, such as regulatory actions or legislation, or other restrictions on drilling, including those related to environmental concerns (e.g., a temporary moratorium on deepwater drilling in the Gulf of Mexico following a rig accident or oil spill);
- the discovery rate of new oil and natural gas reserves and the expected cost of developing new reserves;
- the actual cost of finding and producing oil and natural gas;
- depletion rates;

- domestic and worldwide refinery overcapacity or undercapacity and utilization rates;
- the availability of transportation infrastructure and refining capacity;
- increases in the cost of products and services that the oil and gas industry uses, such as those that we provide, which may result from increases in the cost of raw materials such as steel;
- shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- the economic or political attractiveness of alternative fuels, such as coal, hydrocarbon, wind, solar energy and biomass-based fuels;
- increases in oil and natural gas prices or historically high oil and natural gas prices, which could lower demand for oil and natural gas products;
- worldwide economic activity including growth in non-OECD countries, including (among others) China and India;
- interest rates and the cost of capital;
- national government policies, including government policies that could nationalize or expropriate oil and natural gas exploration, production, refining or transportation assets;
- the ability of the Organization of Petroleum Exporting Countries (“OPEC”) to set and maintain production levels and prices for oil;
- the impact of armed hostilities, or the threat or perception of armed hostilities;

- environmental regulation;
- technological advances;
- global weather conditions and natural disasters;
- currency fluctuations; and
- tax policies.

Oil and natural gas prices have been and are expected to remain volatile. This volatility has historically caused oil and natural gas companies to change their strategies and expenditure levels from year to year. We have experienced in the past, and we will likely experience in the future, significant fluctuations in operating results based on these changes. In particular, volatility in the oil and natural gas sectors could adversely affect our business.

General economic conditions may adversely affect our business.

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

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

We sell products and services in very competitive markets. In some cases, we compete with large companies with substantial resources. In other cases, we compete with smaller regional players that may increasingly be willing to provide similar products and services at lower prices. Competitive actions, such as price reductions, consolidation in the industry, improved delivery and other actions, could adversely affect our revenue and earnings. We could experience a material adverse effect to the extent that our competitors are successful in reducing our customers' purchases of products and services from us. Competition could also cause us to lower our prices, which could reduce our margins and profitability. Furthermore, consolidation in our industry could heighten the impacts of the competition on our business and results of operations discussed above, particularly if consolidation results in competitors with stronger financial and strategic resources and could also result in increases to the prices we are required to pay for acquisitions we may make in the future.

Demand for the products we distribute could decrease if the manufacturers of those products were to sell a substantial amount of goods directly to end users in the sectors we serve.

Historically, users of PVF and related products have purchased certain amounts of these products through distributors and not directly from manufacturers. If customers were to purchase the products that we sell directly from manufacturers, or if manufacturers sought to increase their efforts to sell directly to end users, we could experience a

significant decrease in profitability. These or other developments that remove us from, or limit our role in, the distribution chain, may harm our competitive position in the marketplace, reduce our sales and earnings and adversely affect our business.

We may experience unexpected supply shortages.

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

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

In the future, we may face supply cost increases due to, among other things, unexpected increases in demand for supplies, decreases in production of supplies or increases in the cost of raw materials or transportation. Any inability to pass supply price increases on to our customers could have a material adverse effect on us. For example, we may be unable to pass increased supply costs on to our customers because significant amounts of our sales are derived from stocking program arrangements, contracts and MRO

arrangements, which provide our customers time limited price protection, which may obligate us to sell products at a set price for a specific period. In addition, if supply costs increase, our customers may elect to purchase smaller amounts of products or may purchase products from other distributors. While we may be able to work with our customers to reduce the effects of unforeseen price increases because of our relationships with them, we may not be able to reduce the effects of the cost increases. In addition, to the extent that competition leads to reduced purchases of products or services from us or a reduction of our prices, and these reductions occur concurrently with increases in the prices for selected commodities which we use in our operations, including steel, nickel and molybdenum, the adverse effects described above would likely be exacerbated and could result in a prolonged downturn in profitability.

We do not have contracts with most of our suppliers. The loss of a significant supplier would require us to rely more heavily on our other existing suppliers or to develop relationships with new suppliers. Such a loss may have an adverse effect on our product offerings and our business.

Given the nature of our business, and consistent with industry practice, we do not have contracts with most of our suppliers. We generally make our purchases through purchase orders. Therefore, most of our suppliers have the ability to terminate their relationships with us at any time. Approximately 44% of our total purchases during the year ended December 31, 2014 were from our 25 largest suppliers. Although we believe there are numerous manufacturers with the capacity to supply the products we distribute, the loss of one or more of our major suppliers could have an adverse effect on our product offerings and our business. Such a loss would require us to rely more heavily on our other existing suppliers or develop relationships with new suppliers, which may cause us to pay higher prices for products due to, among other things, a loss of volume discount benefits currently obtained from our major suppliers.

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

The value of our inventory could decline as a result of manufacturer price reductions with respect to products that we sell. There is no assurance that a substantial decline in product prices would not result in a write-down of our inventory value. Such a write-down could have an adverse effect on our financial condition.

Also, decreases in the market prices of products that we sell could cause customers to demand lower sales prices from us. These price reductions could reduce our margins and profitability on sales with respect to the lower-priced products. Reductions in our margins and profitability on sales could have a material adverse effect on us.

A substantial decrease in the price of steel could significantly lower our gross profit or cash flow.

We distribute many products manufactured from steel. As a result, the price and supply of steel can affect our business and, in particular, our tubular product category. When steel prices are lower, the prices that we charge customers for products may decline, which affects our gross profit and cash flow. At times pricing and availability of steel can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, sales levels, competition, consolidation of steel producers, fluctuations in and the costs of raw materials necessary to produce steel, steel manufacturers' plant utilization levels and capacities, import duties and tariffs and currency exchange rates. Increases in manufacturing capacity for the tubular products could put pressure on the prices we receive for our tubular products. When steel prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sales prices and, consequently, lower gross profit and cash flow.

If steel prices rise, we may be unable to pass along the cost increases to our customers.

We maintain inventories of steel products to accommodate the lead time requirements of our customers. Accordingly, we purchase steel products in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon historic buying practices, contracts with customers and market conditions. Our commitments to purchase steel products are generally at prevailing market prices in effect at the time we place our orders. If steel prices increase between the time we order steel products and the time of delivery of the products to us, our suppliers may impose surcharges that require us to pay for increases in steel prices during the period. Demand for the products we distribute, the actions of our competitors and other factors will influence whether we will be able to pass on steel cost increases and surcharges to our customers, and we may be unsuccessful in doing so.

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

Given the nature of our business, and consistent with industry practice, we do not have long-term contracts with many of our customers. In addition, our contracts, including our MRO contracts, generally do not commit our customers to any minimum purchase volume. Therefore, a significant number of our customers, including our MRO customers, may terminate their relationships with us or reduce their purchasing volume at any time. Furthermore, the long-term customer contracts that we do have are generally terminable without cause on short notice. Our 25 largest customers represented approximately 47% of our sales for the year ended December 31, 2014. The products that we may sell to any particular customer depend in large part on the size of that customer's capital expenditure budget in a particular year and on the results of competitive bids for major projects. Consequently, a customer that accounts for a significant portion of our sales in one fiscal year may represent an immaterial portion of our sales in subsequent fiscal years. The loss of a significant customer, or a substantial decrease in a significant customer's orders, may have an adverse effect on our sales and revenue. In addition, we are subject to customer audit clauses in many of our multi-year contracts. If we are not able to provide the proper documentation or support for invoices per the contract terms, we may be subject to negotiated settlements with our major customers.

Changes in our customer and product mix could cause our gross profit percentage to fluctuate.

From time to time, we may experience changes in our customer mix or in our product mix. Changes in our customer mix may result from geographic expansion, daily selling activities within current geographic markets and targeted selling activities to new customer segments. Changes in our product mix may result from marketing activities to existing customers and needs communicated to us from existing and prospective customers. If customers begin to require more lower-margin products from us and fewer higher-margin products, our business, results of operations and financial condition may suffer.

Customer credit risks could result in losses.

The concentration of our customers in the energy industry may impact our overall exposure to credit risk as customers may be similarly affected by prolonged changes in economic and industry conditions. Further, laws in some jurisdictions in which we operate could make collection difficult or time consuming. In addition, in times when commodity prices are low, our customers with higher debt levels may not have the ability to pay their debts. We perform ongoing credit evaluations of our customers and do not generally require collateral in support of our trade receivables. While we maintain reserves for expected credit losses, we cannot assure these reserves will be sufficient to meet write-offs of uncollectible receivables or that our losses from such receivables will be consistent with our expectations.

We may be unable to successfully execute or effectively integrate acquisitions.

One of our key operating strategies is to selectively pursue acquisitions, including large scale acquisitions, to continue to grow and increase profitability. However, acquisitions, particularly of a significant scale, involve numerous risks and uncertainties, including intense competition for suitable acquisition targets, the potential unavailability of financial resources necessary to consummate acquisitions in the future, increased leverage due to additional debt financing that may be required to complete an acquisition, dilution of our stockholders' net current book value per share if we issue additional equity securities to finance an acquisition, difficulties in identifying suitable acquisition targets or in completing any transactions identified on sufficiently favorable terms, assumption of undisclosed or unknown liabilities and the need to obtain regulatory or other governmental approvals that may be necessary to complete acquisitions. In addition, any future acquisitions may entail significant transaction costs and risks associated



with entry into new markets.

Even when acquisitions are completed, integration of acquired entities can involve significant difficulties, such as:

- failure to achieve cost savings or other financial or operating objectives with respect to an acquisition;
- strain on the operational and managerial controls and procedures of our business, and the need to modify systems or to add management resources;
- difficulties in the integration and retention of customers or personnel and the integration and effective deployment of operations or technologies;
- amortization of acquired assets, which would reduce future reported earnings;
- possible adverse short-term effects on our cash flows or operating results;
- diversion of management's attention from the ongoing operations of our business;
- integrating personnel with diverse backgrounds and organizational cultures;

- coordinating sales and marketing functions;
- failure to obtain and retain key personnel of an acquired business; and
- assumption of known or unknown material liabilities or regulatory non-compliance issues.

Failure to manage these acquisition growth risks could have an adverse effect on us.

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

We have now and will likely continue to have a significant amount of indebtedness. As of December 31, 2014, we had total debt outstanding of \$1.454 billion, borrowing availability of \$302.2 million under our credit facilities and total liquidity (borrowing capacity plus cash on hand) of \$327.3 million. We may incur significant additional indebtedness in the future. If new indebtedness is added to our current indebtedness, the risks described below could increase. Our significant level of indebtedness could have important consequences, such as:

- limiting our ability to obtain additional financing to fund our working capital, acquisitions, expenditures, debt service requirements or other general corporate purposes;
- limiting our ability to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to service debt;
- limiting our ability to compete with other companies who are not as highly leveraged;
- subjecting us to restrictive financial and operating covenants in the agreements governing our and our subsidiaries' long-term indebtedness;
- exposing us to potential events of default (if not cured or waived) under financial and operating covenants contained in our or our subsidiaries' debt instruments that could have a material adverse effect on our business, results of operations and financial condition;
- increasing our vulnerability to a downturn in general economic conditions or in pricing of our products; and
- limiting our ability to react to changing market conditions in our industry and in our customers' industries.

In addition, borrowings under our credit facilities bear interest at variable rates. If market interest rates increase, the variable-rate debt will create higher debt service requirements, which could adversely affect our cash flow. Our interest expense for the year ended December 31, 2014 was \$61.8 million.

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

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

- investments;
- prepayment of certain indebtedness;
- the granting of liens;
- the incurrence of additional indebtedness;
- asset sales;
- the making of fundamental changes;
- transactions with affiliates; and
- the payment of dividends.

In addition, any defaults under our credit facilities, including our global asset-based lending facility (“Global ABL Facility”), our senior secured term loan B (“Term Loan”) or our other debt could trigger cross defaults under other or future credit agreements and may permit acceleration of our other indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. For a description of our credit facilities and indebtedness, see “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources”.

We are a holding company and depend upon our subsidiaries for our cash flow.

We are a holding company. Our subsidiaries conduct all of our operations and own substantially all of our assets. Consequently, our cash flow and our ability to meet our obligations or to pay dividends or make other distributions in the future will depend upon the cash flow of our subsidiaries and our subsidiaries’ payment of funds to us in the form of dividends, tax sharing payments or otherwise.

The ability of our subsidiaries to make any payments to us will depend on their earnings, the terms of their current and future indebtedness, tax considerations and legal and contractual restrictions on the ability to make distributions. In particular, our subsidiaries’ credit facilities currently impose significant limitations on the ability of our subsidiaries to make distributions to us and consequently our ability to pay dividends to our stockholders. Subject to limitations in our credit facilities, our subsidiaries may also enter into additional agreements that contain covenants prohibiting them from distributing or advancing funds or transferring assets to us under certain circumstances, including to pay dividends.

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

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

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

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

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

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

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

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

foreign equivalents, contamination has been identified at several of our current and former facilities, and we have incurred and will continue to incur costs to investigate and remediate these conditions.

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

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

In particular, legislation and regulations limiting emissions of greenhouse gases, including carbon dioxide associated with the burning of fossil fuels, are at various stages of consideration and implementation, at the international, national, regional and state levels. In 2005, the Kyoto Protocol to the 1992 United Nations Framework Convention on Climate Change, which established a binding set of emission targets for greenhouse gases, became binding on the countries that ratified it. Attention is now focused on the development of a post-2012 international policy framework to guide international action to address climate change when the Kyoto Protocol expired in 2012. Certain states and regions have adopted or are considering legislation or regulation imposing overall caps or taxes on greenhouse gas emissions from certain sectors or facility categories or mandating the increased use of electricity from renewable energy sources. Similar legislation has been proposed at the federal level. In addition, the EPA has implemented regulations that require permits for and reductions in greenhouse gas emissions for certain categories of emission sources, the most recent of which became effective in August 2012. Pursuant to the terms of a settlement agreement, the EPA is in the process of finalizing greenhouse gas emissions standards, known as NSPS, for new power plants, and issued proposed NSPS for existing power plants in October of 2014, which are expected to be finalized by summer of 2015. The settlement agreement also calls for NSPS for greenhouse gas emissions from oil refineries; however the EPA has not proposed such NSPS to date. NSPS for other oil refinery emissions were issued by the EPA pursuant to the settlement agreement in September 2012 and became effective in November 2012 with minor amendments effective in December 2013. These laws and regulations could negatively impact the market for the products we distribute and, consequently, our business.

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

We may not have adequate insurance for potential liabilities, including liabilities arising from litigation.

In the ordinary course of business, we have and in the future may become the subject of various claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, the products we distribute, employees and other matters, including potential claims by individuals alleging exposure to hazardous materials as a result of the products we distribute or our operations. Some of these claims may relate to the activities of businesses that we have acquired, even though these activities may have occurred prior to our acquisition of the businesses. The products we distribute are sold primarily for use in the energy industry, which is subject to inherent risks that could result in death, personal injury, property damage, pollution, release of hazardous substances or loss of production. In addition, defects in the products we distribute could result in death, personal injury, property damage, pollution, release of hazardous substances or damage to equipment and facilities. Actual or claimed defects in the products we distribute may give rise to claims against us for losses and expose us to claims for damages.

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

insurance recovery. Finally, while we may have insurance coverage, we cannot guarantee that the insurance carrier will have the financial wherewithal to pay a claim otherwise covered by insurance, and as a result we may be responsible for any such claims.

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

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

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

We are a defendant in lawsuits involving approximately 1,075 claims, arising from exposure to asbestos-containing materials included in products that we distributed in the past. Each claim involves allegations of exposure to asbestos-containing materials by a single individual, his or her spouse or family members. The complaints in these lawsuits typically name many other defendants. In the majority of these lawsuits, little or no information is known regarding the nature of the plaintiffs' alleged injuries or their connection with the products we distributed. Based on our experience with asbestos litigation to date, as well as the existence of certain insurance coverage, we do not believe that the outcome of these pending claims will have a material impact on us. However, the potential liability associated with asbestos claims is subject to many uncertainties, including negative trends with respect to settlement payments, dismissal rates and the types of medical conditions alleged in pending or future claims, negative developments in the claims pending against us, the current or future insolvency of co-defendants, adverse changes in relevant laws or the interpretation of those laws and the extent to which insurance will be available to pay for defense costs, judgments or settlements. Further, while we anticipate that additional claims will be filed against us in the future, we are unable to predict with any certainty the number, timing and magnitude of future claims. Therefore, we can give no assurance that pending or future asbestos litigation will not ultimately have a material adverse effect on us. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations, Commitments and Contingencies—Legal Proceedings" and "Item 3—Legal Proceedings" for more information.

If we lose any of our key personnel, we may be unable to effectively manage our business or continue our growth.

Our future performance depends to a significant degree upon the continued contributions of our management team and our ability to attract, hire, train and retain qualified managerial, sales and marketing personnel. In particular, we rely on our sales and marketing teams to create innovative ways to generate demand for the products we distribute. The loss or unavailability to us of any member of our management team or a key sales or marketing employee could have a material adverse effect on us to the extent we are unable to timely find adequate replacements. We face competition for these professionals from our competitors, our customers and other companies operating in our industry. We may be unsuccessful in attracting, hiring, training and retaining qualified personnel.



Interruptions in the proper functioning of our information systems could disrupt operations and cause increases in costs or decreases in revenues.

The proper functioning of our information systems is critical to the successful operation of our business. We depend on our information management systems to process orders, track credit risk, manage inventory and monitor accounts receivable collections. Our information systems also allow us to efficiently purchase products from our vendors and ship products to our customers on a timely basis, maintain cost-effective operations and provide superior service to our customers. However, our information systems are vulnerable to natural disasters, power losses, telecommunication failures and other problems. If critical information systems fail or are otherwise unavailable, our ability to procure products to sell, process and ship customer orders, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay accounts payable and expenses could be adversely affected. In addition, the cost to repair, modify or replace all or part of our information systems or consolidate one or more systems onto one information technology platform, whether by necessity or choice, would require a significant cash investment on the part of the Company. Our ability to integrate our systems with our customers' systems would also be significantly affected. We maintain information systems controls designed to protect against, among other things, unauthorized program changes and unauthorized access to data on our information systems. If our information systems controls do not function properly, we face increased risks of unexpected errors and unreliable financial data or theft of proprietary Company information.

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

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

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

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

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

We may require more capital in the future to:

- fund our operations;
- finance investments in equipment and infrastructure needed to maintain and expand our distribution capabilities;
- enhance and expand the range of products we offer; and
- respond to potential strategic opportunities, such as investments, acquisitions and international expansion.

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

Adverse weather events or natural disasters could negatively affect our local economies or disrupt our operations.

Certain areas in which we operate are susceptible to adverse weather conditions or natural disasters, such as hurricanes, tornadoes, floods and earthquakes. These events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Additionally, we may experience communication disruptions with our customers, vendors and employees. These events can cause physical damage to our branches and require us to close branches. Additionally, our sales order backlog and shipments can experience a

temporary decline immediately following these events.

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

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

As of December 31, 2014, we had \$1.5 billion of goodwill and other intangibles recorded on our balance sheet. A substantial portion of these intangible assets results from our use of purchase accounting in connection with the acquisitions we have made over the past several years. In accordance with the purchase accounting method, the excess of the cost of an acquisition over the fair value of identifiable tangible and intangible assets is assigned to goodwill. The amortization expense associated with our identifiable intangible assets will have a negative effect on our future reported earnings. Many other companies, including many of our competitors, may not have the significant acquired intangible assets that we have because they may not have participated in recent acquisitions and business combination transactions similar to ours. Thus, the amortization of identifiable intangible assets may not negatively affect their reported earnings to the same degree as ours.

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

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

We currently conduct substantial business in countries outside of North America. In addition, we are evaluating the possibility of establishing distribution networks in certain other foreign countries, particularly in Europe, Asia, the Middle East and South America. We could be materially and adversely affected by economic, legal, political and regulatory developments in the countries in which we do business in the future or in which we expand our business, particularly those countries which have historically experienced a high degree of political or economic instability. Examples of risks inherent in such non-North American activities include:

- changes in the political and economic conditions in the countries in which we operate, including civil uprisings and terrorist acts;
- unexpected changes in regulatory requirements;
- changes in tariffs;
- the adoption of foreign or domestic laws limiting exports to or imports from certain foreign countries;
- fluctuations in currency exchange rates and the value of the U.S. dollar;
- restrictions on repatriation of earnings;
- expropriation of property without fair compensation;
- governmental actions that result in the deprivation of contract or proprietary rights; and
- the acceptance of business practices which are not consistent with or are antithetical to prevailing business practices we are accustomed to in North America including export compliance and anti-bribery practices and governmental sanctions.

If we begin doing business in a foreign country in which we do not presently operate, we may also face difficulties in operations and diversion of management time in connection with establishing our business there.

We are subject to U.S. and other anti-corruption laws, trade controls, economic sanctions, and similar laws and regulations, including those in the jurisdictions where we operate. Our failure to comply with these laws and regulations could subject us to civil, criminal and administrative penalties and harm our reputation.

Doing business on a worldwide basis requires us to comply with the laws and regulations of the U.S. government and various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners and investment decisions. In particular, our operations are subject to U.S. and foreign anti-corruption and trade control laws and regulations, such as the Foreign Corrupt Practices Act (“FCPA”), export controls and economic sanctions programs, including those administered by the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”). As a result of doing business in foreign countries and with foreign partners, we are exposed to a heightened risk of

violating anti-corruption and trade control laws and sanctions regulations.

The FCPA prohibits us from providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. It also requires us to keep books and records that accurately and fairly reflect the Company's transactions. As part of our business, we may deal with state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. In addition, the provisions of the United Kingdom Bribery Act (the "Bribery Act") extend beyond bribery of foreign public officials and also apply to transactions with individuals that a government does not employ. The provisions of the Bribery Act are also more onerous than the FCPA in a number of other respects, including jurisdiction, non-exemption of facilitation payments and penalties. Some of the international locations in which we operate lack a developed legal system and have higher than normal levels of corruption. Our continued expansion outside the U.S., including in developing countries, and our development of new partnerships and joint venture relationships worldwide, could increase the risk of FCPA, OFAC or Bribery Act violations in the future.

Economic sanctions programs restrict our business dealings with certain sanctioned countries, persons and entities. In addition, because we act as a distributor, we face the risk that our customers might further distribute our products to a sanctioned person or entity, or an ultimate end-user in a sanctioned country, which might subject us to an investigation concerning compliance with OFAC or other sanctions regulations.

