**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**FORM 10-Q**

**(Mark One)**

|  |  |  |
| --- | --- | --- |
|   |   |   |
| ☒ | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE****SECURITIES EXCHANGE ACT OF 1934** |   |
|   |   |   |
|   | **FOR THE QUARTERLY PERIOD ENDED** **June 30, 2021** |   |
|   |   |   |
|   | **OR** |   |
|   |   |   |
| ☐ | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE****SECURITIES EXCHANGE ACT OF 1934****FOR THE TRANSITION PERIOD FROM \_\_\_\_\_\_\_ TO \_\_\_\_\_\_\_** |   |

**Commission file number: 001-35479**

**MRC GLOBAL INC.**

(Exact name of registrant as specified in its charter)

|  |  |
| --- | --- |
| **Delaware** | **20-5956993** |
| (State or Other Jurisdiction ofIncorporation or Organization) | (I.R.S. EmployerIdentification No.) |
|   |   |
| **1301 McKinney Street, Suite 2300****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** | **Trading symbol(s)** | **Name of each exchange on which registered** |
| Common Stock, par value $0.01 | MRC | New York Stock Exchange |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).  Yes ☒ No ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were 82,665,437 shares of the registrant’s common stock (excluding 104,388 unvested restricted shares), par value $0.01 per share, issued and outstanding as of July 23, 2021.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

*(in millions, except per share amounts)*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **June 30,** |   |   | **December 31,** |   |
|   |   | **2021** |   |   | **2020** |   |
|   |   |   |   |   |   |   |   |   |
| **Assets** |   |   |   |  |   |   |   |  |
| Current assets: |   |   |   |   |   |   |   |   |
| Cash |   | $ | **63** |   |   | $ | 119 |   |
| Accounts receivable, net |   |   | **382** |   |   |   | 319 |   |
| Inventories, net |   |   | **484** |   |   |   | 509 |   |
| Other current assets |   |   | **32** |   |   |   | 19 |   |
| Total current assets |   |   | **961** |   |   |   | 966 |   |
|   |   |   |   |   |   |   |   |   |
| Long-term assets: |   |   |   |   |   |   |   |   |
| Operating lease assets |   |   | **190** |   |   |   | 200 |   |
| Property, plant and equipment, net |   |   | **95** |   |   |   | 103 |   |
| Other assets |   |   | **19** |   |   |   | 19 |   |
|   |   |   |   |   |   |   |   |   |
| Intangible assets: |   |   |   |   |   |   |   |   |
| Goodwill, net |   |   | **264** |   |   |   | 264 |   |
| Other intangible assets, net |   |   | **216** |   |   |   | 229 |   |
|   |   | $ | **1,745** |   |   | $ | 1,781 |   |
|   |   |   |   |   |   |   |   |   |
| **Liabilities and stockholders' equity** |   |   |   |  |   |   |   |  |
| Current liabilities: |   |   |   |   |   |   |   |   |
| Trade accounts payable |   | $ | **350** |   |   | $ | 264 |   |
| Accrued expenses and other current liabilities |   |   | **81** |   |   |   | 94 |   |
| Operating lease liabilities |   |   | **34** |   |   |   | 37 |   |
| Current portion of long-term debt |   |   | **1** |   |   |   | 4 |   |
| Total current liabilities |   |   | **466** |   |   |   | 399 |   |
|   |   |   |   |   |   |   |   |   |
| Long-term liabilities: |   |   |   |   |   |   |   |   |
| Long-term debt, net |   |   | **296** |   |   |   | 379 |   |
| Operating lease liabilities |   |   | **177** |   |   |   | 187 |   |
| Deferred income taxes |   |   | **70** |   |   |   | 70 |   |
| Other liabilities |   |   | **34** |   |   |   | 41 |   |
|   |   |   |   |   |   |   |   |   |
| Commitments and contingencies |   |   |   |   |   |   |   |   |
|   |   |   |   |   |   |   |   |   |
| 6.5% Series A Convertible Perpetual Preferred Stock, $0.01 par value; authorized 363,000 shares; 363,000 shares issued and outstanding |   |   | **355** |   |   |   | 355 |   |
|   |   |   |   |   |   |   |   |   |
| Stockholders' equity: |   |   |   |   |   |   |   |   |
| Common stock, $0.01 par value per share: 500 million shares authorized, 106,881,767 and 106,315,296 issued, respectively |   |   | **1** |   |   |   | 1 |   |
| Additional paid-in capital |   |   | **1,744** |   |   |   | 1,739 |   |
| Retained deficit |   |   | **(792** | ) |   |   | (781 | ) |
| Less: Treasury stock at cost: 24,216,330 shares |   |   | **(375** | ) |   |   | (375 | ) |
| Accumulated other comprehensive loss |   |   | **(231** | ) |   |   | (234 | ) |
|   |   |   | **347** |   |   |   | 350 |   |
|   |   | $ | **1,745** |   |   | $ | 1,781 |   |

|  |
| --- |
| *See notes to condensed consolidated financial statements.* |

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

*(in millions, except per share amounts)*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |   | **2021** |   |   | **2020** |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Sales |   | $ | **686** |   |   | $ | 602 |   |   | $ | **1,295** |   |   | $ | 1,396 |   |
| Cost of sales |   |   | **574** |   |   |   | 523 |   |   |   | **1,080** |   |   |   | 1,169 |   |
| Gross profit |   |   | **112** |   |   |   | 79 |   |   |   | **215** |   |   |   | 227 |   |
| Selling, general and administrative expenses |   |   | **102** |   |   |   | 126 |   |   |   | **202** |   |   |   | 252 |   |
| Goodwill and intangible asset impairment |   |   | - |   |   |   | 242 |   |   |   | - |   |   |   | 242 |   |
| Operating income (loss) |   |   | **10** |   |   |   | (289 | ) |   |   | **13** |   |   |   | (267 | ) |
| Other (expense) income: |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Interest expense |   |   | **(6** | ) |   |   | (7 | ) |   |   | **(12** | **)** |   |   | (15 | ) |
| Other, net |   |   | **1** |   |   |   | (2 | ) |   |   | **1** |   |   |   | (2 | ) |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Income (loss) before income taxes |   |   | **5** |   |   |   | (298 | ) |   |   | **2** |   |   |   | (284 | ) |
| Income tax expense (benefit) |   |   | **1** |   |   |   | (17 | ) |   |   | **1** |   |   |   | (12 | ) |
| Net income (loss) |   |   | **4** |   |   |   | (281 | ) |   |   | **1** |   |   |   | (272 | ) |
| Series A preferred stock dividends |   |   | **6** |   |   |   | 6 |   |   |   | **12** |   |   |   | 12 |   |
| Net loss attributable to common stockholders |   | $ | **(2** | ) |   | $ | (287 | ) |   | $ | **(11** | **)** |   | $ | (284 | ) |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Basic loss per common share |   | $ | **(0.02** | ) |   | $ | (3.50 | ) |   | $ | **(0.13** | **)** |   | $ | (3.47 | ) |
| Diluted loss per common share |   | $ | **(0.02** | ) |   | $ | (3.50 | ) |   | $ | **(0.13** | **)** |   | $ | (3.47 | ) |
| Weighted-average common shares, basic |   |   | **82.6** |   |   |   | 82.0 |   |   |   | **82.5** |   |   |   | 81.9 |   |
| Weighted-average common shares, diluted |   |   | **82.6** |   |   |   | 82.0 |   |   |   | **82.5** |   |   |   | 81.9 |   |

*See notes to condensed consolidated financial statements.*

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

MRC GLOBAL INC.

*(in millions)*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |   | **2021** |   |   | **2020** |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Net income (loss) |   | $ | **4** |   |   | $ | (281 | ) |   | $ | **1** |   |   | $ | (272 | ) |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Other comprehensive income (loss) |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Foreign currency translation adjustments |   |   | **1** |   |   |   | 8 |   |   |   | **—** |   |   |   | (13 | ) |
| Hedge accounting adjustments, net of tax |   |   | **2** |   |   |   | — |   |   |   | **3** |   |   |   | (6 | ) |
| Total other comprehensive income (loss), net of tax |   |   | **3** |   |   |   | 8 |   |   |   | **3** |   |   |   | (19 | ) |
| Comprehensive income (loss) |   | $ | **7** |   |   | $ | (273 | ) |   | $ | **4** |   |   | $ | (291 | ) |

*See notes to condensed consolidated financial statements.*

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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY (UNAUDITED)

MRC GLOBAL INC.

*(in millions)*

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Six Months Ended June 30, 2021** |   |
|   |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |   | **Accumulated** |   |   |   |   |  |
|   |   |   |   |  |   |   |   |  |   | **Additional** |   |   |   |   |  |   |   |   |  |   |   |   |  |   | **Other** |   |   | **Total** |   |
|   |   | **Common Stock** |   |   | **Paid-in** |   |   | **Retained** |   |   | **Treasury Stock** |   |   | **Comprehensive** |   |   | **Stockholders'** |   |
|   |   | **Shares** |   |   | **Amount** |   |   | **Capital** |   |   | **(Deficit)** |   |   | **Shares** |   |   | **Amount** |   |   | **(Loss)** |   |   | **Equity** |   |
| Balance at December 31, 2020 |   |   | 106 |   |   | $ | 1 |   |   | $ | 1,739 |   |   | $ | (781 | ) |   |   | (24 | ) |   | $ | (375 | ) |   | $ | (234 | ) |   | $ | 350 |   |
| Net loss |   |   | - |   |   |   | - |   |   |   | - |   |   |   | **(3** | ) |   |   | - |   |   |   | - |   |   |   | - |   |   |   | **(3** | ) |
| Foreign currency translation |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | **(1** | ) |   |   | **(1** | ) |
| Hedge accounting adjustments |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **1** |   |   |   | **1** |   |
| Shares withheld for taxes |   |   | - |   |   |   | - |   |   |   | **(2** | ) |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | **(2** | ) |
| Vesting of stock awards |   |   | **1** |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |
| Equity-based compensation expense |   |   | **-** |   |   |   | - |   |   |   | **5** |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | **5** |   |
| Dividends declared on preferred stock |   |   | - |   |   |   | - |   |   |   | - |   |   |   | **(6** | ) |   |   | - |   |   |   | - |   |   |   | - |   |   |   | **(6** | ) |
| Balance at March 31, 2021 |   |   | **107** |   |   | $ | **1** |   |   | $ | **1,742** |   |   | $ | **(790** | **)** |   |   | **(24** | **)** |   | $ | **(375** | **)** |   | $ | **(234** | **)** |   | $ | **344** |   |
| Net income |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **4** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **4** |   |
| Foreign currency translation |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **1** |   |   |   | **1** |   |
| Hedge accounting adjustments |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **2** |   |   |   | **2** |   |
| Equity-based compensation expense |   |   | **-** |   |   |   | **-** |   |   |   | **2** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **2** |   |
| Dividends declared on preferred stock |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **(6** | ) |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **(6** | ) |
| Balance at June 30, 2021 |   |   | **107** |   |   | $ | **1** |   |   | $ | **1,744** |   |   | $ | **(792** | **)** |   |   | **(24** | **)** |   | $ | **(375** | **)** |   | $ | **(231** | **)** |   | $ | **347** |   |