Violations of anti-corruption and trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have established policies and procedures designed to assist our compliance with applicable U.S. and international anti-corruption and trade control laws and regulations, including the FCPA, the Bribery Act and

trade controls and sanctions programs administered by OFAC, and have trained our employees to comply with these laws and regulations. However, there can be no assurance that all of our employees, consultants, agents or other associated persons will not take actions in violation of our policies and these laws and regulations, and that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our local, strategic or joint venture partners take inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could have a material adverse effect on our reputation, business, financial condition and results of operations. In addition, various state and municipal governments, universities and other investors maintain prohibitions or restrictions on investments in companies that do business with sanctioned countries, persons and entities, which could adversely affect the market for our common stock and other securities.

We face risks associated with international instability and geopolitical developments.

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

We are exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”).

Section 404 of the Sarbanes-Oxley Act requires us to annually evaluate our internal controls systems over financial reporting. This is not a static process as we may change our processes each year or acquire new companies that have different controls than our existing controls. Upon completion of this process each year, we may identify control deficiencies of varying degrees of severity under applicable U.S. Securities and Exchange Commission (“SEC”) and Public Company Accounting Oversight Board (“PCAOB”) rules and regulations that remain unremediated. We are required to report, among other things, control deficiencies that constitute a “material weakness” or changes in internal controls that, or that are reasonably likely to, materially affect internal controls over financial reporting. A “material weakness” is a significant deficiency or combination of significant deficiencies in internal control over financial reporting that results in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

We could suffer a loss of confidence in the reliability of our financial statements if we or our independent registered public accounting firm reports a material weakness in our internal controls, if we do not develop and maintain effective controls and procedures or if we are otherwise unable to deliver timely and reliable financial information. Any loss of confidence in the reliability of our financial statements or other negative reaction to our failure to develop timely or adequate disclosure controls and procedures or internal controls could result in a decline in the price of our common stock. In addition, if we fail to remedy any material weakness, our financial statements may be inaccurate, we may face restricted access to the capital markets and our stock price may be adversely affected.

Changes in U.S. generally accepted accounting principles or tax laws could materially impact our results of operations.

The SEC continues to review the possibility of convergence to a single set of international accounting standards (such as International Financial Reporting Standards (“IFRS”)). The associated changes in regulatory accounting may negatively impact the way we record revenues, expenses, assets and liabilities. Currently, under IFRS, the last in, first out (“LIFO”) method of valuing inventory is not permitted. Changes in the treatment of LIFO under tax laws could impact the tax treatment of LIFO. If we had ceased valuing our inventory under the LIFO method at December 31,

2014, we would have been required to make tax payments approximating \$133.1 million over the subsequent four years.

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

It is uncertain when, if ever, we will declare dividends to our stockholders. We do not currently intend to pay dividends in the foreseeable future. Our ability to pay dividends is constrained by our holding company structure under which we are dependent on our subsidiaries for payments. Additionally, we and our subsidiaries are parties to credit agreements which restrict our ability and their ability to pay dividends. See “Item 5—Market for the Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities” and “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources”.

Compliance with and changes in laws and regulations in the countries in which we operate could have a significant financial impact and affect how and where we conduct our operations.

We have operations in the U.S. and in 20 countries that can be impacted by expected and unexpected changes in the business and legal environments in the countries in which we operate. Compliance with and changes in laws, regulations, and other legal and business issues could impact our ability to manage our costs and to meet our earnings goals. Compliance related matters could also limit our

ability to do business in certain countries. Changes that could have a significant cost to us include new legislation, new regulations, or a differing interpretation of existing laws and regulations, changes in tax law or tax rates, the unfavorable resolution of tax assessments or audits by various taxing authorities, the expansion of currency exchange controls, export controls or additional restrictions on doing business in countries subject to sanctions in which we operate or intend to operate.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

#### ITEM 2.PROPERTIES

In North America, we operate a modified hub and spoke model that is centered around our 10 distribution centers in the U.S and Canada with more than 170 branch locations which have inventory and local employees. Our U.S. network is comprised of 134 branch locations and nine distribution centers. We own our Charleston, WV corporate office and our Nitro, WV and Houston, TX (Darien Street) distribution centers and lease the remaining seven distribution centers. In Canada, we have 40 branch locations and we own our one distribution center in Nisku, Alberta, Canada. We own less than 15% of our branch locations as we primarily lease the facilities.

Outside North America, we operate through a network of 61 branch locations located throughout Europe, Asia, Australasia and the Middle East, including seven distribution centers in the United Kingdom, Norway, Singapore, the Netherlands, the United Arab Emirates and Australia. We own our Brussels, Belgium location and the remainder of our locations are leased.

Our Company maintains its principal executive office at 2 Houston Center, 909 Fannin Street, Suite 3100, Houston, Texas, 77010 and also maintains a corporate office in Charleston, WV. These locations have corporate functions such as accounting, human resources, legal and information technology.

#### ITEM 3.LEGAL PROCEEDINGS

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

Also, from time to time, in the ordinary course of our business, our customers may claim that the products that we distribute are either defective or require repair or replacement under warranties that either we or the manufacturer may provide to the customer. These proceedings are, in the opinion of management, ordinary and routine matters incidental to our normal business. Our purchase orders with our suppliers generally require the manufacturer to indemnify us against any product liability claims, leaving the manufacturer ultimately responsible for these claims. In many cases, state, provincial or foreign law provides protection to distributors for these sorts of claims, shifting the responsibility to the manufacturer. In some cases, we could be required to repair or replace the products for the benefit of our customer and seek our recovery from the manufacturer for our expense. In the opinion of management, the ultimate disposition of these claims and proceedings are not expected to have a material adverse effect on our financial position, results of operations or cash flows.

For information regarding asbestos cases in which we are a defendant and other claims and proceedings, see “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual



Obligations, Commitments and Contingencies—Legal Proceedings” and “Note 15—Commitments and Contingencies” to our audited consolidated financial statements included elsewhere in this report.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

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## EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, period of service and the title of each of our executive officers as of February 20, 2015 are listed below.

Andrew R. Lane, age 55, has served as our president and chief executive officer (“CEO”) since September 2008 and our chairman of the board since December 2009. He has served as a director of MRC Global Inc. since September 2008. From December 2004 to December 2007, he served as executive vice president and chief operating officer of Halliburton Company, where he was responsible for Halliburton’s overall operational performance. Prior to that, he held a variety of leadership roles within Halliburton. Mr. Lane received a B.S. in mechanical engineering from Southern Methodist University in 1981 (cum laude). He also completed the Advanced Management Program (A.M.P.) at Harvard Business School in 2000.

James E. Braun, age 55, has served as our executive vice president and chief financial officer since November 2011. Prior to joining the Company, Mr. Braun served as chief financial officer of Newpark Resources, Inc. since 2006. Newpark provides drilling fluids and other products and services to the oil and gas exploration and production industry, both inside and outside of the U.S. Before joining Newpark, Mr. Braun held a variety of leadership positions with Baker Hughes Incorporated, a leading provider of drilling, formation evaluation, completion and production products and services to the worldwide oil and gas industry. Mr. Braun is a CPA and was formerly a partner with Deloitte & Touche. Mr. Braun received a B.A. in accounting from the University of Illinois at Urbana-Champaign.

Daniel J. Churay, age 52, has served as our executive vice president—corporate affairs, general counsel and corporate secretary since May 2012. In his current role, Mr. Churay manages the Company’s human resources, legal, risk and compliance, external and government affairs and certain shared services functions. He also acts as corporate secretary to the Company’s board of directors. Prior to May 2012, Mr. Churay served as executive vice president and general counsel since August 2011 and as our corporate secretary since November 2011. From December 2010 to June 2011, he served as president and CEO of Rex Energy Corporation, an independent oil and gas company. From September 2002 to December 2010, Mr. Churay served as executive vice president, general counsel and secretary of YRC Worldwide Inc., a transportation and logistics company. Mr. Churay received a bachelor’s degree in economics from the University of Texas and a juris doctorate from the University of Houston Law Center, where he was a member of the Law Review.

Gary A. Ittner, age 62, has served as senior vice president of valves, fittings, flanges, alloys and oilfield supplies since September 2014. Prior to that, he served as executive vice president of supply chain management since August 2013. Prior to this role, he served as executive vice president of corporate strategy, mergers and acquisitions since September 2012. From September 2010 to May 2012, he served as our executive vice president of global supply chain management and as our chief administrative officer. Prior to that, he served as our executive vice president—supply chain management from October 2008 to September 2010. Mr. Ittner began working at MRC in 1971 following his freshman year at the University of Cincinnati and joined the Company full-time following his graduation in 1974.

Rory M. Isaac, age 64, has served as senior vice president of business development since September 2014. Prior to that, he served as executive vice president – international operations since July 2013. Mr. Isaac has served as executive vice president of corporate strategy, mergers and acquisitions from September 2012 to June 2013. Prior to this role, Mr. Isaac served as the executive vice president of global business development since December 2008. Prior to December 2008, he served in a variety of leadership positions within the Company since 1981. Mr. Isaac attended the Citadel.

Scott A. Hutchinson, age 59, has served as senior vice president – North America since September 2014. Prior to this role, Mr. Hutchinson was the senior vice president of global business processes, and, before that, he was our executive

vice president of Canada operations. Prior to that role, Mr. Hutchinson served as our executive vice president of North America operations beginning in November 2009. From January 2009 to November 2009 he served as our senior vice president of the Eastern region covering most operational units east of the Mississippi River. From October 1998 to January 2009, he served as senior vice president of our Midwest region. From May 1988 to October 1998 he worked in various field positions with our Company and from 1984 to 1988, he served as outside sales representative for Grant Supply in Houston, Texas, which became part of our Company in 1987. Prior to joining us, Mr. Hutchinson worked for Fluor Corporation in procurement. He holds a bachelor of arts degree in marketing from the University of Central Florida.

James E. Dionisio, age 64, has served as our senior vice president of energy tubular products since September 2014. Prior to this role Mr. Dionisio served as senior vice president of supply chain tubular products since January 2009. Prior to that, he was the chief operating officer of Red Man Distributors since January 2008. Before that, he was manager of OCTG from August 2006 to December 2008. Before joining MRC Global, Mr. Dionisio was the vice president of sales with Sheffield Steel Corporation from July 1999 to July 2006. Before that, he was vice president of sales with CF&I Steel Corporation and Rocky Mountain Steel and held a variety of operating and sales positions from September 1972 to July 1999. Mr. Dionisio received a B.S. in metallurgical engineering from the Colorado School of Mines. He has also taken executive financial and business course work at Stanford University. He is a member of the Independent Producers Association and a member of the National Association of Steel Pipe Distributors.

Elton Bond, age 39, has served as our senior vice president and chief accounting officer since May 2011. From September 2009 to May 2011, he served as senior vice president and treasurer. Prior to that, he served as vice president of finance and compliance since December 2008. Before that, Mr. Bond was the director of finance and compliance since January 2007. He started his career with MRC Global as the acquisition development manager in April 2006. Prior to joining MRC Global, Mr. Bond was employed with Ernst & Young from 1997 to 2006, serving in a variety of roles, including senior manager of assurance and advisory business services. Mr. Bond received a B.B.A. from Marshall University in 1997. He is a member of the American Institute of Certified Public Accountants and a member of the West Virginia Society of CPAs.

## PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MRC Global Inc. common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "MRC". The following table illustrates the high and low sales prices as reported by the NYSE for the two most recent years by quarter:

| Common stock sale price | 2014          |                |               |                |
|-------------------------|---------------|----------------|---------------|----------------|
|                         | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| High                    | \$ 32.10      | \$ 29.67       | \$ 28.55      | \$ 23.35       |
| Low                     | \$ 24.73      | \$ 26.17       | \$ 23.14      | \$ 13.41       |
| Common stock sale price | 2013          |                |               |                |
|                         | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| High                    | \$ 33.11      | \$ 34.14       | \$ 29.11      | \$ 32.70       |
| Low                     | \$ 26.86      | \$ 26.48       | \$ 23.15      | \$ 26.51       |

As of February 13, 2015, there were 287 holders of record of the Company's common stock.

Our board of directors has not declared any dividends during 2013 or 2014 and currently has no intention to declare any dividends.

The Company's Global ABL Facility and Term Loan restrict our ability to declare cash dividends. Any future dividends declared would be at the discretion of our board of directors and would depend on our financial condition, results of operations, cash flows, contractual obligations, the terms of our financing agreements at the time a dividend is considered, and other relevant factors.

## PERFORMANCE GRAPH

The graph below compares the cumulative total shareholder return on our common stock to the S&P 500 Index and the Oil Service Sector Index. The total shareholder return assumes \$100 invested on April 12, 2012, the date our stock first traded following our initial public offering, in MRC Global Inc., the S&P 500 Index and the Oil Service Sector Index. It also assumes reinvestment of all dividends. The results shown in the graph below are not necessarily indicative of future performance.

### Comparison of Cumulative Total Return

This information shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A (17 CFR 240.14a-1-240.14a-104), other than as provided in Item 201(e) of Regulation S-K, or to the liabilities of Section 18 of the Exchange Act (15 U.S.C. 78r).

## ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below have been derived from the consolidated financial statements of MRC Global Inc. that have been prepared using accounting principles generally accepted in the United States of America which have been audited by Ernst & Young LLP, our independent registered public accounting firm. This data should be read in conjunction with “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements, related notes and other financial information included elsewhere in this report.

|   | Year Ended December 31,                         |            |            |            |            |
|---|---|------------|------------|------------|------------|
|   | 2014  | 2013       | 2012       | 2011       | 2010       |
|   | (dollars in millions, except per share amounts) |            |            |            |            |
| Statement of Operations Data:                   |   |            |            |            |            |
| Sales   | \$ 5,933.2                                      | \$ 5,230.8 | \$ 5,570.8 | \$ 4,832.4 | \$ 3,845.5 |
| Cost of sales                                   | 4,915.1   | 4,276.0    | 4,557.1    | 4,124.2    | 3,327.4    |
| Gross profit                                    | 1,018.1   | 954.8      | 1,013.7    | 708.2      | 518.1      |
| Selling, general and administrative expenses    | 716.0   | 643.0      | 606.7      | 513.6      | 451.7      |
| Operating income (loss)                         | 302.1   | 311.8      | 407.0      | 194.6      | 66.4       |
| Other (expenses) income:                        |   |            |            |            |            |
| Interest expense                                | (61.8)  | (60.7)     | (112.5)    | (136.8)    | (139.6)    |
| Loss on early extinguishment of debt            | -   | -          | (114.0)    | -          | -          |
| Other, net                                      | (14.4)  | (14.2)     | 1.2        | (2.0)      | (2.0)      |
| Income (loss) before income taxes               | 225.9   | 236.9      | 181.7      | 55.8       | (75.2)     |
| Income taxes                                    | 81.8  | 84.8       | 63.7       | 26.8       | (23.4)     |
| Net income (loss)                               | \$ 144.1  | \$ 152.1   | \$ 118.0   | \$ 29.0    | \$ (51.8)  |
| Earnings (loss) per share amounts:              |   |            |            |            |            |
| Basic   | \$ 1.41   | \$ 1.50    | \$ 1.22    | \$ 0.34    | \$ (0.61)  |
| Diluted   | \$ 1.40   | \$ 1.48    | \$ 1.22    | \$ 0.34    | \$ (0.61)  |
| Weighted average shares, basic (in thousands)   | 102,006   | 101,712    | 96,465     | 84,417     | 84,384     |
| Weighted average shares, diluted (in thousands) | 102,790   | 102,522    | 96,925     | 84,655     | 84,384     |
| Dividends                                       | \$ -  | \$ -       | \$ -       | \$ -       | \$ -       |

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|                            | Year Ended December 31, |         |         |         |         |
|----------------------------|-------------------------|---------|---------|---------|---------|
|                            | 2014                    | 2013    | 2012    | 2011    | 2010    |
| <b>Balance Sheet Data:</b> |                         |         |         |         |         |
| Cash                       | \$ 25.1                 | \$ 25.2 | \$ 37.1 | \$ 46.1 | \$ 56.2 |
| Working capital (1)        | 1,438.0                 | 1,083.9 | 1,200.5 | 1,074.7 | 842.6   |
| Total assets               | 3,873.8                 | 3,335.7 | 3,369.7 | 3,229.9 | 2,991.2 |
| Long-term debt (2)         | 1,453.6                 | 986.8   | 1,256.6 | 1,526.7 | 1,360.2 |
| Stockholders' equity       | 1,397.2                 | 1,338.3 | 1,185.9 | 720.8   | 689.8   |

|                              | Year Ended December 31, |          |          |            |          |
|------------------------------|-------------------------|----------|----------|------------|----------|
|                              | 2014                    | 2013     | 2012     | 2011       | 2010     |
| <b>Other Financial Data:</b> |                         |          |          |            |          |
| <b>Net cash flow:</b>        |                         |          |          |            |          |
| Operating activities         | \$ (106.4)              | \$ 323.6 | \$ 240.1 | \$ (102.9) | \$ 112.7 |
| Investing activities         | (362.0)                 | (69.4)   | (183.0)  | (48.0)     | (16.2)   |
| Financing activities         | 467.2                   | (265.0)  | (60.5)   | 140.6      | (98.2)   |

(1)Working capital is defined as current assets less current liabilities.

(2)Includes current portion of long-term debt.



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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under “Cautionary Note Regarding Forward-Looking Statements” and “Item 1A—Risk Factors” and elsewhere in this report. All references throughout this section (and elsewhere in this report) to amounts available for borrowing under various credit facilities refer to amounts actually available for borrowing after giving effect to any borrowing base limitations that each 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 Annual Report on Form 10-K) 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 “Item 1A - 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;
- 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;
- 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;
- our intention not to pay dividends; and
- the occurrence of cybersecurity incidents.

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 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 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. Long-term growth in spending has been, and we believe will continue to be, driven by several factors, including underinvestment in global energy infrastructure, growth in shale and unconventional exploration and production ("E&P") activity, and anticipated strength in the oil, natural gas, refined products, petrochemical and other industrial sectors. The outlook for future oil, natural gas, refined products, petrochemical and other industrial PVF spending is influenced by numerous factors, including the following:

- Oil and Natural Gas Prices. Sales of PVF and related products to the oil and natural gas industry constitute a significant portion of our sales. As a result, we depend upon the oil and natural gas industry and its ability and willingness to make maintenance and capital expenditures to explore for, produce and process oil and natural gas and refined products. Oil and

natural gas prices, both current and projected, along with the costs necessary to produce oil and gas, impact other drivers of our business, including E&P spending, additions and maintenance to pipeline mileage, refinery utilization and petrochemical and other industrial processing activity.

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

#### Recent Trends and Outlook

During 2014, the average oil price of West Texas Intermediate ("WTI") was relatively stable at \$93.17 compared to \$97.98 per barrel in 2013. However, beginning in the fourth quarter of 2014 and continuing into early 2015, the price of oil has dropped significantly to a level consistently around \$50.00 per barrel with a consensus outlook for 2015 of \$45.00 to \$55.00 per barrel. Natural gas prices increased to an average price of \$4.37/Mcf (Henry Hub) for 2014 compared to \$3.73/Mcf (Henry Hub) for 2013. However, the current price has decreased to below \$3.00/Mcf (Henry Hub) and the consensus outlook for 2015 is a range of \$2.50/Mcf to \$3.50/Mcf.

With the recent decline in both oil and natural gas prices, and forecasts indicating that prices will be at similarly low levels throughout 2015, we expect spending by our customers, particularly those in the upstream sector within North America, will be down sharply in 2015 as compared to 2014. Prominent exploration and production capital expenditure surveys, which include many of our customers, indicate that spending could be down more than 35% in North America, implying a drop of 800 to 900 rigs from the peak in 2014, and 15% to 20% internationally. We expect our upstream business to be impacted most significantly and in line with lower capital expenditure budgets. These lower spending trends will also affect our midstream business but to a much lesser extent than upstream. The downstream sector will be impacted more modestly. These expenditure forecasts remain volatile as producers continue to grapple with the sudden, sharp decline in the price of oil. In addition, because of the strengthening of the U.S. dollar relative to foreign currencies in areas where we operate, we expect revenues to be negatively impacted by more than \$100 million as compared to 2014.

Because we anticipate 2015 to be a challenging year, we have taken additional steps in the first two months of the year to further reduce our operating costs. In addition to a number of ongoing cost control measures, including hiring and salary freezes, we have eliminated approximately 270 positions including reductions of permanent and temporary employees, attrition and elimination of open positions. As a result of these actions, we expect to incur a pre-tax severance charge of approximately \$3 million in the first quarter of 2015. 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 charges in 2015. In addition to these efforts to address costs, we are also actively managing our investment in working capital to an appropriate level and have deferred our acquisition activities. This will allow us to generate cash which we will utilize to reduce our outstanding indebtedness.

In 2014, we completed the acquisitions of Stream AS (“Stream”) headquartered in Norway, MSD Engineering Pte. Limited (“MSD”) headquartered in Singapore, and Metron Holding AS, the parent company of Hypeck AS (“Hypeck”), headquartered in Norway. Each of these acquisitions expanded our global footprint in distributing valves, automation, instrumentation and process control products.

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 instances. Our backlog at December 31, 2014 was \$1.093 billion including \$767 million, \$66 million and \$260 million in our US, Canadian and International segments, respectively. Our backlog at

December 31, 2013 was \$758 million including \$470 million, \$90 million and \$198 million in our US, Canadian and International segments, respectively. 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 substantially all of the sales in our backlog will be realized in 2015.