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Six Months Ended June 30, 2020** |   |
|   |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |   | **Accumulated** |   |   |   |   |  |
|   |   |   |   |  |   |   |   |  |   | **Additional** |   |   |   |   |  |   |   |   |  |   |   |   |  |   | **Other** |   |   | **Total** |   |
|   |   | **Common Stock** |   |   | **Paid-in** |   |   | **Retained** |   |   | **Treasury Stock** |   |   | **Comprehensive** |   |   | **Stockholders'** |   |
|   |   | **Shares** |   |   | **Amount** |   |   | **Capital** |   |   | **(Deficit)** |   |   | **Shares** |   |   | **Amount** |   |   | **(Loss)** |   |   | **Equity** |   |
| Balance at December 31, 2019 |   |   | 106 |   |   | $ | 1 |   |   | $ | 1,731 |   |   | $ | (483 | ) |   |   | (24 | ) |   | $ | (375 | ) |   | $ | (232 | ) |   | $ | 642 |   |
| Net income |   |   | - |   |   |   | - |   |   |   | - |   |   |   | 9 |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | 9 |   |
| Foreign currency translation |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (21 | ) |   |   | (21 | ) |
| Hedge accounting adjustments |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | **-** |   |   |   | (6 | ) |   |   | (6 | ) |
| Shares withheld for taxes |   |   | - |   |   |   | - |   |   |   | (3 | ) |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (3 | ) |
| Equity-based compensation expense |   |   | - |   |   |   | - |   |   |   | 2 |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | 2 |   |
| Dividends declared on preferred stock |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (6 | ) |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (6 | ) |
| Balance at March 31, 2020 |   |   | 106 |   |   | $ | 1 |   |   | $ | 1,730 |   |   | $ | (480 | ) |   |   | (24 | ) |   | $ | (375 | ) |   | $ | (259 | ) |   | $ | 617 |   |
| Net loss |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (281 | ) |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (281 | ) |
| Foreign currency translation |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | 8 |   |   |   | 8 |   |
| Equity-based compensation expense |   |   | - |   |   |   | - |   |   |   | 3 |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | - |   |   |   | 3 |   |
| Dividends declared on preferred stock |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (6 | ) |   |   | - |   |   |   | - |   |   |   | - |   |   |   | (6 | ) |
| Balance at June 30, 2020 |   |   | 106 |   |   | $ | 1 |   |   | $ | 1,733 |   |   | $ | (767 | ) |   |   | (24 | ) |   | $ | (375 | ) |   | $ | (251 | ) |   | $ | 341 |   |

*See notes to condensed consolidated financial statements.*

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

*(in millions)*

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |
|   |   |   |   |   |   |   |   |   |
| **Operating activities** |   |   |   |  |   |   |   |  |
| Net income (loss) |   | $ | **1** |   |   | $ | (272 | ) |
| Adjustments to reconcile net income (loss) to net cash provided by operations: |   |   |   |   |   |   |   |   |
| Depreciation and amortization |   |   | **10** |   |   |   | 10 |   |
| Amortization of intangibles |   |   | **12** |   |   |   | 13 |   |
| Equity-based compensation expense |   |   | **7** |   |   |   | 5 |   |
| Deferred income tax benefit |   |   | **(1** | ) |   |   | (8 | ) |
| Increase (decrease) in LIFO reserve |   |   | **15** |   |   |   | (9 | ) |
| Goodwill and intangible asset impairment |   |   | - |   |   |   | 242 |   |
| Lease impairment and abandonment |   |   | - |   |   |   | 15 |   |
| Inventory-related charges |   |   | - |   |   |   | 34 |   |
| Provision for credit losses |   |   | **-** |   |   |   | 5 |   |
| Other |   |   | **3** |   |   |   | 1 |   |
| Changes in operating assets and liabilities: |   |   |   |   |   |   |   |   |
| Accounts receivable |   |   | **(62** | **)** |   |   | 69 |   |
| Inventories |   |   | **8** |   |   |   | 41 |   |
| Other current assets |   |   | **(16** | **)** |   |   | (10 | ) |
| Accounts payable |   |   | **86** |   |   |   | (51 | ) |
| Accrued expenses and other current liabilities |   |   | **(16** | **)** |   |   | (1 | ) |
| Net cash provided by operations |   |   | **47** |   |   |   | 84 |   |
|   |   |   |   |   |   |   |   |   |
| **Investing activities** |   |   |   |  |   |   |   |  |
| Purchases of property, plant and equipment |   |   | **(4** | **)** |   |   | (5 | ) |
| Other investing activities |   |   | **2** |   |   |   | - |   |
| Net cash used in investing activities |   |   | **(2** | **)** |   |   | (5 | ) |
|   |   |   |   |   |   |   |   |   |
| **Financing activities** |   |   |   |  |   |   |   |  |
| Payments on revolving credit facilities |   |   | **(125** | **)** |   |   | (460 | ) |
| Proceeds from revolving credit facilities |   |   | **125** |   |   |   | 389 |   |
| Payments on long-term obligations |   |   | **(87** | **)** |   |   | (4 | ) |
| Dividends paid on preferred stock |   |   | **(12** | **)** |   |   | (12 | ) |
| Repurchases of shares to satisfy tax withholdings |   |   | **(2** | **)** |   |   | (3 | ) |
| Net cash used in financing activities |   |   | **(101** | **)** |   |   | (90 | ) |
|   |   |   |   |   |   |   |   |   |
| Decrease in cash |   |   | **(56** | ) |   |   | (11 | ) |
| Effect of foreign exchange rate on cash |   |   | **-** |   |   |   | (2 | ) |
| Cash -- beginning of period |   |   | **119** |   |   |   | 32 |   |
| Cash -- end of period |   | $ | **63** |   |   | $ | 19 |   |
|   |   |   |   |   |   |   |   |   |
| Supplemental disclosures of cash flow information: |   |   |   |   |   |   |   |   |
| Cash paid for interest |   | $ | **11** |   |   | $ | 15 |   |
| Cash paid for income taxes |   | $ | **12** |   |   | $ | 2 |   |

|  |
| --- |
| *See notes to condensed consolidated financial statements.* |

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MRC GLOBAL INC.

**NOTE 1 – BACKGROUND AND BASIS OF PRESENTATION**

**Business Operations:** MRC Global Inc. is a holding company headquartered in Houston, Texas. Our wholly owned subsidiaries are global distributors of pipe, valves, fittings (“PVF”) and related infrastructure products and services across each of the following sectors:

|  |  |  |
| --- | --- | --- |
| ● |   | gas utilities (storage and distribution of natural gas) |
| ● |   | downstream and industrial (crude oil refining and petrochemical and chemical processing and general industrials) |
| ● |   | upstream production (exploration, production and extraction of underground oil and gas) |
| ● |   | midstream pipeline (gathering, processing and transmission of oil and gas) |

We have branches in principal industrial, hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia, the Middle East and the Caspian. We obtain products from a broad range of suppliers.

**Basis of Presentation:** We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2021. We have derived our condensed consolidated balance sheet as of December 31, 2020 from the audited consolidated financial statements for the year ended December 31, 2020. You should read these condensed consolidated financial statements in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2020.

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.

**Recently Issued Accounting Pronouncements:** In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, *Debt – Debt with Conversion and Other Options and Derivative Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40)* ("ASU 2020-06"), which simplifies guidance on the topics of convertible instruments, derivative contracts and earnings per share ("EPS") calculations. This update will be effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. We are currently evaluating the impacts of the provisions of ASU 2020-06 on our consolidated financial statements.

In March 2020, the FASB issued Accounting Standards Update ASU 2020-04, *Reference Rate Reform (Topic 848)* ("ASU 2020-04"), which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of certain reference rates, including the London Interbank Offered Rate ("LIBOR"). The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impacts of the provisions of ASU 2020-04 on our consolidated financial statements.

**Adoption of New Accounting Standards:**In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, an update intended to simplify various aspects related to accounting for income taxes. This guidance removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. This accounting standard update was adopted as of January 1, 2021 but did not have a material impact on our consolidated financial statements.

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**NOTE 2 – REVENUE RECOGNITION**

We recognize revenue when we transfer control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. We recognize substantially all of our revenue when products are shipped or delivered to our customers, and payment is due from our customers at the time of billing with a majority of our customers having 30-day terms. We estimate and record returns as a reduction of revenue. Amounts received in advance of shipment are deferred and recognized when the performance obligations are satisfied. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from sales in the accompanying consolidated statements of operations. Cost of sales includes the cost of inventory sold and related items, such as vendor rebates, inventory allowances and reserves and shipping and handling costs associated with inbound and outbound freight, as well as depreciation and amortization and amortization of intangible assets. In some cases, particularly with third-party pipe shipments, shipping and handling costs are considered separate performance obligations, and as such, the revenue and cost of sales are recorded when the performance obligation is fulfilled.