The following table shows key industry indicators for the years ended December 31, 2014, 2013 and 2012:

|                                       | Year Ended December 31, |           |           |
|---------------------------------------|-------------------------|-----------|-----------|
|                                       | 2014                    | 2013      | 2012      |
| Average Rig Count (1):                |                         |           |           |
| United States                         | 1,862                   | 1,761     | 1,919     |
| Canada                                | 379                     | 359       | 364       |
| Total North America                   | 2,241                   | 2,120     | 2,283     |
| International                         | 1,337                   | 1,296     | 1,234     |
| Total Worldwide                       | 3,578                   | 3,416     | 3,517     |
| Average Commodity Prices (2):         |                         |           |           |
| WTI crude oil (per barrel)            | \$ 93.17                | \$ 97.98  | \$ 94.05  |
| Brent crude oil (per barrel)          | \$ 98.97                | \$ 108.56 | \$ 111.63 |
| Natural gas (\$/Mcf)                  | \$ 4.37                 | \$ 3.73   | \$ 2.75   |
| Well Counts (1)                       |                         |           |           |
| Average Monthly U.S. Well Permits (3) | 6,348                   | 5,871     | 5,251     |
| 3:2:1 Crack Spread (4)                | \$ 19.04                | \$ 23.57  | \$ 29.34  |

(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

Results of Operations for the years ended December 31, 2014, 2013 and 2012

The breakdown of our sales by sector for the years ended December 31, 2014, 2013 and 2012 was as follows (in millions):

|                                  | Year Ended December 31, |      |            |      |            |      |
|----------------------------------|-------------------------|------|------------|------|------------|------|
|                                  | 2014                    |      | 2013       |      | 2012       |      |
| Upstream                         | \$ 2,806.5              | 47%  | \$ 2,314.9 | 44%  | \$ 2,534.7 | 46%  |
| Midstream                        | 1,654.7                 | 28%  | 1,491.0    | 29%  | 1,526.2    | 27%  |
| Downstream and other industrials | 1,472.0                 | 25%  | 1,424.9    | 27%  | 1,509.9    | 27%  |
|                                  | \$ 5,933.2              | 100% | \$ 5,230.8 | 100% | \$ 5,570.8 | 100% |





## Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

For the years ended December 31, 2014 and 2013 the following table summarizes our results of operations (in millions):

|                           | Year Ended December 31, |            |           |          |
|---------------------------|-------------------------|------------|-----------|----------|
|                           | 2014                    | 2013       | \$ Change | % Change |
| <b>Sales:</b>             |                         |            |           |          |
| U.S.                      | \$ 4,427.4              | \$ 3,967.6 | \$ 459.8  | 11.6%    |
| Canada                    | 632.5                   | 709.4      | (76.9)    | (10.8%)  |
| International             | 873.3                   | 553.8      | 319.5     | 57.7%    |
| Consolidated              | \$ 5,933.2              | \$ 5,230.8 | \$ 702.4  | 13.4%    |
| <b>Operating income:</b>  |                         |            |           |          |
| U.S.                      | \$ 266.2                | \$ 280.1   | \$ (13.9) | (5.0%)   |
| Canada                    | 27.7                    | 20.9       | 6.8       | 32.5%    |
| International             | 8.2                     | 10.8       | (2.6)     | (24.1%)  |
| Consolidated              | 302.1                   | 311.8      | (9.7)     | (3.1%)   |
| Interest expense          | (61.8)                  | (60.7)     | (1.1)     | 1.8%     |
| Other expense             | (14.4)                  | (14.2)     | (0.2)     | 1.4%     |
| Income tax expense        | (81.8)                  | (84.8)     | 3.0       | (3.5%)   |
| Net income                | \$ 144.1                | \$ 152.1   | \$ (8.0)  | (5.3%)   |
| Adjusted Gross Profit (1) | \$ 1,120.3              | \$ 1,009.0 | \$ 111.3  | 11.0%    |
| Adjusted EBITDA (1)       | \$ 424.0                | \$ 386.4   | \$ 37.6   | 9.7%     |

(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 29-30 herein.

**Sales.** Sales include the revenue recognized from the sales of the products we distribute, services to customers and freight billings to customers, less cash discounts taken by customers in return for their early payment of our invoices to them. Our sales were \$5,933.2 million for the year ended December 31, 2014 as compared to \$5,230.8 million for the year ended December 31, 2013.

**U.S. Segment—**Our U.S. sales increased \$459.8 million to \$4,427.4 million for 2014 from \$3,967.6 million for 2013. The 12% increase primarily reflected organic growth across substantially all major product lines and sectors, with the emphasis being in valves and line pipe in the upstream and midstream sectors responsive to growth in customer capital spending, increases in rig count and well completions, as well as market share gains.

**Canadian Segment—**Our Canadian sales decreased \$76.9 million to \$632.5 million for 2014 from \$709.4 million for 2013. The divestiture of our progressive cavity pump (“PCP”) distribution business negatively impacted sales by \$82 million, and the negative impact on sales of the decline of the Canadian dollar relative to the U.S. dollar was

approximately \$45 million. After adjusting for these items, Canadian sales were up 7%, which was also due to an increase in customer spending.

**International Segment**—Our International sales increased \$319.5 million to \$873.3 million for 2014 from \$553.8 million for 2013. This increase was primarily the result of the acquisitions of Stream, Flangefitt Stainless Ltd. (“Flangefitt”), MSD, and Hypteck which collectively added \$320.2 million in revenue during 2014.

**Gross Profit.** Our gross profit was \$1,018.1 million (17.2% of sales) for the year ended December 31, 2014 as compared to \$954.8 million (18.3% of sales) for the year ended December 31, 2013. The 110 basis point decline in gross profit percentage reflected the impact of deflation in our line pipe product group as well as our last-in, first-out (“LIFO”) inventory costing methodology. LIFO resulted in an increase in cost of sales of \$11.9 million in 2014 as compared to a reduction in cost of sales of \$20.2 million in 2013.

Certain purchasing costs and warehousing activities (including receiving, inspection, and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross profit may not be comparable to others who may include these expenses as a component of costs of goods sold. Purchasing and warehousing activities costs approximated \$45.7 million and \$37.2 million for the years ended December 31, 2014 and 2013.

Adjusted Gross Profit. Adjusted Gross Profit increased to \$1,120.3 million (18.9% of sales) for 2014 from \$1,009.0 million (19.3% of sales) for 2013, an increase of \$111.3 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 they have been involved in. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize 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 our gross profit, as derived from our financial statements (in millions):

|                                     | Year Ended December 31, |                          |            |                          |
|-------------------------------------|-------------------------|--------------------------|------------|--------------------------|
|                                     | 2014                    | Percentage<br>of Revenue | 2013       | Percentage<br>of Revenue |
| Gross profit, as reported           | \$ 1,018.1              | 17.2%                    | \$ 954.8   | 18.3%                    |
| Depreciation and amortization       | 22.5                    | 0.4%                     | 22.3       | 0.4%                     |
| Amortization of intangibles         | 67.8                    | 1.1%                     | 52.1       | 1.0%                     |
| Increase (decrease) in LIFO reserve | 11.9                    | 0.2%                     | (20.2)     | (0.4%)                   |
| Adjusted Gross Profit               | \$ 1,120.3              | 18.9%                    | \$ 1,009.0 | 19.3%                    |

Selling, General and Administrative (“SG&A”) Expenses. Costs such as salaries, wages, employee benefits, rent, utilities, communications, insurance, fuel and taxes (other than state and federal income taxes) that are necessary to operate our branch and corporate operations are included in selling, general and administrative expenses. Also contained in this category are certain items that are nonoperational in nature, including certain costs of acquiring and integrating other businesses. Our SG&A expenses were \$716.0 million (12.1% of sales) for the year ended December 31, 2014 as compared to \$643.0 million (12.3% of sales) for the year ended December 31, 2013. The \$73.0 million increase was substantially all attributable to our acquired businesses which contributed approximately \$77 million of incremental SG&A. Included within our 2014 SG&A expenses were \$7.5 million of severance and related costs and \$5.7 million of charges related to the cancellation of executive employment agreements, \$2.5 million of which represents the accelerated recognition of equity-based compensation expense. These increases in SG&A expenses were offset by cost reducing initiatives undertaken during the first half of 2014 as well as the divestiture of our Canadian progressive pump business which reduced SG&A by \$12.8 million.

Operating Income. Operating income was \$302.1 million for the year ended December 31, 2014, as compared to operating income of \$311.8 million for the year ended December 31, 2013, a decrease of \$9.7 million.

U.S. Segment—Operating income for our U.S. segment decreased to \$266.2 million for 2014 from \$280.1 million for 2013. The decline of \$13.9 million was driven by a decline in gross profit percentage, including the impact of our LIFO inventory costing methodology, as well as an increase in SG&A expenses, including \$4.1 million of severance and related charges and \$5.7 million of charges related to the cancellation of certain executive employment agreements. Excluding these items, operating income would have increased from 2013 and would have represented a

comparable percentage of sales.

Canadian Segment—Operating income for our Canadian segment increased to \$27.7 million for 2014 from \$20.9 million for 2013. The increase of \$6.8 million reflected the improved profitability resulting from the divestiture of our PCP business offset by \$0.6 million of severance and related charges.

International Segment—Operating income for our International segment decreased to \$8.2 million for 2014 from \$10.8 million in 2013. The \$2.6 million decrease was a result of \$2.8 million of severance and related charges incurred during the year offset by an increase in sales and the cost reduction initiatives undertaken in the first half of 2014.

Interest Expense. Our interest expense was \$61.8 million for the year ended December 31, 2014 as compared to \$60.7 million for the year ended December 31, 2013. The increase was due to higher average debt levels in 2014.

Other Income (Expense). Our other expense increased to \$14.4 million for the year ended December 31, 2014 from \$14.2 million for the year ended December 31, 2013. In 2014, other expense included a \$6.2 million charge related to the divestiture of our Canadian PCP business, \$4.1 million related to the disposition of our rolled and welded pipe business, \$2.5 million of foreign currency losses, and \$1.1 million in expense related to the change in the fair value of derivatives. The rolled and welded business was a small operation in Wagoner, Oklahoma which fabricated large diameter steel pipe. This represented a non-core activity for us that we

elected to discontinue. The 2013 expense included \$5.1 million related to the re-pricing of our Term Loan B and \$12.9 million of foreign currency losses. These expenses were offset by gains on derivative transactions of \$4.7 million.

**Income Tax Expense.** Our income tax expense was \$81.8 million for the year ended December 31, 2014, as compared to \$84.8 million for the year ended December 31, 2013. Our effective tax rates were 36.2% and 35.8% for the years ended December 31, 2014 and 2013, respectively. These rates generally differ from the federal statutory rate of 35% principally as a result of different tax rates in foreign tax jurisdictions and certain deductions and credits allowable for income tax purposes, partially offset by state and local income taxes.

**Net Income.** Our net income was \$144.1 million for the year ended December 31, 2014 as compared to net income of \$152.1 million for the year ended December 31, 2013, a decrease of \$8.0 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 \$424.0 million for the year ended December 31, 2014, as compared to \$386.4 million for the year ended December 31, 2013. Our Adjusted EBITDA increased \$37.6 million over that period primarily as a result of the factors noted above.

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 our net income, as derived from our financial statements (in millions):

|   | Year Ended December 31, |          |
|---|-------------------------|----------|
|   | 2014                    | 2013     |
| Net income  | \$ 144.1                | \$ 152.1 |
| Income tax expense                                | 81.8                    | 84.8     |
| Interest expense                                  | 61.8                    | 60.7     |
| Expenses associated with refinancing              | -                       | 5.1      |
| Depreciation and amortization                     | 22.5                    | 22.3     |
| Amortization of intangibles                       | 67.8                    | 52.1     |
| Increase (decrease) in LIFO reserve               | 11.9                    | (20.2)   |
| Change in fair value of derivative instruments    | 1.1                     | (4.7)    |
| Equity-based compensation expense                 | 8.9                     | 15.5     |
| Severance and related charges                     | 7.5                     | 0.8      |
| Loss on sale of Canadian PCP business             | 6.2                     | -        |
| Loss on disposition of rolled and welded business | 4.1                     | -        |
| Cancellation of executive employment agreements   | 3.2                     | -        |
| Foreign currency losses                           | 2.5                     | 12.9     |
| Insurance charge                                  | -                       | 2.0      |
| Other expense                                     | 0.6                     | 3.0      |
| Adjusted EBITDA                                   | \$ 424.0                | \$ 386.4 |



## Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

For the years ended December 31, 2013 and 2012 the following table summarizes our results of operations (in millions):

|                                      | Year Ended December 31, |            |            |          |
|--------------------------------------|-------------------------|------------|------------|----------|
|                                      | 2013                    | 2012       | \$ Change  | % Change |
| <b>Sales:</b>                        |                         |            |            |          |
| U.S.                                 | \$ 3,967.6              | \$ 4,238.4 | \$ (270.8) | (6.4%)   |
| Canada                               | 709.4                   | 765.2      | (55.8)     | (7.3%)   |
| International                        | 553.8                   | 567.2      | (13.4)     | (2.4%)   |
| Consolidated                         | \$ 5,230.8              | \$ 5,570.8 | \$ (340.0) | (6.1%)   |
| <b>Operating income:</b>             |                         |            |            |          |
| U.S.                                 | \$ 280.1                | \$ 358.3   | \$ (78.2)  | (21.8%)  |
| Canada                               | 20.9                    | 27.2       | (6.3)      | (23.2%)  |
| International                        | 10.8                    | 21.5       | (10.7)     | (49.8%)  |
| Consolidated                         | 311.8                   | 407.0      | (95.2)     | (23.4%)  |
| Interest expense                     | (60.7)                  | (112.5)    | 51.8       | (46.0%)  |
| Loss on early extinguishment of debt | -                       | (114.0)    | 114.0      | N/M      |
| Other (expense) income               | (14.2)                  | 1.2        | (15.4)     | N/M      |
| Income tax expense                   | (84.8)                  | (63.7)     | (21.1)     | 33.1%    |
| Net income                           | \$ 152.1                | \$ 118.0   | \$ 34.1    | 28.9%    |
| Adjusted Gross Profit (1)            | \$ 1,009.0              | \$ 1,057.7 | \$ (48.7)  | (4.6%)   |
| Adjusted EBITDA (1)                  | \$ 386.4                | \$ 463.2   | \$ (76.8)  | (16.6%)  |

(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 32-33 herein.

Sales. Our sales were \$5,230.8 million for the year ended December 31, 2013 as compared to \$5,570.8 million for the year ended December 31, 2012.

U.S. Segment—Our U.S. sales decreased \$270.8 million to \$3,967.6 million for 2013 from \$4,238.4 million for 2012. The 6% decrease reflected a planned \$273 million reduction in OCTG sales resulting from our strategy to rebalance our sales and inventories away from this more volatile, lower margin portion of our business. In addition, our line pipe sales declined \$78 million as a result of our upstream and midstream customers' decreased spending in 2013. Our 2013 sales benefitted from the June and December 2012 and July 2013 acquisitions of the business of Chaparral Supply LLC, Production Specialty Services ("PSS") and Flow Control which collectively contributed an incremental \$160 million of sales. The remaining decrease was driven by lower capital spending by our customers during 2013.

Canadian Segment—Our Canadian sales decreased \$55.8 million to \$709.4 million for 2013 from \$765.2 million for 2012. Over one-third of the overall 7% decrease was the result of a decline in the Canadian dollar relative to the U.S. dollar. The remainder of the 7% decrease was due to a longer than normal spring break-up as well as a decline in

project sales particularly in the oil sands region of northern Alberta.

International Segment—Our International sales decreased \$13.4 million to \$553.8 million for 2013 from \$567.2 million for 2012. The March 2012 and December 2013 acquisitions of the Piping Systems division of OneSteel (“MRC PSA”) and Flangefitt Stainless Ltd accounted for \$29 million in incremental revenues. Excluding the impact of these acquisitions, sales declined \$43 million, or 8%, reflecting weaker demand particularly in parts of Australia where we experienced reduced customer spending in the mining and oil and gas sectors. Over 40% of this \$43 million decrease was a result of a decrease in the Australian dollar relative to the U.S. dollar.

Gross Profit. Our gross profit was \$954.8 million (18.3% of sales) for the year ended December 31, 2013 as compared to \$1,013.7 million (18.2% of sales) for the year ended December 31, 2012. The decrease in gross profit dollars was driven by the decrease in sales discussed above.

Certain purchasing costs and warehousing activities (including receiving, inspection, and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross profit



may not be comparable to others who may include these expenses as a component of costs of goods sold. Purchasing and warehousing activities costs approximated \$37.2 million and \$34.8 million for the years ended December 31, 2013 and 2012, respectively.

**Adjusted Gross Profit.** Adjusted Gross Profit decreased to \$1,009.0 million (19.3% of sales) for 2013 from \$1,057.7 million (19.0% of sales) for 2012, a decrease of \$48.7 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 they have been involved in. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize 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 our gross profit, as derived from our financial statements (in millions):

|                                     | Year Ended December 31, |                          |            |                          |
|-------------------------------------|-------------------------|--------------------------|------------|--------------------------|
|                                     | 2013                    | Percentage<br>of Revenue | 2012       | Percentage<br>of Revenue |
| Gross profit, as reported           | \$ 954.8                | 18.3%                    | \$ 1,013.7 | 18.2%                    |
| Depreciation and amortization       | 22.3                    | 0.4%                     | 18.6       | 0.3%                     |
| Amortization of intangibles         | 52.1                    | 1.0%                     | 49.5       | 0.9%                     |
| (Decrease) increase in LIFO reserve | (20.2)                  | (0.4%)                   | (24.1)     | (0.4%)                   |
| Adjusted Gross Profit               | \$ 1,009.0              | 19.3%                    | \$ 1,057.7 | 19.0%                    |

**Selling, General and Administrative (“SG&A”) Expenses.** Our SG&A expenses were \$643.0 million (12.3% of sales) for the year ended December 31, 2013 as compared to \$606.7 million (10.9% of sales) for the year ended December 31, 2012. Approximately \$24 million of the \$36 million increase was attributable to the incremental SG&A expenses of our March and December 2012 and July 2013 acquisitions of MRC PSA, PSS and Flow Control. Our 2013 SG&A also reflects \$5 million of expenses associated with the accelerated recognition of stock based compensation triggered by the November 2013 sale of common stock by our private equity sponsor, as well as, a \$2 million charge related to the separation of an executive officer, and expenses incurred in the integration of our Australian business.

**Operating Income.** Operating income was \$311.8 million for the year ended December 31, 2013, as compared to operating income of \$407.0 million for the year ended December 31, 2012, a decrease of \$95.2 million.

**U.S. Segment—**Operating income for our U.S. segment decreased to \$280.1 million for 2013 from \$358.3 million for 2012. The decline of \$78.2 million was driven by a decrease in sales combined with an increase in SG&A expenses associated with our acquisitions of PSS and Flow Control.

Canadian Segment—Operating income for our Canadian segment decreased to \$20.9 million for 2013 from \$27.2 million for 2012. The decline of \$6.3 million was driven by a decrease in sales offset, in part, by a corresponding decrease in SG&A expenses.

International Segment—Operating income for our International segment decreased to \$10.8 million for 2013 from \$21.5 million in 2012. The \$10.7 million decline was driven by a decline in sales as well as an increase in SG&A expenses, including costs incurred in the integration of our Australian operations.

Interest Expense. Our interest expense was \$60.7 million for the year ended December 31, 2013 as compared to \$112.5 million for the year ended December 31, 2012. The decrease in interest expense was due to the November 2012 redemption of our 9.5% senior secured notes, which was funded by borrowings on our lower cost Term Loan B and revolving credit facilities as well as the November 2013 Term Loan re-pricing. We also benefitted from an outstanding debt balance that was lower, on average in 2013 by approximately \$278 million as compared to 2012.

Other Income (Expense). During November 2013, we incurred expenses of \$5.1 million related to the re-pricing of our Term Loan B. In addition, we recognized \$12.9 million of foreign currency losses due primarily to the weaker Australian and Canadian dollars as compared to the U.S. dollar. These losses were offset by gains on derivative transactions of \$4.7 million. During 2012, in various transactions, we purchased \$188.7 million of our senior secured notes in the open market. In November 2012, we redeemed the remaining \$861.3 million of senior secured notes outstanding. The purchase and redemption of the senior secured notes resulted in a loss on the early extinguishment of debt of \$114.0 million. In March 2012, we refinanced certain of our credit facilities. As a result of

their termination, we wrote off and expensed \$1.7 million in debt issuance costs. In December 2012, we incurred \$4.4 million of expense when we terminated a defined benefit pension plan in the Netherlands.

**Income Tax Expense.** Our income tax expense was \$84.8 million for the year ended December 31, 2013, as compared to \$63.7 million for the year ended December 31, 2012. Our effective tax rates were 35.8% and 35.1% for the years ended December 31, 2013 and 2012, respectively. These rates generally differ from the federal statutory rate of 35% principally as a result of different tax rates in foreign tax jurisdictions and certain deductions and credits allowable for income tax purposes, partially offset by state and local income taxes and increases to the valuation allowance on our deferred tax assets.

During 2013 we increased the deferred tax liability on our existing temporary differences by \$3.1 million to recognize a higher rate at which we expect deferred taxes in certain U.S. states to be realized. Additionally, as a result of cumulative losses incurred over the three year period ended December 31, 2013 in certain of our foreign jurisdictions, a valuation allowance of \$7.7 million has been recorded in order to measure only the portion of deferred tax assets that more likely than not will be realized.

**Net Income.** Our net income was \$152.1 million for the year ended December 31, 2013 as compared to net income of \$118.0 million for the year ended December 31, 2012, an increase 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 \$386.4 million for the year ended December 31, 2013, as compared to \$463.2 million for the year ended December 31, 2012. Our Adjusted EBITDA decreased \$76.8 million over that period primarily due to the decrease in gross profit and other factors noted above.

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 our net income, as derived from our financial statements (in millions):

|  | Year Ended December 31, |          |
|--|-------------------------|----------|
|  | 2013                    | 2012     |
| Net income                                     | \$ 152.1                | \$ 118.0 |
| Income tax expense                             | 84.8                    | 63.7     |
| Interest expense                               | 60.7                    | 112.5    |
| Loss on early extinguishment of debt           | -                       | 114.0    |
| Expenses associated with refinancing           | 5.1                     | 1.7      |
| Depreciation and amortization                  | 22.3                    | 18.6     |
| Amortization of intangibles                    | 52.1                    | 49.5     |
| Decrease in LIFO reserve                       | (20.2)                  | (24.1)   |
| Change in fair value of derivative instruments | (4.7)                   | (2.2)    |
| Equity-based compensation expense              | 15.5                    | 8.5      |
| Executive separation expense (cash portion)    | 0.8                     | -        |

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|                                 |      |       |    |       |
|---------------------------------|------|-------|----|-------|
| Insurance charge                | 2.0  | -     |    |       |
| Pension settlement              | -    | 4.4   |    |       |
| Foreign currency losses (gains) | 12.9 | (0.8) |    |       |
| Other expense (income)          | 3.0  | (0.6) |    |       |
| Adjusted EBITDA                 | \$   | 386.4 | \$ | 463.2 |

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## Financial Condition and Cash Flows

## Cash Flows

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

|   | Year Ended December 31, |                      |                      |
|---|-------------------------|----------------------|----------------------|
|   | December 31,<br>2014    | December 31,<br>2013 | December 31,<br>2012 |
| Net cash (used in) provided by :          |                         |                      |                      |
| Operating activities                      | \$ (106.4)              | \$ 323.6             | \$ 240.1             |
| Investing activities                      | (362.0)                 | (69.4)               | (183.0)              |
| Financing activities                      | 467.2                   | (265.0)              | (60.5)               |
| Net decrease in cash and cash equivalents | \$ (1.2)                | \$ (10.8)            | \$ (3.4)             |
| Effect of foreign exchange rate on cash   | \$ 1.0                  | \$ (1.1)             | \$ (5.6)             |

## Operating Activities

Net cash used in operating activities was \$106.4 million in 2014, compared to net cash provided by operating activities of \$323.6 million in 2013. Excluding the impact of acquisitions, working capital increased \$289.5 million in 2014 (from 2013) as compared to a decrease of \$125.3 million in 2013 (from 2012). The \$430.0 million increase in net cash used in operations was a result of this increase in working capital, which reflected an overall increase in business activity during 2014. We experienced a significant increase in accounts receivable during 2014. This was a result of an increase in business activity throughout the year combined with the impact of the timing of payments from various large customers. The last half of the year generated large sales volumes, requiring a build-up of inventory necessary to replenish to the appropriate inventory levels and ensure that long lead times were addressed requiring an investment in working capital.