Our contracts with customers ordinarily involve performance obligations that are one year or less. Therefore, we have applied the optional exemption that permits the omission of information about our unfulfilled performance obligations as of the balance sheet dates.

**Contract Balances:** Variations in the timing of revenue recognition, invoicing and receipt of payment result in categories of assets and liabilities that include invoiced accounts receivable, uninvoiced accounts receivable, contract assets and deferred revenue (contract liabilities) on the consolidated balance sheets.

Generally, revenue recognition and invoicing occur simultaneously as we transfer control of promised goods or services to our customers. We consider contract assets to be accounts receivable when we have an unconditional right to consideration and only the passage of time is required before payment is due. In certain cases, particularly those involving customer-specific documentation requirements, invoicing is delayed until we are able to meet the documentation requirements. In these cases, we recognize a contract asset separate from accounts receivable until those requirements are met, and we are able to invoice the customer. Our contract asset balance associated with these requirements as of June 30, 2021 and December 31, 2020 was $12 million and $17 million, respectively. These contract asset balances are included within accounts receivable in the accompanying consolidated balance sheets.

We record contract liabilities, or deferred revenue, when we receive cash payments from customers in advance of our performance, including amounts which are refundable. The deferred revenue balance at June 30, 2021 and December 31, 2020 was $6 million, respectively. During the three and six months ended June 30, 2021, we recognized $2 million and $5 million of revenue that was deferred as of December 31, 2020. During the three and six months ended June 30, 2020, we recognized $2 million and $4 million of revenue that was deferred as of December 31, 2019. Deferred revenue balances are included within accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

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**Disaggregated Revenue:** Our disaggregated revenue represents our business of selling PVF to companies that are predominantly in each of our four end-use sectors, including gas utilities, downstream and industrial, upstream production and midstream pipeline sectors, in each of our reportable segments. Each of our end markets and geographical reportable segments are impacted and influenced by varying factors, including macroeconomic environment, commodity prices, maintenance and capital spending and exploration and production activity. As such, we believe that this information is important in depicting the nature, amount, timing and uncertainty of our contracts with customers.

The following table presents our revenue disaggregated by revenue source (in millions):

|  |  |
| --- | --- |
|  **Three Months Ended** |   |
| **June 30,** |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|   |   | **U.S.** |   |   | **Canada** |   |   | **International** |   |   | **Total** |   |
| **2021:** |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| Gas utilities |   | $ | **267** |   |   | $ | **2** |   |   | $ | **—** |   |   | $ | **269** |   |
| Downstream & industrial |   |   | **136** |   |   |   | **5** |   |   |   | **50** |   |   |   | **191** |   |
| Upstream production |   |   | **81** |   |   |   | **21** |   |   |   | **41** |   |   |   | **143** |   |
| Midstream pipeline |   |   | **74** |   |   |   | **2** |   |   |   | **7** |   |   |   | **83** |   |
|   |   | $ | **558** |   |   | $ | **30** |   |   | $ | **98** |   |   | $ | **686** |   |
| **2020:** |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| Gas utilities |   | $ | 200 |   |   | $ | 5 |   |   | $ | — |   |   | $ | 205 |   |
| Downstream & industrial |   |   | 126 |   |   |   | 2 |   |   |   | 48 |   |   |   | 176 |   |
| Upstream production |   |   | 66 |   |   |   | 18 |   |   |   | 50 |   |   |   | 134 |   |
| Midstream pipeline |   |   | 82 |   |   |   | 3 |   |   |   | 2 |   |   |   | 87 |   |
|   |   | $ | 474 |   |   | $ | 28 |   |   | $ | 100 |   |   | $ | 602 |   |
|  **Six Months Ended** |   |
| **June 30,** |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|   |   | **U.S.** |   |   | **Canada** |   |   | **International** |   |   | **Total** |   |
| **2021:** |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| Gas utilities |   | $ | **476** |   |   | $ | **3** |   |   | $ | **—** |   |   | $ | **479** |   |
| Downstream & industrial |   |   | **274** |   |   |   | **9** |   |   |   | **102** |   |   |   | **385** |   |
| Upstream production |   |   | **149** |   |   |   | **44** |   |   |   | **77** |   |   |   | **270** |   |
| Midstream pipeline |   |   | **143** |   |   |   | **6** |   |   |   | **12** |   |   |   | **161** |   |
|   |   | $ | **1,042** |   |   | $ | **62** |   |   | $ | **191** |   |   | $ | **1,295** |   |
| **2020:** |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| Gas utilities |   | $ | 399 |   |   | $ | 8 |   |   | $ | — |   |   | $ | 407 |   |
| Downstream & industrial |   |   | 316 |   |   |   | 8 |   |   |   | 103 |   |   |   | 427 |   |
| Upstream production |   |   | 205 |   |   |   | 55 |   |   |   | 96 |   |   |   | 356 |   |
| Midstream pipeline |   |   | 192 |   |   |   | 7 |   |   |   | 7 |   |   |   | 206 |   |
|   |   | $ | 1,112 |   |   | $ | 78 |   |   | $ | 206 |   |   | $ | 1,396 |   |

 **NOTE 3 – INVENTORIES**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|    |   | **June 30,** |   |   | **December 31,** |   |
|   |   | **2021** |   |   | **2020** |   |
| Finished goods inventory at average cost: |   |   |   |   |   |   |   |   |
| Valves, automation, measurement and instrumentation |   | $ | **250** |   |   | $ | 279 |   |
| Carbon steel pipe, fittings and flanges |   |   | **152** |   |   |   | 156 |   |
| All other products |   |   | **252** |   |   |   | 229 |   |
|   |   |   | **654** |   |   |   | 664 |   |
| Less: Excess of average cost over LIFO cost (LIFO reserve) |   |   | **(151** | ) |   |   | (136 | ) |
| Less: Other inventory reserves |   |   | **(19** | ) |   |   | (19 | ) |
|   |   | $ | **484** |   |   | $ | 509 |   |

 The Company uses the last-in, first-out (“LIFO”) method of valuing U.S. inventories. The use of the LIFO method has the effect of reducing net income during periods of rising inventory costs (inflationary periods) and increasing net income during periods of falling inventory costs (deflationary periods). Valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory determination.

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**NOTE 4 – LEASES**

We lease certain distribution centers, warehouses, office space, land and equipment. Substantially all of these leases are classified as operating leases. We recognize lease expense on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Many of our facility leases include one or more options to renew, with renewal terms that can extend the lease term from one year to 15 years with a maximum lease term of 30 years, including renewals. The exercise of lease renewal options is at our sole discretion; therefore, renewals to extend the terms of most leases are not included in our right of use (“ROU”) assets and lease liabilities as they are not reasonably certain of exercise. In the case of our regional distribution centers and certain corporate offices, where the renewal is reasonably certain of exercise, we include the renewal period in our lease term. Leases with escalation adjustments based on an index, such as the consumer price index, are expensed based on current rates. Leases with specified escalation steps are expensed based on the total lease obligation ratably over the life of the lease. The depreciable life of assets and leasehold improvements are limited by the expected lease term. Non-lease components, such as payment of real estate taxes, maintenance, insurance and other operating expenses, have been excluded from the determination of our lease liability.

As most of our leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments using a portfolio approach. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Expense associated with our operating leases was $10 million and $19 million for the three and six months ended June 30, 2021, respectively, and $9 million and $19 million for the three and six months ended June 30, 2020, respectively, which is classified in selling, general and administrative expenses. Cash paid for leases recognized as liabilities was $8 million and $19 million for the three and six months ended June 30, 2021, respectively, and $11 million and $22 million for the three and six months ended June 30, 2020.

The maturity of lease liabilities is as follows (in millions):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Maturity of Operating Lease Liabilities** |   |   |   |  |
| Remainder of 2021 |   | $ | **22** |   |
| 2022 |   |   | **35** |   |
| 2023 |   |   | **29** |   |
| 2024 |   |   | **25** |   |
| 2025 |   |   | **20** |   |
| After 2025 |   |   | **203** |   |
| Total lease payments |   |   | **334** |   |
| Less: Interest |   |   | **(123** | ) |
| Present value of lease liabilities |   | $ | **211** |   |

Amounts maturing after 2025 include expected renewals for leases of regional distribution centers and certain corporate offices through dates up to 2049.

The term and discount rate associated with leases are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **June 30,** |   |
| **Operating Lease Term and Discount Rate** |   | **2021** |   |
| Weighted-average remaining lease term (years) |   |   | **14** |   |
| Weighted-average discount rate |   |   | **6.8** | **%** |

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**NOTE 5 – GOODWILL AND INTANGIBLE ASSET IMPAIRMENT**

We apply a fair value-based impairment test to the carrying value of goodwill and indefinite-lived intangible assets on an annual basis (as of October 1) and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis.

In 2020, demand for oil and natural gas declined sharply as a result of the COVID-19 pandemic. This disruption in demand and the resulting decline in the price of oil had a dramatic negative impact on our business. We experienced a significant reduction in sales beginning in April 2020, which continued throughout the second quarter of 2020. At that time, there remained ongoing uncertainty around the timing and extent of any recovery. We took a more pessimistic long-term outlook due to the significant reduction in the demand for oil, the implications of that demand destruction on the price of oil for an extended period of time and actions our customers had taken to curtail costs and reduce spending. As a result of those developments, we concluded that it was more likely than not the fair values of our U.S. and International reporting units were lower than their carrying values. Accordingly, we completed an interim goodwill impairment test as of April 30, 2020. This test resulted in a $217 million goodwill impairment charge during the year ended December 31, 2020 comprised of $177 million in our U.S. reporting unit and $40 million in our International reporting unit. Following the impairment charges, the goodwill balance in our U.S. reporting unit was $264 million as of June 30, 2021 and December 31, 2020. There is no remaining goodwill in our Canada or International reporting units.