Net cash provided by operating activities was \$323.6 million in 2013, compared to net cash provided by operating activities of \$240.1 million in 2012. Excluding the impact of acquisitions, working capital decreased \$125.3 million in 2013 (from 2012) as compared to an increase of \$49.1 million in 2012 (from 2011). The \$83.5 million increase in net cash provided by operations was a result of this reduction in working capital offset by a reduction in net income when adjusted for non-cash items such as the \$114.0 million charge associated with the redemption of our senior secured notes in 2012. The decline in working capital in 2013 reflected the overall impact of normal working capital movement resulting from 2013 business activity levels combined with timing issues impacting accounts payable. Although full year sales for 2013 were down noticeably as compared to 2012, our sales in the fourth quarter of 2013 were up slightly as compared to the same period in 2012, which resulted in a comparable balance of accounts receivable. Similarly, we increased our inventory balances late in 2013 to amounts comparable to the end of 2012 in anticipation of sales growth in 2014 returning to 2012 levels. In addition, we saw a significant increase in the balance of accounts payable at December 31, 2013 as compared to December 31, 2012, which was attributable to inventory growth as well as the timing of our vendor payment cycle, which resulted in a larger volume of vendor balances being paid subsequent to the end of the year rather than before.

## Investing Activities

Net cash used in investing activities was \$362.0 million in 2014, compared to \$69.4 million in 2013. The \$292.6 million increase in net cash used in investing activities was primarily due to the acquisitions of Stream, MSD and Hypteck, which required cash of \$343.9 million in 2014 as compared to the smaller acquisitions of Flow Control Products and Flangefitt that occurred in 2013, which required cash of \$46.8 million. Our capital expenditures as a percentage of sales were 0.3% in 2014 and 0.4% in 2013. We expect an increase in capital expenditures in 2015, to approximately \$43 million, due to our plan to implement a new information technology system in certain areas of the international segment.

Net cash used in investing activities was \$69.4 million in 2013, compared to \$183.0 million in 2012. The \$113.6 million decrease in net cash used in investing activities was primarily due to the smaller acquisitions of Flow Control Products and Flangefitt that occurred in 2013, which required cash of \$46.8 million, as compared to the 2012 acquisitions of MRC PSA, PSS and Chaparral Supply which required cash of \$152.4 million. Our capital expenditures as a percentage of sales were 0.4% in 2013 and 0.5% in 2012.

## Financing Activities

Net cash provided by financing activities was \$467.2 million in 2014, compared to net cash used in financing activities of \$265.0 million in 2013. The financing activities generally reflect the advances and payments on our credit facilities. In 2014, net borrowings on our Global ABL facility totaled \$476.0 million primarily to fund the Stream, MSD, and Hyptek acquisitions. In 2013, we used cash of \$412.0 million to repay our revolving credit facility, which was offset by the \$150 million increase in our Term Loan in the November 2013 re-pricing. In 2012, we received net proceeds of \$333.3 million from our initial public offering and \$644 million at closing from borrowings under our \$650 million Term Loan. We used \$1.1 billion to redeem our outstanding senior secured notes with proceeds from borrowings under our Global ABL Facility as well as our Term Loan.

## Liquidity and Capital Resources

Our primary sources of liquidity consist of cash generated from our operating activities, existing cash balances and borrowings under our existing Global ABL Facility. Our ability to generate sufficient cash flows from our operating activities is primarily dependent on our sales of products to our customers at profits sufficient to cover our fixed and variable expenses. As of December 31, 2014 and 2013, we had cash and cash equivalents of \$25.1 million and \$25.2 million, respectively. As of December 31, 2014 and 2013, \$22.2 million and \$21.9 million of our cash and cash equivalents were maintained in the accounts of our various foreign subsidiaries and, if those amounts were transferred among countries or repatriated to the U.S., those amounts may be subject to additional tax liabilities, which would be recognized in our financial statements in the period during which the transfer decision was made. We currently have the intent and ability to permanently reinvest the cash our foreign subsidiaries hold, and there are currently no plans for the repatriation of those amounts.

Our primary credit facilities consist of a seven-year \$793.5 million Term Loan maturing in November 2019 and a five-year \$1.05 billion Global ABL Facility maturing in July 2019. The Global ABL Facility 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. 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 December 31, 2014, we had \$302.2 million available under this 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. In conjunction with the acquisition of Stream, we assumed a credit facility, denominated in Norwegian Krone, comprised of a guarantee facility of \$24 million, an overdraft facility of \$9 million and a foreign exchange facility of \$1 million. The Norwegian facilities are secured by standby letters of credit drawn against our Global ABL Facility and have no financial maintenance covenants.

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 existing obligations restrict our ability to incur additional debt. We were in compliance with the covenants contained in our various credit facilities as of and during the year ended December 31, 2014.

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 in the public or private markets, based on market conditions. There can be no assurance that we will be able to raise any such financing on terms acceptable to us or at all. We may also seek, from time to time, depending on

market conditions, to refinance certain categories of our debt, and we may seek to consummate equity offerings. Any such transaction would be subject to market conditions, compliance with all of our credit agreements, and various other factors.

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## Contractual Obligations, Commitments and Contingencies

## Contractual Obligations

The following table summarizes our minimum payment obligations as of December 31, 2014 relating to long-term debt, interest payments, capital leases, operating leases, purchase obligations and other long-term liabilities for the periods indicated (in millions):

|                                       | Total      | 2015     | 2016-2017 | 2018-2019  | More Than<br>5 Years |
|---------------------------------------|------------|----------|-----------|------------|----------------------|
| Long-term debt (1)                    | \$ 1,453.6 | \$ 7.9   | \$ 15.9   | \$ 1,429.8 | \$ -                 |
| Interest payments (2)                 | 241.8      | 51.4     | 101.7     | 88.7       | -                    |
| Foreign exchange forward<br>contracts | (1.6)      | (1.6)    | -         | -          | -                    |
| Capital leases                        | 1.3        | 0.3      | 0.3       | 0.3        | 0.4                  |
| Operating leases                      | 226.0      | 51.2     | 73.1      | 43.1       | 58.6                 |
| Purchase obligations (3)              | 664.9      | 664.9    | -         | -          | -                    |
| Other long-term liabilities           | 22.1       | -        | -         | -          | 22.1                 |
| Total                                 | \$ 2,608.1 | \$ 774.1 | \$ 191.0  | \$ 1,561.9 | \$ 81.1              |

(1) Long-term debt is based on debt outstanding on December 31, 2014.

(2) Interest payments are based on interest rates in effect at December 31, 2014 and assume contractual amortization payments.

(3) Purchase obligations reflect our commitments to purchase PVF products in the ordinary course of business. 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.

We historically have been an acquisitive company. We expect to fund future acquisitions primarily from (i) borrowings, either the unused portion of our facilities or new debt issuances, (ii) cash provided by operations, or (iii) the issuance of additional equity in connection with the acquisitions.

## Other Commitments

In the normal course of business with customers, vendors and others, we are contingently liable for performance under standby letters of credit and bid, performance and surety bonds. We were contingently liable for approximately \$77.9 million of standby letters of credit, trade guarantees that banks issue and bid, and performance and surety bonds at December 31, 2014. Management does not expect any material amounts to be drawn on these instruments.

## Legal Proceedings

**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 various 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 the Company's subsidiary, McJunkin Red Man Corporation, purportedly distributed. As of December 31, 2014, we are a named defendant in approximately 430 lawsuits involving approximately 1,075 claims. No asbestos lawsuit has resulted in a judgment against us to date, with the 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.

We annually conduct analyses of our asbestos-related litigation to estimate the adequacy of the reserve for pending and probable asbestos-related claims. Given these estimated reserves and existing insurance coverage that has been available to cover substantial portions of these claims, we believe that our current accruals and associated estimates relating to pending and probable asbestos-related litigation likely to be asserted over the next 15 years are currently adequate. This belief, however, relies on a number of assumptions, including:

- That our future settlement payments, disease mix and dismissal rates will be materially consistent with historic experience;
- That future incidences of asbestos-related diseases in the U.S. will be materially consistent with current public health estimates;

- That the rates at which future asbestos-related mesothelioma incidences result in compensable claims filings against us will be materially consistent with its historic experience;
- That insurance recoveries for settlement payments and defense costs will be materially consistent with historic experience;
- That legal standards (and the interpretation of these standards) applicable to asbestos litigation will not change in material respects;
- That there are no materially negative developments in the claims pending against us; and
- That key co-defendants in current and future claims remain solvent.

If any of these assumptions prove to be materially different in light of future developments, liabilities related to asbestos-related litigation may be materially different than amounts accrued or estimated. Further, while we anticipate that additional claims will be filed in the future, we are unable to predict with any certainty the number, timing and magnitude of such future claims. In our opinion, there are no pending legal proceedings that are likely to have a material adverse effect on our consolidated financial statements.

**Other Legal Claims and Proceedings.** From time to time, we have been subject to various claims and involved in legal proceedings incidental to the nature of our businesses. We maintain insurance coverage to reduce financial risk associated with certain of these claims and proceedings. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, there are no pending legal proceedings that are likely to have a material adverse effect on our consolidated financial statements. See also “Note 15—Commitments and Contingencies” to the audited consolidated financial statements as of December 31, 2014.

**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, there are no pending legal proceedings that are likely to have a material adverse effect on our consolidated financial statements.

**Weatherford Claim.** In addition to PVF, our Canadian subsidiary, Midfield Supply (“Midfield”), now known as MRC Canada, 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. Commencing in late 2005 and into early 2006, Midfield hired new employees, including individuals who left Weatherford, 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. The distribution agreement with Weatherford expired in 2006. Midfield supplied Europump with PVF products that Europump distributed along with sales of 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, as well as other entities related to these parties, 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 2015.

Due to ongoing discovery, and the limited information available related to any claimed damages, we cannot reasonably estimate potential loss at this time. The Company believes Weatherford's claims are without merit and intends to defend against them vigorously. In 2014, the Company divested its PCP business to Europump, which Halliburton Corporation subsequently purchased.

SKF Claim. On February 19, 2013, in the United States District Court for the District of Delaware, SKF USA Inc. (a subsidiary of SKF AB, a Swedish company) sued McJunkin Red Man Corporation and MRC Global Inc. for trademark infringement unfair competition, unjust enrichment, federal cybersquatting, and related claims. SKF contends that the Company, through its use of the red "MRC" block letters, is willfully infringing on SKF's use of a similar mark which SKF uses to market bearings. SKF claims first use of this mark and has requested an injunction to prohibit the Company from using "MRC." The Company has used the MRC letters for years without any known or identifiable actual confusion. The Company denies SKF's allegations and further contends there is no likelihood of confusion as to the source of the products and the distribution services provided by the Company. Further, the plaintiff's inability to show actual harm or that there was any intent to deceive by the Company precludes the plaintiff from recovering damages.

The Company has asserted several affirmative defenses and also counter-claims for misrepresentation, unfair competition, and interference with business opportunities.

The discovery phase is complete, and both parties have filed summary judgment motions to be heard at the pretrial conference. A bench trial is scheduled to begin on March 9, 2015. If the court denies summary judgment, the Company believes that a potential loss may be reasonably possible. Despite the plaintiff's assertion of a material amount of damages, the Company believes these damages are wholly unsupported and in our opinion, the ultimate disposition of this matter is not likely to have a material adverse effect on our consolidated financial statements.

#### Off-Balance Sheet Arrangements

We do not have any material "off-balance sheet arrangements" as such term is defined within the rules and regulations of the SEC.

#### Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with U.S generally accepted accounting principles. To apply these principles, management must make judgments and assumptions and develop estimates based on the best available information at the time. Actual results may differ based on the accuracy of the information utilized and subsequent events. The notes to our audited financial statements included elsewhere in this report describe our accounting policies. These critical accounting policies could materially affect the amounts recorded in our financial statements. We believe the following describes significant judgments and estimates used in the preparation of our consolidated financial statements:

**Impairment of Long-Lived Assets:** Our long-lived assets consist primarily of amortizable intangible assets, which comprise approximately 11% of our total assets as of December 31, 2014. These assets are recorded at fair value at the date of acquisition and are amortized over their estimated useful lives. We make significant judgments and estimates in both calculating the fair value of these assets, as well as determining their estimated useful lives.

The carrying value of these assets is subject to an impairment test when events or circumstances indicate a possible impairment. When events or circumstances indicate a possible impairment, we assess recoverability from future operations using an undiscounted cash flow analysis, derived from the lowest appropriate asset group. If the carrying value exceeds the undiscounted cash flows, we would recognize an impairment charge to the extent that the carrying value exceeds the fair value. During 2014, 2013 and 2012, no indicators of impairment existed. While we believe our assumptions and estimates are reasonable, the actual results may differ materially from the projected results.

**Goodwill and Other Indefinite-Lived Intangible Assets:** Our goodwill and other indefinite-lived intangible assets comprise approximately 28% of our total assets as of December 31, 2014. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if circumstances indicate that impairment may exist. We evaluate goodwill for impairment at three reporting units that mirror our three reportable segments (U.S., Canada and International). Within each reporting unit, we have elected to aggregate the component countries and regions into a single reporting unit based on their similar economic characteristics, products, customers, suppliers, methods of distribution and the manner in which we operate each segment. We perform our annual tests for indications of goodwill impairment as of October of each year, updating on an interim basis should indications of impairment exist.

The goodwill impairment test compares the carrying value of the reporting unit that has the goodwill with the estimated fair value of that reporting unit. If the carrying value is more than the estimated fair value, a second step is performed, whereby we calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the estimated fair value of the reporting unit. Impairment losses are recognized to the extent that recorded goodwill exceeds implied goodwill. Our impairment methodology uses discounted cash flow and multiples of cash earnings valuation techniques, acquisition control premium and valuation comparisons to similar businesses. These valuation methods require us to make certain assumptions and estimates regarding future operating results, the extent and timing of future cash flows, working capital, sales prices, profitability, discount rates and growth trends. No impairment charges were recognized during the years ended December 31, 2014, 2013 and 2012. With the exception of Canada in 2014, where no goodwill is recorded, the estimated fair value of each of our reporting units substantially exceeded their carrying values. While we believe that such assumptions and estimates are reasonable, the actual results may differ materially from the projected results.

We performed a sensitivity analysis of key fair value assumptions by increasing our estimated weighted average cost of capital by 50 basis points and reducing our perpetual growth rate by 50 basis points. Using these assumptions, the fair value of the reporting units with goodwill still exceeded their carrying value.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if circumstances indicate that impairment may exist. This test compares the carrying value of the indefinite-lived intangible assets with their estimated fair value. If the carrying value is more than the estimated fair value, impairment losses are recognized in an amount equal to the excess of the

carrying value over the estimated fair value. Our impairment methodology uses discounted cash flow and estimated royalty rate valuation techniques. These valuation methods require us to make certain assumptions and estimates regarding future operating results, sales prices, discount rates and growth trends. No impairment charges were recognized during the years ended December 31, 2014, 2013 and 2012, as the estimated fair value of our indefinite-lived intangible assets substantially exceeded their carrying value. While we believe that such assumptions and estimates are reasonable, the actual results may differ materially from the projected results.

**Income Taxes:** We use the liability method for determining our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered.

Deferred tax assets and liabilities are recorded for differences between the financial reporting and tax bases of assets and liabilities using the tax rate expected to be in effect when the taxes will actually be paid or refunds received. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In determining the need for valuation allowances and our ability to utilize our deferred tax assets, we consider and make judgments regarding all the available positive and negative evidence, including the timing of the reversal of deferred tax liabilities, estimated future taxable income, ongoing, prudent and feasible tax planning strategies and recent financial results of operations. The amount of the deferred tax assets considered realizable however could be adjusted in the future if objective negative evidence in the form of cumulative losses is no longer present in certain jurisdictions and additional weight may be given to subjective evidence such as our projections for growth.

Our tax provision is based upon our expected taxable income and statutory rates in effect in each country in which we operate. We are subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or our level of operations or profitability in each taxing jurisdiction could have an impact on the amount of income taxes we provide during any given year.

A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including any related appeals or litigation processes, on the basis of the technical merits. We adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which the new information is available.

We classify interest and penalties related to unrecognized tax positions as income taxes in our financial statements. We intend to permanently reinvest certain earnings of our foreign subsidiaries in operations outside of the U.S., and accordingly, we have not provided for U.S. income taxes on such earnings.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

As of December 31, 2014, all of our outstanding debt was at floating rates. These facilities prescribe the percentage point spreads from U.S. prime, LIBOR, Canadian prime and EURIBOR. Our facilities generally allow us to fix the interest rate, at our option, for a period of 30 to 180 days.

As of December 31, 2014, a 1% increase in the LIBOR rate would result in an increase in our interest expense of approximately \$8.0 million per year if the amounts outstanding under our Term Loan and Global ABL Facility remained the same for an entire year.

#### Foreign Currency Exchange Rates

Our operations outside of the U.S. expose us to foreign currency exchange rate risk, as these transactions are primarily denominated in currencies other than the U.S. dollar, our functional currency. Our exposure to changes in foreign exchange rates is managed primarily through the use of forward foreign exchange contracts. These contracts increase or decrease in value as foreign exchange rates change, protecting the value of the underlying transactions denominated in foreign currencies. All currency contracts are entered into for the sole purpose of hedging existing or anticipated currency exposure; we do not use foreign currency contracts for trading or speculative purposes. The terms of these contracts generally do not exceed one year. We record all changes in the fair market value of forward foreign exchange contracts in income. We recorded gains related to foreign currency contracts of \$1.1 million, \$4.7 million and \$0.2 million in the years ended December 31, 2014, 2013 and 2012, respectively.



### Steel Prices

Our business is sensitive to steel prices, which can impact our product pricing, with steel tubular prices generally having the highest degree of sensitivity. While we cannot predict steel prices, we manage this risk by managing our inventory levels, including maintaining sufficient quantity on hand to meet demand, while reducing the risk of overstocking.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

|  |     |
|--|-----|
| Audited Consolidated Financial Statements of MRC Global Inc. and Subsidiaries:                         |     |
| Management's Report on Internal Control over Financial Reporting                                       | F-1 |
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| Consolidated Balance Sheets as of December 31, 2014 and 2013   | F-4 |
| Consolidated Statements of Income for the years ended December 31, 2014 , 2013, and 2012               | F-5 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2014 , 2013, and 2012 | F-6 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014 , 2013, and 2012 | F-7 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2014 , 2013, and 2012           | F-8 |
| Notes to Consolidated Financial Statements   | F-9 |

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

As required by the Exchange Act, we maintain disclosure controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive and financial officers, has evaluated our disclosure controls and procedures as of December 31, 2014 and has concluded that our disclosure controls and procedures were effective as of December 31, 2014.

Pursuant to section 302 of the Sarbanes-Oxley Act of 2002, our Chief Executive Officer and Chief Financial Officer have provided certain certifications to the Securities and Exchange Commission. These certifications are included herein as Exhibits 31.1 and 31.2.

#### Management's Report on Internal Control Over Financial Reporting.

The Company's management report on internal control over financial reporting is set forth on page F-1 of this annual report and is incorporated herein by reference.

#### Attestation Report of our Registered Public Accounting Firm.

The Company's registered public accounting firm's attestation report on our internal control over financial reporting is set forth on page F-2 of this annual report and is incorporated herein by reference.

#### Changes in Internal Controls Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### ITEM 9B. OTHER INFORMATION

In February 2015, to further strengthen the link between long-term compensation and Company performance, we granted each of our officers named in the table below performance stock units pursuant to the MRC Global Inc. 2011 Omnibus Incentive Plan. Each recipient of performance stock units can earn shares of Company common stock between 0 and 150% of the target number of units based:

- 50% on a three-year total shareholder return relative to the companies in the Philadelphia OSX Index (the “OSX Index”) at the end of the three-year period ending December 31, 2017 (the “Performance Period”) and
- 50% on a three-year return on average net capital employed objective for the Performance Period.

The performance stock units vest at the end of the Performance Period so long as the recipient remains employed with the Company when the performance against the two criteria is measured.

Below is the number of target performance stock units that the Company granted to each executive:

| Name                 | Job Title                      | # of Performance Stock Units |
|----------------------|--------------------------------|------------------------------|
| Lane, Andrew R.      | Chairman, President & CEO      | 80,249                       |
| Braun, James E.      | Executive Vice President & CFO | 26,907                       |
| Churay, Daniel J.    | Executive Vice President & GC  | 15,106                       |
| Hutchinson, Scott A. | Senior Vice President- NAOPS   | 14,058                       |
| Isaac, Rory M.       | Senior Vice President- BD      | 15,389                       |
| Ittner, Gary A.      | Senior Vice President- SCM     | 7,506                        |
| Dionisio, James E.   | Senior VP- Energy Tubulars     | 11,349                       |
| Bowhay, John         | Senior VP - Asia Pacific & ME  | 12,085                       |
| Aasland, Steinar     | Senior VP – Europe             | 12,433                       |

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding our directors and nominees for director required by Item 401 of Regulation S-K will be presented under the heading “PROPOSAL I: ELECTION OF DIRECTORS” in our Proxy Statement prepared for the solicitation of proxies in connection with our annual Meeting of Stockholders to be held April 29, 2015 (“Proxy Statement”), which information is incorporated by reference herein.

Information regarding our executive officers required by Item 401(b) of Regulation S-K is presented at the end of Part I herein and captioned “Executive Officers of the Registrant” as permitted by General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

Information required by Item 405 of Regulation S-K will be included under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement, which information is incorporated by reference herein.

Information required by paragraphs (c)(3), (d)(4) and (d)(5) of Item 407 of Regulation S-K will be included under the heading “QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING” and “CORPORATE GOVERNANCE AND BOARD MATTERS” in our Proxy Statement, which information is incorporated by reference herein.

We have adopted a Code of Ethics for Principal Executive and Senior Financial Officers (“Code of Ethics for Senior Officers”) that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and Controller, or persons performing similar functions. The Code of Ethics for Senior Officers, together with our Corporate Governance Guidelines, the charters for each of our board committees, and our Code of Ethics applicable to all employees are available on our Internet website at [www.mrcglobal.com](http://www.mrcglobal.com). We will provide, free of charge, a copy of our Code of Ethics or any of our other corporate documents listed above upon written request to our Corporate Secretary at 2 Houston Center, 909 Fannin Street, Suite 3100, Houston, Texas 77010. We intend to disclose any amendments to or waivers of the Code of Ethics for Senior Officers on behalf of our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and Controller, and persons performing similar functions on our Internet website at [www.mrcglobal.com](http://www.mrcglobal.com) under the Investor Relations page, promptly following the date of any such amendment or waiver.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 and paragraphs (e)(4) and (e)(5) of Item 407 of Regulations S-K regarding executive compensation will be presented under the headings “Compensation Discussion and Analysis,” “Employment and Other Agreements,” “Summary Compensation Table for 2014,” “Grants of Plan-Based Awards in Fiscal Year 2014,” “Outstanding Equity Awards at 2014 Fiscal Year-End,” “Option Exercises and Stock Vested During 2014,” “Nonqualified Deferred Compensation,” “Nonqualified Deferred Compensation for 2014,” “Potential Payments upon Termination or Change in Control,” “Non-Employee Director Compensation,” “Compensation Committee Report,” and “Compensation Committee Interlocks and Insider Participation” in our Proxy Statement, which information is incorporated by reference herein. Notwithstanding the foregoing, the information provided under the heading “Compensation Committee Report” in our Proxy Statement is furnished and shall not be deemed to be filed for purposes of Section 18 of the Exchange Act is not subject to the liabilities of that section and is not deemed incorporated by reference in any filing under the Securities Act.



## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information regarding the security ownership of certain beneficial owners and management required by Item 403 of Regulation S-K will be presented under the heading “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in our Proxy Statement, which information is incorporated by reference herein.

The following table summarizes information, as of December 31, 2014, relating to our equity compensation plans pursuant to which grants of options, restricted stock, or certain other rights to acquire our shares may be granted from time to time.

| Plan Category  | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b)<br>Weighted-average exercise price of outstanding options, warrants and rights | (c)<br>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|--|--|
| Equity compensation plans approved by security holders:    |  |  |  |
| Stock options and restricted stock                         | 4,352,694  | \$<br>21.39  | 958,926  |
| Equity compensation plans not approved by security holders | None   | N/A  | None   |

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information regarding certain relationships and related transactions required by Item 404 and Item 407(a) of Regulation S-K will be presented under the headings “Certain Relationships and Related Transactions”, “Related Party Transaction Policy”, “CORPORATE GOVERNANCE AND BOARD MATTERS,” “Board and Committees,” “Board of Directors,” “Director Independence” and “Committees of the Board” in our Proxy Statement, which information is incorporated by reference herein.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information regarding our principal accounting fees and services required by Item 9(e) of Schedule 14A will be presented under the headings “Principal Accounting Fees and Services” and “Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Auditors” in our Proxy Statement, which information is incorporated by reference herein.





PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed as Part of this Annual Report:

1. Financial Statements.

See “Item 8—Financial Statements and Supplementary Data.”

2. Financial Statement Schedules.

All schedules are omitted because they are not applicable, not required or the information is included in the financial statements or the notes thereto.

3. List of Exhibits.

| Exhibit<br>Number | Description  |
|-------------------|--|
| 3.1               | Amended and Restated Certificate of Incorporation of MRC Global Inc. dated April 11, 2012. (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on April 17, 2012).   |
| 3.2               | Amended and Restated Bylaws of MRC Global Inc. dated November 7, 2013. (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on November 13, 2013).  |
| 10.1              | Second Amended and Restated Loan, Security and Guarantee Agreement, dated as of July 18, 2014, among McJunkin Red Man Corporation, Greenbrier Petroleum Corporation, McJunkin Red Man Development Corporation, Midway-Tristate Corporation, Milton Oil & Gas Company, MRC Management Company, Ruffner Realty Company and The South Texas Supply Company, Inc., as U.S. Borrowers and Guarantors, MRC Global Inc., as a Guarantor, MRC Global Australia Pty Ltd., as Australian Borrower, MRC Transmark NV, as a Belgian Borrower, MRC Canada ULC, as a Canadian Borrower, MRC Transmark B.V., as Dutch Borrower, MRC Global Norway AS, MRC Solberg & Andersen AS, MRC Energy Piping AS and MRC Teamtrade AS, as Norwegian Borrowers, MRC Flangefitt Limited, MRC Transmark Limited and MRC Transmark (Dragon) Limited, as UK Borrowers, any other Borrower party thereto from time to time and certain Persons party thereto from time to time as Guarantors, certain financial institutions, as lenders, Bank of America, N.A., as Administrative Agent, Security Trustee and Collateral Agent. (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on July 18, 2014). |
| 10.2              | Term Loan Credit Agreement, dated as of November 9, 2012, among McJunkin Red Man Corporation, as the Borrower, MRC Global Inc., as Guarantor, each other Subsidiary Guarantor from time to time party thereto, the several lenders from time to time party thereto, Banc of America, N.A., as Administrative Agent, U.S. Bank National Association, as Collateral Trustee, Goldman Sachs Lending Partners LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank PLC and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Bookrunners, Key Bank National Association and SunTrust Robinson Humphrey, Inc., as Co-Managers, Wells Fargo Bank, National Association, as Documentation Agent and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Barclays Bank PLC, as Co-Syndication Agents. (Incorporated by   |

reference to Exhibit 10.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on November 9, 2012).

- 10.2.1 Term Loan Guarantee and Acknowledgment, dated as of November 9, 2012, by each of the signatories listed on the signature pages thereto and each of the other entities that becomes a party thereto, in favor of the Administrative Agent (as defined therein) for the benefit of the Guaranteed Parties (as defined therein). (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on November 9, 2012).

- 10.2.2 Security Agreement, dated as of November 9, 2012, among McJunkin Red Man Corporation, MRC Global Inc., each of the subsidiaries of MRC Global Inc. listed on the signature pages thereto and U.S. Bank National Association, as Collateral Trustee for the benefit of the Secured Parties (as defined therein). (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on November 9, 2012).
- 10.2.3 Term Loan Pledge Agreement, dated as of November 9, 2012, among McJunkin Red Man Corporation, MRC Global Inc., each of the subsidiaries of MRC Global Inc. listed on the signature pages thereto and U.S. Bank National Association, as Collateral Trustee, for the benefit of the Secured Parties (as defined therein). (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on November 9, 2012).
- 10.2.4 Refinancing Amendment and Incremental Joinder Agreement, dated as of November 19, 2013, among McJunkin Red Man Corporation, MRC Global Inc., each of the subsidiaries of MRC Global Inc. listed on the signature pages thereto and U.S. Bank National Association, as Collateral Trustee, for the benefit of the Secured Parties (as defined therein). (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on November 20, 2013).
- 10.3 Amendment No. 2 to the Amended and Restated Registration Rights Agreement, dated as of April 11, 2012, by and among MRC Global Inc., PVF Holdings LLC and the other parties thereto. (Incorporated by reference to Exhibit 10.2.1 to Form 10-Q of MRC Global Inc. for the quarterly period ended March 31, 2012, filed with the SEC on May 7, 2012).
- 10.4† Employment Agreement, dated as of May 16, 2013, by and among MRC Global Inc. and Andrew R. Lane. (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on May 17, 2013).
- 10.5† Form of Employment Agreement by and among MRC Global Inc. and each of James E. Braun and Daniel J. Churay, and formerly with Gary Ittner and Rory Isaac (Incorporated by reference to Exhibit 10.5 to Form 10-K of MRC Global Inc. for the year ended December 31, 2013, filed with the SEC on February 21, 2014).
- 10.6† Form of deferral amendment to the Employment Agreements of Messrs. Rory Isaac and Gary Ittner (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on August 12, 2014).
- 10.7† Letter Agreement, dated as of September 24, 2008, by and among H.B. Wehrle, III, PVF Holdings LLC and McJunkin Red Man Corporation. (Incorporated by reference to Exhibit 10.11 to Amendment No. 1 of the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-153091), filed with the SEC on September 26, 2008).
- 10.8† Letter Agreement, dated as of December 22, 2008, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) and Craig Ketchum. (Incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.9† 2007 Stock Option Plan, as amended. (Incorporated by reference to Exhibit 10.13.1 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.9.1† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement. (Incorporated by reference to Exhibit 10.17.1 to Amendment No. 1 to the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-153091), filed with the SEC on September 26, 2008).

- 10.9.2† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement (Director Grant May 2010—Dutch residents). (Incorporated by reference to Exhibit 10.9.1 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.9.3† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement (Director Grant May 2010—US residents). (Incorporated by reference to Exhibit 10.9.1 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.10† 2007 Restricted Stock Plan, as amended. (Incorporated by reference to Exhibit 10.14.1 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.10.1† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Restricted Stock Award Agreement (for awards prior to 2015). (Incorporated by reference to Exhibit 10.18.1 to the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-153091) filed with the SEC on September 26, 2008).
- 10.11† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.20 to Amendment No. 1 of the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-153091), filed with the SEC on September 26, 2008).
- 10.12† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) 2011 Omnibus Incentive Plan. (Incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), filed with the SEC on March 5, 2012).
- 10.12.1† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Director Option Agreement. (Incorporated by reference to Exhibit 10.28.1 to the Registration Statement on Form S-1 of MRC Global Inc. (No. 333-178980), filed with the SEC on January 12, 2012).
- 10.12.2† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement (for awards prior to 2013). (Incorporated by reference to Exhibit 10.28.2 to the Registration Statement on Form S-1 of MRC Global Inc. (No. 333-178980), filed with the SEC on January 12, 2012).
- 10.12.3† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Director Restricted Stock Award Agreement (for awards prior to 2014). (Incorporated by reference to Exhibit 10.28.3 to the Registration Statement on Form S-1 of MRC Global Inc. (No. 333-178980), filed with the SEC on January 12, 2012).
- 10.12.4† Form of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Restricted Stock Award Agreement (for awards prior to 2013). (Incorporated by reference to Exhibit 10.28.4 to the Registration Statement on Form S-1 of MRC Global Inc. (No. 333-178980), filed with the SEC on January 12, 2012).
- 10.12.5† Form of MRC Global Inc. Nonqualified Stock Option Agreement (for awards after 2012). (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of MRC Global Inc. for the quarter ended March 31, 2013, filed with the SEC on May 3, 2013).
- 10.12.6† Form of MRC Global Inc. Restricted Stock Award Agreement (for awards after 2012). (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of MRC Global Inc. for the quarter ended March 31, 2013, filed with the SEC on May 3, 2013).

- 10.12.7† Form of MRC Global Inc. Nonqualified Stock Option Agreement. (Incorporated by reference to Exhibit 10.13.7 to Form 10-K of MRC Global Inc. for the year ended December 31, 2013, filed with the SEC on February 21, 2014).
- 10.12.8† Form of MRC Global Inc. Restricted Stock Award Agreement. (Incorporated by reference to Exhibit 10.13.8 to Form 10-K of MRC Global Inc. for the year ended December 31, 2013, filed with the SEC on February 21, 2014).
- 10.12.9† Form of MRC Global Inc. Director Restricted Stock Award Agreement. (Incorporated by reference to Exhibit 10.13.9 to Form 10-K of MRC Global Inc. for the year ended December 31, 2013, filed with the SEC on February 21, 2014).
- 10.12.10†\*Form of MRC Global Inc. Performance Share Unit Award Agreement.
- 10.12.11†\*Restricted Stock Award Agreement (for awards after 2014).
- 10.13† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Director Compensation Plan. (Incorporated by reference to Exhibit 10.14 to Form 10-K of MRC Global Inc. for the year ended December 31, 2013, filed with the SEC on February 21, 2014).
- 10.14† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement, dated as of September 10, 2008, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), PVF Holdings LLC, and Andrew R. Lane. (Incorporated by reference to Exhibit 10.31 to Amendment No. 1 to the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-153091), filed with the SEC on September 26, 2008).
- 10.14.1† Amendment to the MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement, dated as of June 1, 2009, by and among McJunkin Red Man Holding Corporation, PVF Holdings LLC, and Andrew R. Lane. (Incorporated by reference to Exhibit 10.23.2 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.14.2† Second Amendment to the MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement, dated as of September 10, 2009, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), PVF Holdings LLC, and Andrew R. Lane. (Incorporated by reference to Exhibit 10.23.3 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.14.3† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Restricted Stock Award Agreement, dated as of February 24, 2009, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), PVF Holdings LLC, and Andrew R. Lane. (Incorporated by reference to Exhibit 10.24.1 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.14.4† Amendment to the MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Restricted Stock Award Agreement, dated as of June 1, 2009, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), PVF Holdings LLC, and Andrew R. Lane. (Incorporated by reference to Exhibit 10.24.2 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).

- 10.15† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement, dated as of October 3, 2008, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation, PVF Holdings LLC, and Len Anthony. (Incorporated by reference to Exhibit 10.26.1 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.15.1† Amendment to the MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement, dated as of September 10, 2009, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), PVF Holdings LLC, and Len Anthony. (Incorporated by reference to Exhibit 10.26.2 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.15.2† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Restricted Stock Award Agreement, dated as of September 10, 2009, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), PVF Holdings LLC, and Len Anthony. (Incorporated by reference to Exhibit 10.27 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035, filed with the SEC on March 24, 2011).
- 10.16† MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) Nonqualified Stock Option Agreement, dated as of December 3, 2009, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), PVF Holdings LLC, and John A. Perkins. (Incorporated by reference to Exhibit 10.29 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.17† Indemnification Agreement by and between the Company and Peter C. Boylan, III dated August 11, 2010. (Incorporated by reference to Exhibit 10.30 to the Registration Statement on Form S-4 of McJunkin Red Man Corporation (No. 333-173035), filed with the SEC on March 24, 2011).
- 10.18 Indemnity Agreement, dated as of December 4, 2006, by and among MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation), Hg Acquisition Corp., McJunkin Red Man Corporation, and certain shareholders of McJunkin Red Man Corporation named therein. (Incorporated by reference to Exhibit 10.21 to Amendment No. 1 of the Registration Statement on Form S-1 of MRC Global Inc. (formerly known as McJunkin Red Man Holding Corporation) (No. 333-153091), filed with the SEC on September 26, 2008).
- 10.19†\* Form of Indemnification Agreement between MRC Global Inc. and Officers, Directors and Employees.
- 21.1\* List of Subsidiaries of MRC Global Inc.
- 23.1\* Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 31.1\* Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities and 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 and 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 Annual Report on Form 10-K for the period ended December 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets at December 31, 2014 and December 31, 2013, (ii) the Consolidated Statements of Income for the twelve month periods ended December 31, 2014, 2013 and 2012, (iii) the Consolidated Statements of Comprehensive Income for the twelve month periods ended December 31, 2014, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the twelve month periods ended December 31, 2014, 2013 and 2012, (v) the Consolidated Statements of Stockholders' Equity for the twelve month periods ended December 31, 2014, 2013 and 2012 and (vi) Notes to Consolidated Financial Statements.

101\* Interactive data file.

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase

101.DEF\* XBRL Taxonomy Extension Definition Linkbase

101.LAB\* XBRL Taxonomy Extension Label Linkbase

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase

†Management contract or compensatory plan or arrangement required to be posted as an exhibit to this report.

\*Filed herewith.

\*\*Furnished herewith.



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/ ANDREW R. LANE

Andrew R. Lane

Chairman, President and Chief Executive Officer

Date: February 20, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

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| Signature          | Title   | Date              |
|--------------------|---|-------------------|
| /S/ ANDREW R. LANE |   | February 20, 2015 |
| Andrew R. Lane     | Chairman, President and Chief Executive Officer<br>(principal executive officer)      |                   |
| /S/ JAMES E. BRAUN |   | February 20, 2015 |
| James E. Braun     | Executive Vice President and Chief Financial Officer<br>(principal financial officer) |                   |
| /S/ ELTON BOND     |   | February 20, 2015 |
| Elton Bond         | Senior Vice President and Chief Accounting Officer<br>(principal accounting officer)  |                   |
| /S/ RHYS J. BEST   |   | February 20, 2015 |
|                    | Lead Director   |                   |

Rhys J. Best

/S/ LEONARD M. ANTHONY Director February 20, 2015

Leonard M. Anthony

/S/ PETER C. BOYLAN, III Director February 20, 2015

Peter C. Boylan, III

/S/ HENRY CORNELL Director February 20, 2015

Henry Cornell

/S/ CRAIG KETCHUM Director February 20, 2015

Craig Ketchum

/S/ GERARD P. KRANS Director February 20, 2015

Gerard P. Krans

/S/ DR. CORNELIS ADRIANUS  
LINSE Director February 20, 2015

Dr. Cornelis Adrianus Linse

/S/ JOHN A. PERKINS Director February 20, 2015

John A. Perkins

/S/ H.B. WEHRLE, III Director February 20, 2015

H.B. Wehrle, III

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

MRC Global Inc.'s management is responsible for establishing and maintaining adequate internal control over financial reporting. MRC Global Inc.'s internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected and corrected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management has used the framework set forth in the report entitled "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission (2013 framework) to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

Management has excluded Stream AS and subsidiaries from its assessment of internal controls over financial reporting as of December 31, 2014 because the Company acquired Stream AS effective January 6, 2014. Stream AS and subsidiaries contributed approximately 4% of consolidated assets and revenue as of and for the year ended December 31, 2014.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Form 10-K, has issued an attestation report on the Company's internal control over financial reporting. Ernst & Young LLP's attestation report on the Company's internal control over financial reporting is included in this Form 10-K.

/S/ ANDREW R. LANE

Andrew R. Lane

Chairman, President and Chief Executive Officer

/s/ JAMES E. BRAUN

James E. Braun

Executive Vice President and Chief Financial Officer

Houston, Texas

February 20, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

MRC Global Inc. and Subsidiaries

We have audited MRC Global Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). MRC Global Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying "Management's Report on Internal Control over Financial Reporting," management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Stream AS and subsidiaries which are included in the December 31, 2014 consolidated financial statements of MRC Global Inc. and subsidiaries and constituted approximately 4% of consolidated assets, net assets and revenues and approximately (3%) of net income as of and for the year ended December 31, 2014. Our audit of internal control over financial reporting of MRC Global Inc. and subsidiaries also did not include an evaluation of the internal control over financial reporting of Stream AS and subsidiaries.

In our opinion, MRC Global Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MRC Global Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas

February 20, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

MRC Global Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of MRC Global Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MRC Global Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MRC Global Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas

February 20, 2015

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## CONSOLIDATED BALANCE SHEETS

## MRC GLOBAL INC.

|   | December 31,                             |              |
|---|--|--------------|
|   | 2014                                     | 2013         |
|   | (In thousands, except per share amounts) |              |
| Assets  |  |              |
| Current assets:   |  |              |
| Cash  | \$ 25,064                                | \$ 25,188    |
| Accounts receivable, net  | 974,454                                  | 812,147      |
| Inventories, net  | 1,186,946                                | 971,567      |
| Other current assets  | 35,698                                   | 37,091       |
| Total current assets  | 2,222,162                                | 1,845,993    |
| Other assets  | 28,534                                   | 30,473       |
| Property, plant and equipment, net  | 116,001                                  | 118,923      |
| Intangible assets:  |  |              |
| Goodwill, net   | 806,006                                  | 632,284      |
| Other intangible assets, net  | 701,118                                  | 708,009      |
|   | \$ 3,873,821                             | \$ 3,335,682 |
| Liabilities and stockholders' equity  |  |              |
| Current liabilities:  |  |              |
| Trade accounts payable  | \$ 538,943                               | \$ 550,393   |
| Accrued expenses and other current liabilities  | 167,825                                  | 124,925      |
| Deferred income taxes   | 69,435                                   | 78,844       |
| Current portion of long-term debt   | 7,935                                    | 7,935        |
| Total current liabilities   | 784,138                                  | 762,097      |
| Long-term obligations:  |  |              |
| Long-term debt, net   | 1,445,709                                | 978,899      |
| Deferred income taxes   | 223,705                                  | 241,116      |
| Other liabilities   | 23,054                                   | 15,302       |
| Commitments and contingencies   |  |              |
| Stockholders' equity:   |  |              |
| Common stock, \$0.01 par value per share: 500,000 shares authorized, 102,095 and 101,913 issued and outstanding, respectively | 1,022                                    | 1,019        |

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|  |              |              |
|--|--------------|--------------|
| Preferred stock, \$0.01 par value per share; 100,000 shares authorized, no shares issued and outstanding | -            | -            |
| Additional paid-in capital   | 1,655,696    | 1,644,406    |
| Retained deficit   | (122,625)    | (266,735)    |
| Accumulated other comprehensive loss   | (136,878)    | (40,422)     |
|  | 1,397,215    | 1,338,268    |
|  | \$ 3,873,821 | \$ 3,335,682 |

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME

## MRC GLOBAL INC.

|  | Year Ended December 31,                  |              |              |
|--|--|--------------|--------------|
|  | 2014                                     | 2013         | 2012         |
|  | (In thousands, except per share amounts) |              |              |
| Sales  | \$ 5,933,212                             | \$ 5,230,792 | \$ 5,570,858 |
| Cost of sales                                | 4,915,106                                | 4,276,033    | 4,557,115    |
| Gross profit                                 | 1,018,106                                | 954,759      | 1,013,743    |
| Selling, general and administrative expenses | 715,958                                  | 642,994      | 606,753      |
| Operating income                             | 302,148                                  | 311,765      | 406,990      |
| Other (expense) income:                      |  |              |              |
| Interest expense                             | (61,752)                                 | (60,685)     | (112,519)    |
| Loss on early extinguishment of debt         | -  | -            | (113,961)    |
| Other, net                                   | (14,450)                                 | (14,169)     | 1,186        |
| Income before income taxes                   | 225,946                                  | 236,911      | 181,696      |
| Income tax expense                           | 81,836                                   | 84,816       | 63,738       |
| Net income                                   | \$ 144,110                               | \$ 152,095   | \$ 117,958   |
| Basic earnings per common share              | \$ 1.41                                  | \$ 1.50      | \$ 1.22      |
| Diluted earnings per common share            | \$ 1.40                                  | \$ 1.48      | \$ 1.22      |
| Weighted-average common shares, basic        | 102,006                                  | 101,712      | 96,465       |
| Weighted-average common shares, diluted      | 102,790                                  | 102,522      | 96,925       |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