As a result of the same factors that necessitated an interim impairment test for goodwill, we completed an interim impairment test, as of April 30, 2020, for our U.S. indefinite-lived tradename asset. This test resulted in an impairment charge of $25 million during the year ended December 31, 2020. The remaining balance of the indefinite-lived tradename was $107 million as of June 30, 2021. The U.S. tradename is our only indefinite-lived intangible asset.

Our impairment test uses discounted cash flow and multiples of cash earnings valuation techniques, acquisition control premium and valuation comparisons to similar businesses to determine the fair value of a reporting unit. Each of these methods involves Level 3 unobservable market inputs and require us to make certain assumptions and estimates including future operating results, the extent and timing of future cash flows, working capital requirements, sales prices, profitability, discount rates, sales growth trends and cost trends. As of April 30, 2020, the discount rates utilized to value the reporting units were in a range from 9.75% to 11.25%. We utilized third-party valuation advisors to assist us with these valuations. These impairment tests incorporate inherent uncertainties, which are difficult to predict in volatile economic environments. While we believe that our assumptions and estimates were reasonable, actual results may differ materially from projected results which could result in the recognition of additional impairment charges in future periods.

As of June 30, 2021, there was no indication that it was more likely than not the fair value of our U.S. reporting unit was lower than its carrying value. No goodwill or intangible asset impairment charges were recorded in the three or six months ended June 30, 2021.

**NOTE 6 – LONG-TERM DEBT**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|    |   | **June 30,** |   |   | **December 31,** |   |
|   |   | **2021** |   |   | **2020** |   |
| Senior Secured Term Loan B, net of discount and issuance costs of $1 |   | $ | **297** |   |   | $ | 383 |   |
| Global ABL Facility |   |   | **—** |   |   |   | — |   |
|   |   |   | **297** |   |   |   | 383 |   |
| Less: Current portion |   |   | **(1** | **)** |   |   | (4 | ) |
|   |   | $ | **296** |   |   | $ | 379 |   |

**Senior Secured Term Loan B:** We have a Senior Secured Term Loan B (the “Term Loan”) with an original principal amount of $400 million, which amortizes in equal quarterly installments of 1% per year with the balance payable in September 2024, when the facility matures. The Term Loan has an applicable interest rate margin of 300 basis points in the case of loans incurring interest based on LIBOR, and 200 basis points in the case of loans incurring interest based on the base rate. The Term Loan allows for incremental increases in facility size by up to an aggregate of $200 million, plus an additional amount such that the Company’s first lien leverage ratio (as defined under the Term Loan) would not exceed 4.00 to 1.00. MRC Global (US) Inc. is the borrower under this facility, which is guaranteed by MRC Global Inc. as well as all of its wholly owned U.S. subsidiaries. In addition, it is secured by a second lien on the assets securing our Global ABL Facility, defined below (which includes accounts receivable and inventory) and a first lien on substantially all of the other assets of MRC Global Inc. and those of its U.S. subsidiaries as well as a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of first tier, non-U.S. subsidiaries. In addition, the Term Loan contains a number of customary restrictive covenants. We are required to repay the Term Loan with certain asset sales and insurance proceeds. In addition, on an annual basis, we are required to repay an amount equal to 50% of excess cash flow, as defined in the Term Loan, reducing to 25% if our first lien leverage ratio is no more than 2.75 to 1.00. No payment of excess cash flow is required if the first lien leverage ratio is less than or equal 2.50 to 1.00. The amount of cash used in the determination of the senior secured leverage ratio is limited to $75 million. Under this provision of the Term Loan, we were required to make a payment of $86 million in April 2021 as a result of excess cash flow generated in the year ended December 31, 2020. 10

In March 2020, we purchased and retired $3 million of the outstanding interests in the Term Loan at a cost of $2 million. We recognized a gain of $1 million on the extinguishment of the debt in the six months ended June 30, 2020.

**Global ABL Facility:** We have an $800 million multi-currency asset-based revolving credit facility (the “Global ABL Facility”) that matures in September 2022. This facility is comprised of revolver commitments of $675 million in the United States, $65 million in Canada, $18 million in Norway, $15 million in Australia, $13 million in the Netherlands, $7 million in the United Kingdom and $7 million in Belgium. It contains an accordion feature that allows us to increase the principal amount of the facility by up to $200 million, subject to securing additional lender commitments. MRC Global Inc. and each of its current and future wholly owned material U.S. subsidiaries guarantee the obligations of our borrower subsidiaries under the Global ABL Facility. Additionally, each of our non-U.S. borrower subsidiaries guarantees the obligations of our other non-U.S. borrower subsidiaries under the Global ABL Facility. Outstanding obligations are generally secured by a first priority security interest in accounts receivable and inventory. 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. Excess Availability, as defined under our Global ABL Facility, was $444 million as of June 30, 2021.