MRC GLOBAL INC.

|  | Year Ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2014                    | 2013       | 2012       |
|  | (In thousands)          |            |            |
| Net income                               | \$ 144,110              | \$ 152,095 | \$ 117,958 |
| Other comprehensive (loss) income:       |                         |            |            |
| Foreign currency translation adjustments | (96,092)                | (18,344)   | 3,793      |
| Pension related adjustments              | (364)                   | 86         | 183        |
| Total other comprehensive (loss) income  | (96,456)                | (18,258)   | 3,976      |
| Comprehensive income                     | \$ 47,654               | \$ 133,837 | \$ 121,934 |

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

## MRC GLOBAL INC.

|                 | Common Stock |        | Additional   | Retained     | Accumulated   | Total         |
|-----------------|--------------|--------|--------------|--------------|---------------|---------------|
|                 | Shares       | Amount | Paid-in      | Earnings     | Other         | Stockholders' |
|                 |              |        | Capital      | (Deficit)    | Comprehensive | Equity        |
|                 |              |        |              |              | Income (Loss) |               |
| (In thousands)  |              |        |              |              |               |               |
| Balance at      |              |        |              |              |               |               |
| December 31,    |              |        |              |              |               |               |
| 2011            | 84,427       | \$ 844 | \$ 1,282,949 | \$ (536,791) | \$ (26,140)   | \$ 720,862    |
| Net income      | -            | -      | -            | 117,958      | -             | 117,958       |
| Foreign         |              |        |              |              |               |               |
| currency        |              |        |              |              |               |               |
| translation     | -            | -      | -            | -            | 3,793         | 3,793         |
| Pension         |              |        |              |              |               |               |
| related         |              |        |              |              |               |               |
| adjustments     | -            | -      | -            | -            | 183           | 183           |
| Common          |              |        |              |              |               |               |
| stock issued in |              |        |              |              |               |               |
| initial public  |              |        |              |              |               |               |
| offering        | 17,046       | 171    | 333,171      | -            | -             | 333,342       |
| Vesting of      |              |        |              |              |               |               |
| restricted      |              |        |              |              |               |               |
| stock           | 22           | -      | -            | -            | -             | -             |
| Forfeited       |              |        |              |              |               |               |
| dividends on    |              |        |              |              |               |               |
| forfeited       |              |        |              |              |               |               |
| unvested        |              |        |              |              |               |               |
| restricted      |              |        |              |              |               |               |
| stock           | -            | -      | -            | 3            | -             | 3             |
| Equity-based    |              |        |              |              |               |               |
| compensation    |              |        |              |              |               |               |
| expense         | -            | -      | 8,475        | -            | -             | 8,475         |
| Exercise of     |              |        |              |              |               |               |
| stock options   | 68           | 1      | 676          | -            | -             | 677           |
| Tax benefits    |              |        |              |              |               |               |
| on              |              |        |              |              |               |               |
| equity-based    |              |        |              |              |               |               |
| compensation    | -            | -      | 629          | -            | -             | 629           |
| Balance at      |              |        |              |              |               |               |
| December 31,    |              |        |              |              |               |               |
| 2012            | 101,563      | 1,016  | 1,625,900    | (418,830)    | (22,164)      | 1,185,922     |
| Net income      | -            | -      | -            | 152,095      | -             | 152,095       |
|                 | -            | -      | -            | -            | (18,344)      | (18,344)      |

|   |         |          |              |              |              |              |  |  |
|---|---------|----------|--------------|--------------|--------------|--------------|--|--|
| Foreign<br>currency<br>translation                |         |          |              |              |              |              |  |  |
| Pension<br>related<br>adjustments                 | -       | -        | -            | -            | 86           | 86           |  |  |
| Vesting of<br>restricted<br>stock                 | 135     | -        | -            | -            | -            | -            |  |  |
| Shares<br>withheld for<br>taxes                   | (48)    | -        | (1,512)      | -            | -            | (1,512)      |  |  |
| Forfeited<br>restricted<br>stock                  | -       | -        | (7)          | -            | -            | (7)          |  |  |
| Equity-based<br>compensation<br>expense           | -       | -        | 15,488       | -            | -            | 15,488       |  |  |
| Exercise of<br>stock options                      | 263     | 3        | 3,282        | -            | -            | 3,285        |  |  |
| Tax benefit on<br>equity-based<br>compensation    | -       | -        | 1,261        | -            | -            | 1,261        |  |  |
| Other   | -       | -        | (6)          | -            | -            | (6)          |  |  |
| Balance at<br>December 31,<br>2013                | 101,913 | 1,019    | 1,644,406    | (266,735)    | (40,422)     | 1,338,268    |  |  |
| Net income  | -       | -        | -            | 144,110      | -            | 144,110      |  |  |
| Foreign<br>currency<br>translation                | -       | -        | -            | -            | (96,092)     | (96,092)     |  |  |
| Pension<br>related<br>adjustments                 | -       | -        | -            | -            | (364)        | (364)        |  |  |
| Vesting of<br>restricted<br>stock                 | 36      | -        | -            | -            | -            | -            |  |  |
| Shares<br>withheld for<br>taxes                   | (15)    | -        | (367)        | -            | -            | (367)        |  |  |
| Equity-based<br>compensation<br>expense           | -       | -        | 8,973        | -            | -            | 8,973        |  |  |
| Exercise of<br>stock options                      | 161     | 3        | 2,696        | -            | -            | 2,699        |  |  |
| Tax expense<br>on<br>equity-based<br>compensation | -       | -        | (12)         | -            | -            | (12)         |  |  |
|   | 102,095 | \$ 1,022 | \$ 1,655,696 | \$ (122,625) | \$ (136,878) | \$ 1,397,215 |  |  |

Balance at  
December 31,  
2014

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

## MRC GLOBAL INC.

|   | Year Ended December 31, |             |             |
|---|-------------------------|-------------|-------------|
|   | 2014                    | 2013        | 2012        |
|   | (In thousands)          |             |             |
| Operating activities  |                         |             |             |
| Net income  | \$ 144,110              | \$ 152,095  | \$ 117,958  |
| Adjustments to reconcile net income to net cash (used in) provided by operations: |                         |             |             |
| Depreciation and amortization   | 22,459                  | 22,338      | 18,585      |
| Amortization of intangibles   | 67,799                  | 52,072      | 49,466      |
| Equity-based compensation expense   | 8,973                   | 15,488      | 8,475       |
| Deferred income tax benefit   | (34,200)                | (19,823)    | (20,432)    |
| Amortization of debt issuance costs   | 5,008                   | 5,777       | 8,782       |
| Loss on early extinguishment of debt  | -                       | -           | 113,961     |
| Increase (decrease) in LIFO reserve   | 11,860                  | (20,180)    | (24,140)    |
| Change in fair value of derivative instruments                                    | 1,087                   | (4,731)     | (2,186)     |
| Provision for uncollectible accounts  | 1,727                   | (298)       | 2,428       |
| Foreign currency losses (gains)   | 2,462                   | 12,913      | (766)       |
| Other non-cash items  | 7,673                   | 4,002       | 9,412       |
| Changes in operating assets and liabilities:                                      |                         |             |             |
| Accounts receivable   | (132,127)               | 2,069       | 22,399      |
| Inventories   | (208,711)               | 4,479       | 26,674      |
| Income taxes payable  | 13,296                  | (7,057)     | (12,593)    |
| Other current assets  | 2,405                   | (8,738)     | (681)       |
| Accounts payable  | (29,747)                | 117,320     | (84,380)    |
| Accrued expenses and other current liabilities                                    | 9,548                   | (4,138)     | 7,110       |
| Net cash (used in) provided by operations   | (106,378)               | 323,588     | 240,072     |
| Investing activities  |                         |             |             |
| Purchases of property, plant and equipment  | (20,078)                | (22,068)    | (26,189)    |
| Proceeds from the disposition of property, plant and equipment                    | 1,335                   | 4,583       | 2,272       |
| Acquisitions, net of cash acquired of \$3,757, \$2,433 and \$0                    | (343,928)               | (46,794)    | (152,367)   |
| Other investing activities  | 700                     | (5,130)     | (6,755)     |
| Net cash used in investing activities   | (361,971)               | (69,409)    | (183,039)   |
| Financing activities  |                         |             |             |
| Proceeds from the sale of common stock  | -                       | -           | 333,342     |
| Payments on revolving credit facilities   | (1,501,122)             | (2,150,188) | (2,422,136) |
| Proceeds from revolving credit facilities   | 1,977,162               | 1,738,213   | 2,571,835   |
| Purchases and redemption of senior secured notes                                  | -                       | -           | (1,135,223) |
| Proceeds from issuance of term loan   | -                       | 150,000     | 643,500     |
| Payments on long-term obligations   | (7,935)                 | (6,859)     | (33,081)    |
| Debt issuance costs paid  | (3,713)                 | (697)       | (20,038)    |



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|   |            |            |            |
|---|------------|------------|------------|
| Proceeds from exercise of stock options             | 2,699      | 3,285      | 677        |
| Tax benefit on stock options                        | 150        | 1,261      | 629        |
| Other financing activities                          | -          | (6)        | 3          |
| Net cash provided by (used in) financing activities | 467,241    | (264,991)  | (60,492)   |
| Decrease in cash                                    | (1,108)    | (10,812)   | (3,459)    |
| Effect of foreign exchange rate on cash             | 984        | (1,090)    | (5,578)    |
| Cash -- beginning of year                           | 25,188     | 37,090     | 46,127     |
| Cash -- end of year                                 | \$ 25,064  | \$ 25,188  | \$ 37,090  |
| Supplemental disclosures of cash flow information:  |            |            |            |
| Cash paid for interest                              | \$ 56,551  | \$ 55,484  | \$ 104,846 |
| Cash paid for income taxes                          | \$ 102,648 | \$ 110,104 | \$ 96,526  |
| See notes to consolidated financial statements.     |            |            |            |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MRC GLOBAL INC.

December 31, 2014

### NOTE 1—SIGNIFICANT ACCOUNTING POLICIES

**Business Operations:** MRC Global Inc. is a holding company headquartered in Houston, Texas. Our wholly owned subsidiaries are global distributors of pipe, valves, fittings 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:** 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.

**Use of Estimates:** The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. We believe that our most significant estimates and assumptions are related to estimated losses on accounts receivable, the last-in, first-out (“LIFO”) inventory costing methodology, estimated realizable value on excess and obsolete inventories, goodwill, intangible assets, deferred taxes and self-insurance programs. Actual results could differ materially from those estimates.

**Cash Equivalents:** We consider all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

**Allowance for Doubtful Accounts:** We evaluate the adequacy of the allowance for losses on receivables based upon periodic evaluation of accounts that may have a higher credit risk using information available about the customer and other relevant data. This formal analysis is inherently subjective and requires us to make significant estimates of factors affecting doubtful accounts including customer specific information, current economic conditions, volume, growth and composition of the account, and other factors such as financial statements, news reports and published credit ratings. The amount of the allowance for the remainder of the trade balance is not evaluated individually but is based upon historical loss experience. Because this process is subjective and based on estimates, ultimate losses may differ from those estimates. Receivable balances are written off when we determine that the balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance when received. The provision for losses on receivables is included in selling, general and administrative expenses in the accompanying consolidated statements of income.

**Inventories:** Our inventories are valued at the lower of cost, principally LIFO, or market. We believe that the use of LIFO results in a better matching of costs and revenues. This practice excludes certain inventories, which are held outside of the United States, approximating \$315.4 million and \$264.0 million at December 31, 2014 and 2013, which are valued at the lower of weighted-average cost or market. Our inventory is substantially comprised of finished goods.

Allowances for excess and obsolete inventories are determined based on analyses comparing inventories on hand to sales trends. The allowance, which totaled \$24.6 million and \$23.2 million at December 31, 2014 and 2013, is the amount deemed necessary to reduce the cost of the inventory to its estimated realizable value.

Debt Issuance Costs: We defer costs directly related to obtaining financing and amortize them over the term of the indebtedness on a straight-line basis. The use of the straight-line method does not produce results that are materially different from those which would result from the use of the effective interest method. These amounts are reflected in the consolidated statement of operations as a component of interest expense. Debt issuance costs are reflected in other assets and totaled \$17.8 million and \$19.1 million, net of accumulated amortization of \$2.9 million and \$5.7 million, at December 31, 2014 and 2013.

Fixed Assets: Land, buildings and equipment are stated on the basis of cost. For financial statement purposes, depreciation is computed over the estimated useful lives of such assets principally by the straight-line method; accelerated depreciation and cost recovery methods are used for income tax purposes. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the improvements. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income for the period. Maintenance and repairs are charged to expense as incurred.

Goodwill and Other Intangible Assets: Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill is tested for impairment annually or more frequently if circumstances indicate that impairment may exist. We evaluate goodwill for impairment at three reporting units that mirror our three segments (U.S., Canada and International).

The goodwill impairment test compares the carrying value of the reporting unit that has the goodwill with the estimated fair value of that reporting unit. If the carrying value is more than the estimated fair value, we then calculate the implied fair value of goodwill by

deducting the fair value of all tangible and intangible net assets of the reporting unit from the estimated fair value of the reporting unit. Impairment losses are recognized to the extent that recorded goodwill exceeds implied goodwill. Our impairment methodology uses discounted cash flow and multiples of cash earnings valuation techniques, as well as valuation comparisons to similar businesses. These valuation methods require us to make certain assumptions and estimates regarding future operating results, the extent and timing of future cash flows, working capital, sales prices, profitability, discount rates and growth trends. While we believe that these assumptions and estimates are reasonable, the actual results may differ materially from the projected results.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if circumstances indicate that impairment may exist. This test compares the carrying value of the indefinite lived intangible assets with their estimated fair value. If the carrying value is more than the estimated fair value, impairment losses are recognized in an amount equal to the excess of the carrying value over the estimated fair value. Our impairment methodology uses discounted cash flow and estimated royalty rate valuation techniques. These valuation methods require us to make certain assumptions and estimates regarding future operating results, sales prices, discount rates and growth trends. While we believe that such assumptions and estimates are reasonable, the actual results may differ materially from the projected results.

Other intangible assets primarily include trade names, customer bases and noncompetition agreements resulting from business acquisitions. Other intangible assets are recorded at fair value at the date of acquisition. Amortization is provided using the straight-line method over their estimated useful lives, ranging from two to twenty years.

The carrying value of amortizable intangible assets is subject to an impairment test when events or circumstances indicate a possible impairment. When events or circumstances indicate a possible impairment, we assess recoverability from future operations using undiscounted cash flows derived from the lowest appropriate asset group. If the carrying value exceeds the undiscounted cash flows, an impairment charge would be recognized to the extent that the carrying value exceeds the fair value, which is determined based on a discounted cash flow analysis. While we believe that assumptions and estimates utilized in the impairment analysis are reasonable, the actual results may differ materially from the projected results. These impairments are determined prior to performing our goodwill impairment test.

**Derivatives and Hedging:** From time to time, we utilize interest rate swaps to reduce our exposure to potential interest rate increases. Changes in the fair values of our derivative instruments are based upon independent market quotes. We do not designate our interest rate swaps as hedging instruments; therefore, we record our interest rate swaps on the consolidated balance sheets at fair value, with the gains and losses recognized in earnings in the period of change.

We utilize foreign exchange forward contracts (exchange contracts) and options to manage our foreign exchange rate risks resulting from purchase commitments and sales orders. Changes in the fair values of our exchange contracts are based upon independent market quotes. We do not designate our exchange contracts as hedging instruments; therefore, we record our exchange contracts on the consolidated balance sheets at fair value, with the gains and losses recognized in earnings in the period of change.

**Fair Value:** We measure certain of our assets and liabilities at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions for inputs used in the valuation methodologies to measuring fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2: Significant observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs for the asset or liability. Unobservable inputs reflect our own assumptions about the assumptions that market participants would use in pricing an asset or liability (including all assumptions about risk).

Certain assets and liabilities are measured at fair value on a nonrecurring basis. Our assets and liabilities measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. We do not measure these assets at fair value on an ongoing basis; however, these assets are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

Our impairment methodology for goodwill and other intangible assets uses both (i) a discounted cash flow analysis requiring certain assumptions and estimates to be made regarding the extent and timing of future cash flows, discount rates and growth trends and (ii) valuation based on our publicly traded common stock. As all of the assumptions employed to measure these assets and liabilities on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified as Level 3. We have not elected to apply the fair value option to any of our eligible financial assets and liabilities.

Insurance: We are self-insured for physical damage to automobiles that we own, lease or rent, and product warranty and recall liabilities. In addition, we maintain a deductible/retention program as it relates to insurance for property, stock throughput, inventory,

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workers' compensation, automobile liability, asbestos claims, general liability claims (including, among others, certain product liability claims for property damage, death or injury) and employee healthcare. These programs have deductibles ranging from \$0 to \$1.0 million and are secured by various letters of credit totaling \$8.7 million. Our estimated liability and related expenses for claims are based in part upon estimates that insurance carriers, third-party administrators and actuaries provide. We believe that insurance reserves are sufficient to cover outstanding claims, including those incurred but not reported as of the estimation date. Further, we maintain commercially reasonable umbrella/excess policy coverage in excess of the primary limits. We do not have excess coverage for physical damage to automobiles that we own, lease or rent, and product warranty and recall liabilities. Our accrued liabilities related to all deductibles/retentions under insurance programs (other than employee healthcare) were \$8.5 million and \$7.8 million as of December 31, 2014 and 2013, respectively. In the area of employee healthcare, we have a commercially reasonable excess stop loss protection on a per person per year basis. Reserves for self-insurance accrued liabilities for employee healthcare were \$2.6 million and \$3.3 million as of December 31, 2014 and 2013, respectively.

**Income Taxes:** We use the liability method for determining our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered.

Deferred tax assets and liabilities are recorded for differences between the financial reporting and tax bases of assets and liabilities using the tax rate expected to be in effect when the taxes will actually be paid or refunds received. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In determining the need for valuation allowances and our ability to utilize our deferred tax assets, we consider and make judgments regarding all the available positive and negative evidence, including the timing of the reversal of deferred tax liabilities, estimated future taxable income, ongoing, prudent and feasible tax planning strategies and recent financial results of operations. The amount of the deferred tax assets considered realizable however could be adjusted in the future if objective negative evidence in the form of cumulative losses is no longer present in certain jurisdictions and additional weight may be given to subjective evidence such as our projections for growth.

Our tax provision is based upon our expected taxable income and statutory rates in effect in each country in which we operate. We are subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or our level of operations or profitability in each taxing jurisdiction could have an impact on the amount of income taxes we provide during any given year.

A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including any related appeals or litigation processes, on the basis of the technical merits. We adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which the new information is available. We classify interest and penalties related to unrecognized tax positions as income taxes in our financial statements.

We intend to permanently reinvest certain earnings of our foreign subsidiaries in operations outside the U.S., and accordingly, we have not provided for U.S. income taxes on such earnings.

**Foreign Currency Translation and Transactions:** The functional currency of our foreign operations is the applicable local currency. The cumulative effects of translating the balance sheet accounts from the functional currency into the U.S. dollar at current exchange rates are included in accumulated other comprehensive income. The balance sheet accounts (with the exception of stockholders' equity) are translated using current exchange rates as of the balance sheet date. Stockholders' equity is translated at historical exchange rates and revenue and expense accounts are translated using a weighted-average exchange rate during the year. Gains or losses resulting from foreign currency transactions are recognized in the consolidated statements of income.

**Equity-Based Compensation:** Our equity-based compensation consisted and consists of (i) restricted common units and profit units of PVF Holdings LLC, our former parent, and (ii) restricted stock and nonqualified stock options of our Company. The cost of employee services received in exchange for an award of an equity instrument is measured based on the grant-date fair value of the award. Our policy is to expense equity-based compensation using the fair-value of awards granted, modified or settled. Restricted common units, profit units and restricted stock are credited to equity as they are expensed over their vesting periods based on the grant date value of the shares vested. The fair value of nonqualified stock options is measured on the grant date of the related equity instrument using the Black-Scholes option-pricing model and is recognized as compensation expense over the applicable vesting period.

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**Revenue Recognition:** Sales to our principal customers are made pursuant to agreements that normally provide for transfer of legal title and risk upon shipment. We recognize revenue as products are shipped, title has transferred to the customer and the customer assumes the risks and rewards of ownership, and collectability is reasonably assured. Freight charges billed to customers are reflected in revenues. Return allowances are estimated using historical experience. Amounts received in advance of shipment are deferred and recognized as revenue when the products are shipped and title is transferred. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales in the accompanying consolidated statements of income.

**Cost of Sales:** Cost of sales includes the cost of inventory sold and related items, such as vendor rebates, inventory allowances, and shipping and handling costs associated with inbound and outbound freight, as well as depreciation and amortization and amortization of intangible assets. Certain purchasing costs and warehousing activities (including receiving, inspection and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross profit may not be comparable to others that may include these expenses as a component of cost of sales. Purchasing and warehousing costs approximated \$45.7 million, \$37.2 million, and \$34.8 million for the years ended December 31, 2014, 2013 and 2012.

**Earnings per Share:** Basic earnings per share are computed based on the weighted-average number of common shares outstanding, excluding any dilutive effects of unexercised stock options and unvested restricted stock. Diluted earnings per share are computed based on the weighted-average number of common shares outstanding including any dilutive effect of unexercised stock options and unvested restricted stock. The dilutive effect of unexercised stock options and unvested restricted stock is calculated under the treasury stock method.

**Concentration of Credit Risk:** Most of our business activity is with customers in the energy and industrial sectors. In the normal course of business, we grant credit to these customers in the form of trade accounts receivable. These receivables could potentially subject us to concentrations of credit risk; however, we minimize this risk by closely monitoring extensions of trade credit. We generally do not require collateral on trade receivables. We have a broad customer base doing business in many regions of the world. During 2014, 2013 and 2012, we did not have sales to any one customer in excess of 10% of sales. At those respective year-ends, no individual customer balances exceeded 10% of accounts receivable.

We have a broad supplier base, sourcing our products in most regions of the world. During 2014, 2013 and 2012, we did not have purchases from any one vendor in excess of 10% of our inventory purchases. At those respective year-ends no individual vendor balance exceeded 10% of accounts payable.

We maintain the majority of our cash and cash equivalents with several financial institutions. These financial institutions are located in many different geographical regions with varying economic characteristics and risks. Deposits held with banks may exceed insurance limits. We believe the risk of loss associated with our cash equivalents to be remote.

**Segment Reporting:** We have three operating and reportable segments, the United States of America, Canada, and International. These segments represent our global business of providing pipe, valves, fittings 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 and petrochemical processing) markets, through our distribution operations located throughout the world.



Recently Issued Accounting Standards: In May 2014, the FASB issued 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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the effect of the adoption of ASU 2014-09 on its consolidated financial statements and the implementation approach to be used.

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## NOTE 2—ACQUISITIONS

In 2014, we completed three acquisitions for an aggregate purchase price of \$343.9 million, net of cash acquired. These acquisitions included:

- Stream AS (“Stream”). Stream is the leading pipe, valve and fittings distributor and provider of flow control products, solutions and services to the offshore oil and gas industry on the Norwegian Continental Shelf.
- MSD Engineering Pte. Limited (“MSD”). MSD is a major distributor and regional service provider of valve and valve automation solutions to customers in Singapore, Brunei, China, Malaysia, Indonesia, Thailand, Vietnam and Taiwan.
- Metron Holding AS, the parent company of Hypeck AS (“Hypeck”). Hypeck is a Norwegian provider of instrumentation and process control products to the offshore, marine and onshore industries with a focus on the Norwegian Continental Shelf. The company also provides instrumentation and process and control system solutions to capital offshore projects around the world.

The preliminary purchase price allocation of each acquisition was based on preliminary valuations. Our estimates and assumptions are subject to change upon the receipt and review of final valuations. The goodwill recognized for the acquisitions was primarily attributable to the expected profitability of the acquired businesses and synergies expected to arise after the acquisitions. Goodwill recorded in connection with these transactions is not deductible. The consideration paid for these acquisitions has been allocated as follows (in millions):

|                                      | 2014<br>Acquisitions |        |
|--------------------------------------|----------------------|--------|
| Net assets acquired:                 |                      |        |
| Current assets, net of cash acquired | \$                   | 124.0  |
| Other long-term assets               |                      | 10.8   |
| Identifiable intangible assets       |                      | 78.4   |
| Goodwill                             |                      | 216.0  |
| Current liabilities                  |                      | (63.2) |
| Other long-term liabilities          |                      | (22.1) |
| Cash consideration paid              | \$                   | 343.9  |

In 2013, we completed two acquisitions for an aggregate purchase price of \$46.8 million. These acquisitions included Dan H. Brown, Inc. d/b/a Flow Control Products (“Flow Control”), a leading provider of pneumatic and electro-hydraulic valve automation packages and related field support to the Permian Basin and Flangefitt Stainless Ltd. (“Flangefitt”), a leading pipe, flange and fitting (PFF) distributor in the oil and gas industry in England.

In 2012, we completed three acquisitions for an aggregate purchase price of \$152.4 million. These acquisitions included OneSteel Piping Systems Australia (“MRC PSA”), a PVF distributor supplying the oil and gas, mining and mineral processing industries in Australia, Chaparral Supply with operations in the Mississippian Lime formation in Oklahoma and Kansas, and Production Specialty Services, Inc. (“PSS”), a PVF distributor in the Permian Basin and Eagle Ford shale regions of Texas and New Mexico.

The impact of these transactions was not material to our financial statements in each of these respective years. Accordingly, pro forma information has not been presented.

#### NOTE 3—ACCOUNTS RECEIVABLE

The rollforward of our allowance for doubtful accounts is as follows (in thousands):

|                                 | December 31, |          |          |
|---------------------------------|--------------|----------|----------|
|                                 | 2014         | 2013     | 2012     |
| Allowance for doubtful accounts |              |          |          |
| Beginning balance               | \$ 2,537     | \$ 5,270 | \$ 4,815 |
| Net Charge-offs                 | (667)        | (2,435)  | (1,973)  |
| Provision                       | 1,727        | (298)    | 2,428    |
| Ending balance                  | \$ 3,597     | \$ 2,537 | \$ 5,270 |

Our accounts receivable is also presented net of sales returns and allowances. Those allowances approximated \$1.9 million and \$3.1 million at December 31, 2014 and 2013.

## NOTE 4—INVENTORIES

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

|  | December 31, |            |
|--|--------------|------------|
|  | 2014         | 2013       |
| Finished goods inventory at average cost:                  |              |            |
| Energy carbon steel tubular products                       | \$ 497,146   | \$ 362,449 |
| Valves, fittings, flanges and all other products           | 857,063      | 763,119    |
|  | 1,354,209    | 1,125,568  |
| Less: Excess of average cost over LIFO cost (LIFO reserve) | (142,662)    | (130,802)  |
| Less: Other inventory reserves                             | (24,601)     | (23,199)   |
|  | \$ 1,186,946 | \$ 971,567 |

There was no LIFO decrement in 2014 or 2013.

## NOTE 5—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in thousands):

|  |                  | December 31, |            |
|--|------------------|--------------|------------|
|  | Depreciable Life | 2014         | 2013       |
| Land and improvements                        | -                | \$ 16,088    | \$ 16,930  |
| Building and building improvements           | 40 years         | 65,615       | 63,494     |
| Machinery and equipment                      | 3 to 10 years    | 139,522      | 137,254    |
| Property held under capital leases           | 20 to 30 years   | 3,888        | 4,438      |
|  |                  | 225,113      | 222,116    |
| Allowances for depreciation and amortization |                  | (109,112)    | (103,193)  |
|  |                  | \$ 116,001   | \$ 118,923 |

## NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

|   | US         | Canada | International | Total      |
|---|------------|--------|---------------|------------|
| Goodwill at December 31, 2011 (1)       | \$ 512,047 | \$ -   | \$ 49,223     | \$ 561,270 |
| Acquisition of MRC PSA                  | -          | -      | 21,829        | 21,829     |
| Acquisition of PSS                      | 25,051     | -      | -             | 25,051     |
| Adjustment of MRC SPF purchase price    | -          | -      | 1,197         | 1,197      |
| Effect of foreign currency translation  | -          | -      | 1,045         | 1,045      |
| Goodwill at December 31, 2012 (1)       | \$ 537,098 | \$ -   | \$ 73,294     | \$ 610,392 |
| Acquisition of Flow Control             | 15,257     | -      | -             | 15,257     |
| Acquisition of Flangefitt               | -          | -      | 9,472         | 9,472      |
| Adjustment of PSS purchase price        | (378)      | -      | -             | (378)      |
| Effect of foreign currency translation  | -          | -      | (2,459)       | (2,459)    |
| Goodwill at December 31, 2013 (1)       | \$ 551,977 | \$ -   | \$ 80,307     | \$ 632,284 |
| Acquisition of Stream                   | -          | -      | 155,567       | 155,567    |
| Adjustment of Flangefitt purchase price | -          | -      | 1,999         | 1,999      |
| Buyout of joint venture                 | -          | -      | 1,749         | 1,749      |
| Acquisition of MSD                      | -          | -      | 24,947        | 24,947     |
| Acquisition of Hypack                   | -          | -      | 35,726        | 35,726     |
| Effect of foreign currency translation  | -          | -      | (46,266)      | (46,266)   |
| Goodwill at December 31, 2014 (1)       | \$ 551,977 | \$ -   | \$ 254,029    | \$ 806,006 |

(1) Net of accumulated impairment losses of \$240.9 million and \$69.0 million in the U.S and Canadian segments, respectively.

Other intangible assets by major classification consist of the following (in thousands):

| Weighted-Average Amortization Period (in years) | Gross | Accumulated Amortization | Net Book Value |
|---|-------|--------------------------|----------------|
|---|-------|--------------------------|----------------|

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|                                  |      |              |              |            |
|----------------------------------|------|--------------|--------------|------------|
| December 31, 2014                |      |              |              |            |
| Customer base                    | 14.9 | \$ 789,655   | \$ (354,333) | \$ 435,322 |
| Amortizable trade names          | 6.7  | 16,214       | (10,522)     | 5,692      |
| Indefinite lived trade names (1) | N/A  | 260,023      | -            | 260,023    |
| Noncompete agreements            | 3.0  | 244          | (163)        | 81         |
|                                  | 14.8 | \$ 1,066,136 | \$ (365,018) | \$ 701,118 |
| December 31, 2013                |      |              |              |            |
| Customer base                    | 15.8 | \$ 730,108   | \$ (291,116) | \$ 438,992 |
| Amortizable trade names          | 6.1  | 18,099       | (9,268)      | 8,831      |
| Indefinite lived trade names (1) | N/A  | 260,023      | -            | 260,023    |
| Noncompete agreements            | 3.0  | 244          | (81)         | 163        |
|                                  | 15.5 | \$ 1,008,474 | \$ (300,465) | \$ 708,009 |

(1)Net of accumulated impairment losses of \$76.2 million.

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## Amortization of Intangible Assets

Total amortization of intangible assets for each of the years ending December 31, 2015 to 2019 is currently estimated as follows (in thousands):

|      |    |        |
|------|----|--------|
| 2015 | \$ | 58,496 |
| 2016 |    | 58,140 |
| 2017 |    | 56,682 |
| 2018 |    | 55,825 |
| 2019 |    | 52,126 |

## NOTE 7—LONG-TERM DEBT

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

|  | December 31, |            |
|--|--------------|------------|
|  | 2014         | 2013       |
| Senior Secured Term Loan B, net of discount of \$3,693 and \$4,457 | \$ 779,888   | \$ 787,059 |
| Global ABL Facility  | 673,716      | 199,630    |
| Other  | 40           | 145        |
|  | 1,453,644    | 986,834    |
| Less current portion   | 7,935        | 7,935      |
|  | \$ 1,445,709 | \$ 978,899 |

Senior Secured Term Loan B: In November 2012, we entered into a \$650 million seven-year Term Loan B (the “Term Loan”), with Bank of America N.A. as administrative agent, and other lenders from time to time parties thereto. In November 2013, we increased the principal amount of the term loan to \$793.5 million and modified the interest rates to those outlined below.

Accordion. The Term Loan allows for incremental increases up to an aggregate of \$200 million, plus an additional amount such that the Company’s senior secured leverage ratio (the ratio of the Company’s Consolidated EBITDA (as defined under the Term Loan) to senior secured debt) (net of up to \$75 million of unrestricted cash) would not exceed 3.50 to 1.00.

**Maturity.** The scheduled maturity date of the Term Loan is November 9, 2019. The Term Loan will amortize in equal quarterly installments at 1% a year with the payment of the balance at maturity.

**Guarantees.** The Company and all of the U.S. borrower's current and future wholly owned material U.S. subsidiaries guaranteed the Term Loan subject to certain exceptions.

**Security.** The Term Loan is secured by a first lien on all of the Company's assets and the assets of its domestic subsidiaries, subject to certain exceptions and other than the collateral securing the Global ABL Facility (which includes accounts receivable, inventory and related assets, collectively, the "ABL collateral"), and by a second lien on the ABL collateral. In addition, a pledge secures the Term Loan of all the capital stock of the Company's domestic subsidiaries and 65% of the capital stock of its first tier foreign subsidiaries, subject to certain exceptions.

**Interest Rates and Fees.** The Company has the option to pay interest at a base rate, subject to a floor of 2.00%, plus an applicable margin, or at a rate based on LIBOR, subject to a floor of 1.00%, plus an applicable margin. The applicable margin for base rate loans is 300 basis points, and the applicable margin for LIBOR loans is 400 basis points. The margin steps down by 25 basis points if the Company's consolidated total leverage ratio (as defined under the Term Loan) is less than 2.50 to 1.00.

**Mandatory Prepayment.** The Company is required to repay the Term Loan with certain asset sale and insurance proceeds, certain debt proceeds and 50% of excess cash flow (reducing to 25% if the Company's senior secured leverage ratio is no more than 2.75 to 1.00 and 0% if the Company's senior secured leverage ratio is no more than 2.50 to 1.00). The Company is not required to make a mandatory prepayment in 2015 related to the fiscal year 2014.

**Restrictive Covenants.** The Term Loan does not include any financial maintenance covenants.

The Term Loan contains restrictive covenants (in each case, subject to exclusions) that limit, among other things, the ability of the



Company and its restricted subsidiaries to:

- make investments;
- prepay certain indebtedness;
- grant liens;
- incur additional indebtedness;
- sell assets;
- make fundamental changes;
- enter into transactions with affiliates; and
- pay dividends.

The Term Loan also contains other customary restrictive covenants. The covenants are subject to various baskets and materiality thresholds, with certain of the baskets permitted by the restrictions on the repayment of subordinated indebtedness, restricted payments and investments being available only when the senior secured leverage ratio of the Company and its restricted subsidiaries is less than 3.25:1.00.

The Term Loan provides that the Company and its restricted subsidiaries may incur any first lien indebtedness that is pari passu to the Term Loan so long as the pro forma senior secured leverage ratio of the Company and its restricted subsidiaries is less than or equal to 3.50:1.00. The Company and its restricted subsidiaries may incur any second lien indebtedness so long as the pro forma junior secured leverage ratio of the Company and its restricted subsidiaries is less than or equal to 4.00:1.00. The Company and its restricted subsidiaries may incur any unsecured indebtedness so long as the total leverage ratio of the Company and its restricted subsidiaries is less than or equal to 5.00:1.00.

Additionally, under the Term Loan, the Company and its restricted subsidiaries may incur indebtedness under the Global ABL Facility (or any replacement facility) in an amount not to exceed the greater of \$1.3 billion and a borrowing base (equal to, subject to certain exceptions, 85% of all accounts receivable and 65% of the book value of all inventory owned by the Company and its restricted subsidiaries).

The Term Loan contains certain customary representations and warranties, affirmative covenants and events of default, including, among other things, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain events of bankruptcy, certain events under ERISA, judgment defaults, actual or asserted failure of any material guaranty or security documents supporting the Term Loan to be in full force and effect and change of control. If such an event of default occurs, the Agent under the Term Loan is entitled to take various actions, including the acceleration of amounts due under the Term Loan and all other actions that a secured creditor is permitted to take following a default.

**Global ABL Credit Facility:** In March 2012, we entered into a multi-currency global asset-based revolving credit facility (the “Global ABL Facility”) that was subsequently amended and restated in July 2014. The five-year Global ABL Facility, which will mature on July 18, 2019, is comprised of \$1.05 billion of total revolving credit facilities, including a \$977 million facility in the United States, \$30 facility million in Norway, \$20 facility million in Canada, \$5 million facility in the United Kingdom, \$10 million facility in Australia, \$4 million facility in the Netherlands and \$4 million facility in Belgium. The facility contains an accordion feature that allows us to increase the total principal amount of the facilities by up to \$300 million.

Each of our current and future wholly owned material U.S. subsidiaries and MRC Global Inc. guarantees 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.

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

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

No non-U.S. subsidiary guarantees the U.S. tranche and no property of our non-U.S. subsidiaries secures the U.S. tranche. The security interest in accounts receivable, inventory and related assets of the U.S. borrower subsidiaries ranks prior to the security interest in this collateral which secures the Term Loan.

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

Subject to the foregoing, our ability to borrow in each jurisdiction, other than Belgium, under the Global ABL Facility is limited by a borrowing base in that jurisdiction equal to 85% of eligible receivables, plus the lesser of 70% of eligible inventory and 85% of appraised net orderly liquidation value of the inventory. In Belgium, our borrowing is limited by a borrowing base determined under Belgian law.

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U.S. borrowings under the facility bear interest at LIBOR plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Canadian borrowings under the facility bear interest at the BA Rate plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Borrowings by our foreign borrower subsidiaries bear interest at a benchmark rate, which varies based on the currency in which such borrowings are made, plus a margin varying between 1.50% and 2.00% based on our fixed charge coverage ratio.

Stream Facility: In conjunction with the acquisition of Stream, we assumed a credit facility, denominated in Norwegian Krone, comprised of a guarantee facility of \$24 million, an overdraft facility of \$9 million and a foreign exchange facility of \$1 million. These facilities are secured by standby letters of credit drawn against our Global ABL Facility and have no financial maintenance covenants.

Availability: At December 31, 2014, availability under our revolving credit facilities was \$302.2 million.

Interest on Borrowings: The interest rates on our borrowings outstanding at December 31, 2014 and 2013, including the amortization of original issue discount, were as follows:

|   | December 31, |       |
|---|--------------|-------|
|   | 2014         | 2013  |
| Senior Secured Term Loan B, net of discount | 5.10%        | 5.09% |
| Global ABL Facility                         | 1.84%        | 2.12% |

Maturities of Long-Term Debt: At December 31, 2014, annual maturities of long-term debt during the next five years and thereafter are as follows (in thousands):

|      |    |           |
|------|----|-----------|
| 2015 | \$ | 7,935     |
| 2016 |    | 7,975     |
| 2017 |    | 7,935     |
| 2018 |    | 7,935     |
| 2019 |    | 1,421,864 |

#### NOTE 8—DERIVATIVE FINANCIAL INSTRUMENTS

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.

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

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|  | December 31, 2014 |             | December 31, 2013 |             |
|--|-------------------|-------------|-------------------|-------------|
|  | Assets            | Liabilities | Assets            | Liabilities |
| Derivatives not designated as hedging instruments: |                   |             |                   |             |
| Foreign exchange forward contracts (1)             | \$ 1,633          | \$ -        | \$ 4,603          | \$ -        |

(1) Included in “Accrued expenses and other current liabilities” or “other current assets” in our consolidated balance sheets. The total notional amount of our forward foreign exchange contracts was approximately \$78 million and \$331 million at December 31, 2014 and 2013.

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

|  | Year Ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2014                    | 2013     | 2012     |
| Derivatives not designated as hedging instruments: |                         |          |          |
| Foreign exchange forward contracts                 | \$ (1,087)              | \$ 4,731 | \$ 176   |
| Interest rate contracts                            | \$ -                    | \$ -     | \$ 2,010 |

## NOTE 9—INCOME TAXES

The components of our income before income taxes were (in thousands):

|               | Year Ended December 31, |            |            |
|---------------|-------------------------|------------|------------|
|               | 2014                    | 2013       | 2012       |
| United States | \$ 223,263              | \$ 231,434 | \$ 156,226 |
| Foreign       | 2,683                   | 5,477      | 25,470     |
|               | \$ 225,946              | \$ 236,911 | \$ 181,696 |

Income taxes included in the consolidated statements of income consist of (in thousands):

|                    | Year Ended December 31, |           |           |
|--------------------|-------------------------|-----------|-----------|
|                    | 2014                    | 2013      | 2012      |
| Current:           |                         |           |           |
| Federal            | \$ 94,766               | \$ 90,063 | \$ 65,563 |
| State              | 8,052                   | 8,058     | 6,569     |
| Foreign            | 13,213                  | 6,518     | 12,038    |
|                    | 116,031                 | 104,639   | 84,170    |
| Deferred:          |                         |           |           |
| Federal            | (24,024)                | (21,102)  | (15,776)  |
| State              | (2,278)                 | 2,818     | (1,256)   |
| Foreign            | (7,893)                 | (1,539)   | (3,400)   |
|                    | (34,195)                | (19,823)  | (20,432)  |
| Income tax expense | \$ 81,836               | \$ 84,816 | \$ 63,738 |

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Our effective tax rate varied from the statutory federal income tax rate for the following reasons (in thousands):

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2014                    | 2013      | 2012      |
| Federal tax expense at statutory rates                       | \$ 79,081               | \$ 82,918 | \$ 63,474 |
| State taxes  | 3,708                   | 3,855     | 3,453     |
| Nondeductible expenses                                       | 1,156                   | 1,152     | 1,123     |
| Effect of tax rate changes on existing temporary differences | -                       | 3,074     | -         |
| Effect of foreign operations                                 | (5,572)                 | (9,752)   | (3,565)   |
| Change in valuation allowance                                | 3,276                   | 7,714     | (78)      |
| Other  | 187                     | (4,145)   | (669)     |
| Income tax expense   | \$ 81,836               | \$ 84,816 | \$ 63,738 |
| Effective tax rate   | 36.2%                   | 35.8%     | 35.1%     |

Significant components of our current deferred tax assets and liabilities are as follows (in thousands):

|   | December 31, |           |
|---|--------------|-----------|
|   | 2014         | 2013      |
| Deferred tax assets:                            |              |           |
| Allowance for doubtful accounts                 | \$ 1,233     | \$ 1,265  |
| Accruals and reserves                           | 26,913       | 16,603    |
| Net operating loss and tax credit carryforwards | 18,786       | 13,423    |
| Other   | 3,187        | 1,270     |
| Subtotal  | 50,119       | 32,561    |
| Valuation allowance                             | (17,431)     | (14,155)  |
| Total   | 32,688       | 18,406    |
| Deferred tax liabilities:                       |              |           |
| Inventory valuation                             | (78,898)     | (81,208)  |
| Property, plant and equipment                   | (7,781)      | (8,538)   |
| Intangible assets                               | (229,005)    | (236,832) |
| Debt  | (5,065)      | (5,798)   |
| Pension asset                                   | (2,019)      | -         |
| Other   | -            | (177)     |
| Total   | (322,768)    | (332,553) |

Net deferred tax liability \$ (290,080) \$ (314,147)

We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. If we were to determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

In the United States, we had approximately \$62.3 million of state net operating loss carryforwards as of December 31, 2014, which will expire in future years through 2033 and foreign tax credit carryforwards of \$4.4 million expiring in 2022. In certain non-U.S. jurisdictions, we had \$51.4 million of net operating loss carryforwards, of which \$45.6 million have no expiration and \$5.8 million will expire in future years through 2024.

We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested, as we have no current intention to repatriate these earnings. As such, deferred income taxes are not provided for temporary differences of approximately \$230.6 million and \$192.9 million as of December 31, 2014 and 2013, representing earnings of non-U.S. subsidiaries intended to be permanently reinvested. These additional foreign earnings could become subject to additional tax if remitted, or deemed remitted, as a dividend. Computation of the potential deferred tax liability associated with these undistributed earnings and any other basis difference is not practicable.

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Our tax filings for various periods are subject to audit by the tax authorities in most jurisdictions where we conduct business. We are no longer subject to U.S. federal income tax examination for all years through 2009 and the statute of limitations at our international locations is generally six to seven years.

At December 31, 2014 and 2013, our unrecognized tax benefits were immaterial to our consolidated financial statements.

#### NOTE 10—STOCKHOLDERS' EQUITY

##### Preferred Stock

We have authorized 100,000,000 shares of preferred stock. Our Board of Directors has the authority to issue shares and set the terms of the shares of preferred stock. As of December 31, 2014 and 2013, there were no shares of preferred stock issued or outstanding.

##### Accumulated Other Comprehensive Loss

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

|                                      | December 31, |             |  |  |
|--------------------------------------|--------------|-------------|--|--|
|                                      | 2014         | 2013        |  |  |
| Currency translation adjustments     | \$ (136,265) | \$ (40,173) |  |  |
| Pension related adjustments          | (613)        | (249)       |  |  |
| Accumulated other comprehensive loss | \$ (136,878) | \$ (40,422) |  |  |

##### Earnings per Share

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

|                                    | Year Ended December 31, |            |            |  |
|------------------------------------|-------------------------|------------|------------|--|
|                                    | 2014                    | 2013       | 2012       |  |
| Net income                         | \$ 144,110              | \$ 152,095 | \$ 117,958 |  |
| Average basic shares outstanding   | 102,006                 | 101,712    | 96,465     |  |
| Effect of dilutive securities      | 784                     | 810        | 460        |  |
| Average diluted shares outstanding | 102,790                 | 102,522    | 96,925     |  |
| Net income per share:              |                         |            |            |  |
| Basic                              | \$ 1.41                 | \$ 1.50    | \$ 1.22    |  |
| Diluted                            | \$ 1.40                 | \$ 1.48    | \$ 1.22    |  |



Stock options and shares of restricted stock are disregarded in this calculation if they are determined to be anti-dilutive. For the years ended December 31, 2014, 2013 and 2012, our anti-dilutive stock options approximated 1.0 million, 0.5 million and 2.1 million, respectively.

NOTE 11—EMPLOYEE BENEFIT PLANS

Equity Compensation Plans: Our 2007 Stock Option Plan permitted the grant of stock options to our employees, directors and consultants for up to 3,750,000 shares of common stock. The options were not to be granted with an exercise price less than the fair market value of the Company's common stock on the date of the grant, nor for a term exceeding ten years. Vesting generally occurred over a five year period on the anniversaries of the date specified in the employees' respective option agreements, subject to accelerated vesting under certain circumstances set forth in the option agreements. During 2014, 137,306 stock options were exercised, and no stock options were granted under this plan.

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

In April 2012, we replaced the 2007 Stock Option Plan and the 2007 Restricted Stock Plan with the 2011 Omnibus Incentive Plan. No additional shares or other equity interests will be awarded under the prior plans. The 2011 Omnibus Incentive Plan has 3,250,000 shares reserved for issuance pursuant to the plan. The plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. Since the adoption

of the 2011 Omnibus Incentive Plan, the Company's Board of Directors has periodically granted stock options and restricted stock to directors and employees, but no other types of awards have been granted under the plan. Options and stock appreciation rights may not be granted at prices less than their fair market value on the date of the grant, nor for a term exceeding ten years. For employees, vesting generally occurs over a four or five year period on the anniversaries of the date specified in the employees' respective agreements, subject to accelerated vesting under certain circumstances set forth in the option agreements. Vesting for directors generally occurs in one year. In 2014, 429,553 stock options and 199,067 shares of restricted stock were granted to executive management, members of our Board of Directors and employees under this plan. To date, 2,519,290 shares have been granted under this plan. We expense the fair value of the stock option grants on a straight-line basis over the vesting period. A Black-Scholes option pricing model is used to estimate the fair value of the stock options.

|  | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(years) | Aggregate<br>Intrinsic<br>Value<br>(thousands) |
|--|-----------|--|--|--|
| Stock Options                                    |           |  |  |  |
| Balance at December 31, 2013                     | 3,934,085 | \$ 20.47                                 | 7.0  | \$ 46,144                                      |
| Granted  | 429,553   | 29.12                                    |  |  |
| Exercised  | (161,278) | 16.73                                    |  |  |
| Forfeited  | (74,384)  | 26.42                                    |  |  |
| Expired  | (15,629)  | 24.56                                    |  |  |
| Balance at December 31, 2014                     | 4,112,347 | \$ 21.39                                 | 6.3  | \$ 1,196                                       |
| At December 31, 2014                             |           |  |  |  |
| Options outstanding, vested and exercisable      | 2,451,659 | \$ 18.87                                 | 5.1  | \$ 1,195,558                                   |
| Options outstanding, vested and expected to vest | 3,979,321 | \$ 21.29                                 | 6.2  | \$ 1,195,558                                   |

|                                | Shares  | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|--------------------------------|---------|---|
| Restricted Stock               |         |   |
| Nonvested at December 31, 2013 | 93,483  | \$ 29.48  |
| Granted                        | 199,067 | 29.08   |

|                                |          |       |       |
|--------------------------------|----------|-------|-------|
| Vested                         | (35,663) | 29.71 |       |
| Forfeited                      | (16,540) | 29.31 |       |
| Nonvested at December 31, 2014 | 240,347  | \$    | 29.13 |

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The following table summarizes award activity under our stock option and restricted stock plans:

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2014                    | 2013      | 2012      |
| <b>Stock Options</b>                                      |                         |           |           |
| Weighted-average, grant-date fair value of awards granted | \$ 11.86                | \$ 12.10  | \$ 6.52   |
| Total intrinsic value of stock options exercised          | 1,518,066               | 4,717,693 | 1,089,830 |
| Total fair value of stock options vested                  | 2,759,196               | 6,352,967 | 1,370,130 |

|   | Year Ended December 31, |           |          |
|---|-------------------------|-----------|----------|
|   | 2014                    | 2013      | 2012     |
| <b>Restricted Stock</b>                                   |                         |           |          |
| Weighted-average, grant-date fair value of awards granted | \$ 29.13                | \$ 29.48  | \$ 15.65 |
| Total fair value of restricted stock vested               | 939,349                 | 4,173,834 | 484,141  |
| <b>Stock Options</b>                                      |                         |           |          |

Following are the weighted-average assumptions used to estimate the fair values of our stock options:

|                          | Year Ended December 31, |        |        |
|--------------------------|-------------------------|--------|--------|
|                          | 2014                    | 2013   | 2012   |
| Risk-free interest rate  | 1.74%                   | 0.86%  | 0.90%  |
| Dividend yield (1)       | 0.00%                   | 0.00%  | 0.00%  |
| Expected volatility      | 39.83%                  | 40.96% | 41.87% |
| Expected life (in years) | 6.0                     | 6.2    | 6.6    |

(1) The expected dividend yield reflects the restriction on our ability to pay dividends and does not anticipate “special” dividends.

Recognized compensation expense and related income tax benefits under our equity-based compensation plans are set forth in the table below (in thousands):

|  | Year Ended December 31, |           |          |
|--|-------------------------|-----------|----------|
|  | 2014                    | 2013      | 2012     |
| Equity-based compensation expense:                       |                         |           |          |
| Stock options  | \$ 5,699                | \$ 13,329 | \$ 7,533 |
| Restricted stock   | 3,274                   | 2,159     | 481      |
| Profit units   | -                       | -         | 461      |
| Total equity-based compensation expense                  | \$ 8,973                | \$ 15,488 | \$ 8,475 |
| Income tax benefits related to equity-based compensation | \$ 3,327                | \$ 5,743  | \$ 3,114 |

Unrecognized compensation expense under our equity-based compensation plans is set forth in the table below (in thousands):

|  | Weighted-                            | December 31, |
|--|--------------------------------------|--------------|
|  | Average Vesting<br>Period (in years) | 2014         |
| Unrecognized equity-based compensation expense:      |                                      |              |
| Stock options  | 2.1                                  | \$ 8,255     |
| Restricted stock                                     | 2.8                                  | 3,982        |
| Total unrecognized equity-based compensation expense |                                      | \$ 12,237    |

Defined Contribution Employee Benefit Plans: We maintain defined contribution employee benefit plans in a number of countries in which we operate including the U.S., Canada, the United Kingdom, Australia, France, Belgium, Norway, the Netherlands, and New Zealand. These plans generally allow employees the option to defer a percentage of their compensation in accordance with local tax laws. In addition, we make contributions under these plans ranging from 1% to 10% of eligible compensation.

Expense under defined contribution plans were \$13.1 million, \$10.5 million and \$9.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

## NOTE 12—RELATED PARTY TRANSACTIONS

### Leases

We lease land and buildings at various locations from Hansford Associates Limited Partnership (“Hansford Associates”), and Prideco LLC (“Prideco”), as well as certain employees. Certain of our directors participate in ownership of Hansford Associates and Prideco. Most of these leases are renewable for various periods through 2019 and are renewable at our option. The renewal options are subject to escalation clauses. These leases contain clauses for payment of real estate taxes, maintenance, insurance and certain other operating expenses of the properties.

Rent expense attributable to related parties was \$2.4 million, \$2.0 million and \$4.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Future minimum rental payments required under operating leases with related parties that have initial or remaining non-cancelable lease terms in excess of one year are \$1.9 million, \$1.9 million, \$1.9 million, \$1.6 million and \$0.5 million for the years 2015, 2016, 2017, 2018 and 2019 and thereafter, respectively.

### Cabot Oil and Gas

One of our directors is also on the board of directors of one of our customers, Cabot Oil and Gas Corporation. We received revenue of \$39.6 million, \$40.9 million and \$28.7 million from Cabot Oil and Gas Corporation for the years ended December 31, 2014, 2013 and 2012, respectively. There were no receivables outstanding as of December 31, 2014.

### Cypress Energy Partners

One of our directors is the chairman, chief executive officer and president of one of our customers, Cypress Energy Partners, LP. In addition, a different director is on the board of directors of this customer. We received revenue of \$0.1 million and \$0.4 million from Cypress Energy Partners, LP for the years ended December 31, 2014 and 2013, respectively. There were no receivables outstanding as of December 31, 2014.

### Kvaerner

An employee director of an MRC Global subsidiary is also a director of one of our customers, Kvaerner Process, PLC. During 2014, we received revenue of \$11.0 million and have \$1.3 million of receivables outstanding as of December 31, 2014 from Kvaerner Process, PLC.

## NOTE 13—SEGMENT, GEOGRAPHIC AND PRODUCT LINE 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 pipe, valves and fittings to the energy and industrial sectors, across each of the upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining, petrochemical processing and general industrials) markets. The following table presents financial information for each segment (in millions):

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2014                    | 2013       | 2012       |
| Sales                                       |                         |            |            |
| U.S.  | \$ 4,427.4              | \$ 3,967.6 | \$ 4,238.4 |
| Canada                                      | 632.5                   | 709.4      | 765.2      |
| International                               | 873.3                   | 553.8      | 567.2      |
| Consolidated sales                          | \$ 5,933.2              | \$ 5,230.8 | \$ 5,570.8 |
| Depreciation and amortization               |                         |            |            |
| U.S.  | \$ 13.1                 | \$ 13.6    | \$ 11.2    |
| Canada                                      | 1.7                     | 2.0        | 2.1        |
| International                               | 7.7                     | 6.7        | 5.3        |
| Total depreciation and amortization expense | \$ 22.5                 | \$ 22.3    | \$ 18.6    |
| Amortization of intangibles                 |                         |            |            |
| U.S.  | \$ 42.4                 | \$ 42.4    | \$ 40.0    |
| Canada                                      | 2.2                     | 2.4        | 2.5        |
| International                               | 23.2                    | 7.3        | 7.0        |
| Total amortization of intangibles expense   | \$ 67.8                 | \$ 52.1    | \$ 49.5    |
| Operating income                            |                         |            |            |
| U.S.  | \$ 266.2                | \$ 280.1   | \$ 358.3   |
| Canada                                      | 27.7                    | 20.9       | 27.2       |
| International                               | 8.2                     | 10.8       | 21.5       |
| Total operating income                      | 302.1                   | 311.8      | 407.0      |
| Interest expense                            | 61.8                    | 60.7       | 112.5      |
| Loss on early extinguishment of debt        | -                       | -          | 114.0      |
| Other (income) expense                      | 14.4                    | 14.2       | (1.2)      |
| Income before income taxes                  | \$ 225.9                | \$ 236.9   | \$ 181.7   |

|               | December 31, |            |
|---------------|--------------|------------|
|               | 2014         | 2013       |
| Total assets  |              |            |
| United States | \$ 3,111.9   | \$ 2,732.3 |
| Canada        | 204.1        | 204.7      |
| International | 557.8        | 398.7      |
| Total assets  | \$ 3,873.8   | \$ 3,335.7 |

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The percentages of our fixed assets relating to the following geographic areas are as follows:

|                    | December 31, |      |
|--------------------|--------------|------|
|                    | 2014         | 2013 |
| Fixed assets       |              |      |
| United States      | 56%          | 57%  |
| Canada             | 22%          | 24%  |
| International      | 22%          | 19%  |
| Total fixed assets | 100%         | 100% |

Our net sales and percentage of total sales by product line are as follows (in thousands):

| Type  | Year Ended December 31, |     |              |     |              |     |
|---|-------------------------|-----|--------------|-----|--------------|-----|
|   | 2014                    |     | 2013         |     | 2012         |     |
| Energy carbon steel tubular products:   |                         |     |              |     |              |     |
| Line pipe   | \$ 1,139,118            | 19% | \$ 1,061,881 | 20% | \$ 1,158,512 | 21% |
| Oil country tubular goods (OCTG)  | 556,427                 | 10% | 463,656      | 9%  | 715,108      | 13% |
|   | \$ 1,695,545            | 29% | \$ 1,525,537 | 29% | \$ 1,873,620 | 34% |
| Valves, fittings, flanges and other products:                                     |                         |     |              |     |              |     |
| Valves and specialty products   | \$ 1,911,153            | 32% | \$ 1,440,431 | 28% | \$ 1,431,888 | 26% |
| Carbon steel fittings and flanges and stainless steel and alloy pipe and fittings | 1,232,170               | 21% | 1,135,818    | 22% | 1,175,276    | 21% |
| Other   | 1,094,344               | 18% | 1,129,006    | 21% | 1,090,074    | 19% |
|   | \$ 4,237,667            | 71% | \$ 3,705,255 | 71% | \$ 3,697,238 | 66% |

#### NOTE 14—FAIR VALUE MEASUREMENTS

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

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

curves and other market-based factors.

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

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

|                      | Fair Value Measurements at Reporting Date Using |  |   |  |
|----------------------|---|--|---|--|
|                      | Total   | Quoted Prices in Active<br>Markets for Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs (Level<br>2) | Significant Unobservable<br>Inputs (Level 3) |
| December 31,<br>2014 |   |  |   |  |
| Assets:              | \$ 1,633  | \$ -   | \$ 1,633  | \$ -   |
| Liabilities:         | -   | -  | -   | -  |
| December 31,<br>2013 |   |  |   |  |
| Assets:              | \$ 4,603  | \$ -   | \$ 4,603  | -  |
| Liabilities:         | -   | -  | -   | -  |

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 \$1.454 billion and \$0.987 billion at December 31, 2014 and 2013, respectively. The fair value of our debt was \$1.407 billion and \$0.997 billion at December 31, 2014 and 2013, respectively. The carrying values of our Global ABL Facility and remaining portions of our long-term debt approximate their fair values. We estimate the fair value of the Term Loan using Level 2 inputs, or quoted market prices as of December 31, 2014 and 2013, respectively.

#### NOTE 15—COMMITMENTS AND CONTINGENCIES

##### Leases

We regularly enter into operating and capital lease arrangements for certain of our facilities and equipment. Our leases are renewable at our option for various periods through 2021. Certain renewal options are subject to escalation clauses and contain clauses for payment of real estate taxes, maintenance, insurance and certain other operating expenses of the properties. Leases with escalation clauses based on an index, such as the consumer price index, are expensed and projected based on current rates. Leases with specified escalation steps are expensed and projected based on the rate in effect in the respective period which is not materially different than the straight-line method. We amortize leasehold improvements over the remaining life of the lease. Rental expense under our operating lease arrangements was \$61.2 million, \$53.3 million and \$48.3 million for the years ended December 2014, 2013 and 2012, respectively.

Future minimum lease payments under noncancelable operating and capital lease arrangements having initial terms of one year or more are as follows (in thousands):

|            | Operating Leases | Capital Leases |
|------------|------------------|----------------|
| 2015       | \$ 50,733        | \$ 289         |
| 2016       | 40,161           | 158            |
| 2017       | 31,948           | 117            |
| 2018       | 24,638           | 131            |
| 2019       | 17,887           | 147            |
| Thereafter | 58,563           | 421            |
|            | \$ 223,930       | \$ 1,263       |

##### Legal Proceedings

**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 various 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 the Company's subsidiary, McJunkin Red Man Corporation, purportedly distributed. As of December 31, 2014, we are a named defendant in approximately 430 lawsuits involving approximately 1,075 claims. No asbestos lawsuit has resulted in a judgment against us to date, with the 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.

We annually conduct analyses of our asbestos-related litigation to estimate the adequacy of the reserve for pending and probable asbestos-related claims. Given these estimated reserves and existing insurance coverage that has been available to cover substantial portions of these claims, we believe that our current accruals and associated estimates relating to pending and probable asbestos-related litigation likely to be asserted over the next 15 years are currently adequate. This belief, however, relies on a number of assumptions, including:

- That our future settlement payments, disease mix and dismissal rates will be materially consistent with historic experience;
- That future incidences of asbestos-related diseases in the U.S. will be materially consistent with current public health estimates;
- That the rates at which future asbestos-related mesothelioma incidences result in compensable claims filings against us will be materially consistent with its historic experience;
- That insurance recoveries for settlement payments and defense costs will be materially consistent with historic experience;
- That legal standards (and the interpretation of these standards) applicable to asbestos litigation will not change in material respects;
- That there are no materially negative developments in the claims pending against us; and

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

If any of these assumptions prove to be materially different in light of future developments, liabilities related to asbestos-related litigation may be materially different than amounts accrued or estimated. Further, while we anticipate that additional claims will be filed in the future, we are unable to predict with any certainty the number, timing and magnitude of such future claims. In our opinion, there are no pending legal proceedings that are likely to have a material adverse effect on our consolidated financial statements.

**Other Legal Claims and Proceedings.** From time to time, we have been subject to various claims and involved in legal proceedings incidental to the nature of our businesses. We maintain insurance coverage to reduce financial risk associated with certain of these claims and proceedings. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, there are no pending legal proceedings that are likely to have a material adverse effect on our consolidated financial statements.

**Product Claims.** From time to time, in the ordinary course of our business, our customers may claim that the products 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 would 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 Canada, 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. Commencing in late 2005 and into early 2006, Midfield hired new employees, including individuals who left Weatherford, 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. The distribution agreement with Weatherford expired in 2006. Midfield supplied Europump with PVF products that Europump distributed along with sales of 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, as well as other entities related to these parties, 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 2015.

Due to ongoing discovery, and the limited information available related to any claimed damages, we cannot reasonably estimate potential loss at this time. The Company believes Weatherford’s claims are without merit and intends to defend against them vigorously.

SKF Claim. On February 19, 2013, in the United States District Court for the District of Delaware, SKF USA Inc. (a subsidiary of SKF AB, a Swedish company) sued McJunkin Red Man Corporation and MRC Global Inc. for trademark infringement unfair competition, unjust enrichment, federal cybersquatting, and related claims. SKF contends that the Company, through its use of the red "MRC" block letters, is willfully infringing on SKF's use of a similar mark which SKF uses to market bearings. SKF claims first use of this mark and has requested an injunction to prohibit the Company from using "MRC." The Company has used the MRC letters for years without any known or identifiable actual confusion. The Company denies SKF's allegations and further contends there is no likelihood of confusion as to the source of the products and the distribution services provided by the Company. Further, the plaintiff's inability to show actual harm or that there was any intent to deceive by the Company precludes the plaintiff from recovering damages. The Company has asserted several affirmative defenses and also counter-claims for misrepresentation, unfair competition, and interference with business opportunities.

The discovery phase is complete, and both parties have filed summary judgment motions to be heard at the pretrial conference. A bench trial is scheduled to begin on March 9, 2015. If the court denies summary judgment, the Company believes that a potential loss may be reasonably possible. Despite the plaintiff's assertion of a material amount of damages, the Company believes these damages are wholly unsupported and in our opinion, the ultimate disposition of this matter is not likely to have a material adverse effect on our consolidated financial statements.

#### 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

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subject to varying interpretations. Under the terms of these contracts, our customers have the right to audit our adherence to the contract terms. Historically, any settlements that have resulted from these customer audits have been immaterial to our consolidated financial statements.

#### Letters of Credit

Our letters of credit outstanding at December 31, 2014 approximated \$73.0 million.

#### Bank Guarantees

Certain of our international subsidiaries have trade guarantees that banks have issued on their behalf. The amount of these guarantees at December 31, 2014 was approximately \$4.8 million.

#### Purchase Commitments

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

#### Warranty Claims

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

#### NOTE 16—QUARTERLY INFORMATION (UNAUDITED)

Our quarterly financial information is presented in the table below (in millions, except per share amounts):

|                       | First      | Second     | Third      | Fourth     | Year       |
|-----------------------|------------|------------|------------|------------|------------|
| 2014                  |            |            |            |            |            |
| Revenues              | \$ 1,305.7 | \$ 1,497.3 | \$ 1,618.1 | \$ 1,512.1 | \$ 5,933.2 |
| Gross profit (1)      | 232.1      | 259.4      | 278.0      | 248.5      | \$ 1,018.1 |
| Net income            | 23.5       | 39.3       | 50.1       | 31.2       | 144.1      |
| EPS:                  |            |            |            |            |            |
| Basic (1)             | \$ 0.23    | \$ 0.39    | \$ 0.49    | \$ 0.31    | \$ 1.41    |
| Diluted               | \$ 0.23    | \$ 0.38    | \$ 0.49    | \$ 0.30    | \$ 1.40    |
| 2013                  |            |            |            |            |            |
| Revenues              | \$ 1,305.1 | \$ 1,267.8 | \$ 1,313.7 | \$ 1,344.2 | 5,230.8    |
| Gross profit          | 246.6      | 243.9      | 238.3      | 226.0      | 954.8      |
| Net income (loss) (1) | 46.2       | 43.9       | 38.8       | 23.3       | 152.1      |
| EPS:                  |            |            |            |            |            |
| Basic (1)             | \$ 0.45    | \$ 0.43    | \$ 0.38    | \$ 0.23    | \$ 1.50    |

Diluted (1)      \$      0.45    \$      0.43    \$      0.38    \$      0.23    \$      1.48

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(1)Gross profit, net income and EPS do not add across due to rounding and transactions resulting in differing weighted average shares outstanding on a quarterly basis.

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