**Interest on Borrowings**: The interest rates on our borrowings outstanding at June 30, 2021 and December 31, 2020, including a floating to fixed interest rate swap and amortization of debt issuance costs, are as set forth below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|    |   | **June 30,** |   |   | **December 31,** |   |
|   |   | **2021** |   |   | **2020** |   |
| Senior Secured Term Loan B |   |   | **5.42** | **%** |   |   | 4.93 | % |
| Global ABL Facility |   |   | **-** | **%** |   |   | - | % |
| Weighted average interest rate |   |   | **5.42** | **%** |   |   | 4.93 | % |

**NOTE 7 – REDEEMABLE PREFERRED STOCK**

**Preferred Stock Issuance**

In June 2015, we issued 363,000 shares of Series A Convertible Perpetual Preferred Stock (the “Preferred Stock”) and received gross proceeds of $363 million. The Preferred Stock ranks senior to our common stock with respect to dividend rights and rights on liquidation, winding-up and dissolution. The Preferred Stock has a stated value of $1,000 per share, and holders of Preferred Stock are entitled to cumulative dividends payable quarterly in cash at a rate of 6.50% per annum. In June 2018, the holders of Preferred Stock designated one member to our board of directors. If we fail to declare and pay the quarterly dividend for an amount equal to six or more dividend periods, the holders of the Preferred Stock would be entitled to designate an additional member to our board of directors. Holders of Preferred Stock are entitled to vote together with the holders of the common stock as a single class, in each case, on an as-converted basis, except where a separate class vote of the common stockholders is required by law. Holders of Preferred Stock have certain limited special approval rights, including with respect to the issuance of pari passu or senior equity securities of the Company.

The Preferred Stock is convertible at the option of the holders into shares of common stock at an initial conversion rate of 55.9284 shares of common stock for each share of Preferred Stock, which represents an initial conversion price of $17.88 per share of common stock, subject to adjustment. The Company currently has the option to redeem, in whole but not in part, all the outstanding shares of Preferred Stock at 105% of par value, subject to certain redemption price adjustments. On or after June 10, 2022, the Company will have the option to redeem, in whole but not in part, all of the outstanding shares of Preferred Stock at par value, subject to certain redemption price adjustments. We may elect to convert the Preferred Stock, in whole but not in part, into the relevant number of shares of common stock if the last reported sale price of the common stock has been at least 150% of the conversion price then in effect for a specified period. The conversion rate is subject to customary anti-dilution and other adjustments.

Holders of the Preferred Stock may, at their option, require the Company to repurchase their shares in the event of a fundamental change, as defined in the agreement. The repurchase price is based on the original $1,000 per share purchase price except in the case of a liquidation in which case they would receive the greater of $1,000 per share and the amount that would be received if they held common stock converted at the conversion rate in effect at the time of the fundamental change. Because this feature could require redemption as a result of the occurrence of an event not solely within the control of the Company, the Preferred Stock is classified as temporary equity on our balance sheet.

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**NOTE 8 – STOCKHOLDERS’ EQUITY**

**Equity Compensation Plans**

 Our 2011 Omnibus Incentive Plan originally had 3,250,000 shares available for issuance under the plan. In both April 2015 and 2019, our shareholders approved an additional 4,250,000 and 2,500,000 shares, respectively, available for issuance under the plan. The plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. Since the adoption of the 2011 Omnibus Incentive Plan, the Company’s board of directors has periodically granted stock options, restricted stock awards, restricted stock units and performance share units 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 the fair market value of our common stock on the date of the grant, nor for a term exceeding ten years. For employees, vesting generally occurs over a three 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 agreements, and in any event, no less than one year. Vesting for directors generally occurs on the one year anniversary of the grant date. In 2021, 366,799 performance share unit awards, 104,388 restricted stock shares and 1,004,267 shares of restricted stock units have been granted to employees. To date, 11,007,097 shares have been granted under this plan. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options. A Monte Carlo simulation is completed to estimate the fair value of performance share unit awards with a stock price performance component. We expense the fair value of all equity grants, including performance share unit awards, on a straight-line basis over the vesting period.

**Accumulated Other Comprehensive Loss**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **June 30,** |   |   | **December 31,** |   |
|   |   | **2021** |   |   | **2020** |   |
| Foreign currency translation adjustments |   | $ | **(222** | **)** |   | $ | (222 | ) |
| Hedge accounting adjustments |   |   | **(8** | **)** |   |   | (11 | ) |
| Pension related adjustments |   |   | **(1** | **)** |   |   | (1 | ) |
| Accumulated other comprehensive loss |   | $ | **(231** | **)** |   | $ | (234 | ) |

**Earnings per Share**

Earnings per share are calculated in the table below (in millions, except per share amounts):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |   | **2021** |   |   | **2020** |   |
| Net income (loss) |   | $ | **4** |   |   | $ | (281 | ) |   | $ | **1** |   |   | $ | (272 | ) |
| Less: Dividends on Series A Preferred Stock |   |   | **6** |   |   |   | 6 |   |   |   | **12** |   |   |   | 12 |   |
| Net loss attributable to common stockholders |   | $ | **(2** | ) |   | $ | (287 | ) |   | $ | **(11** | **)** |   | $ | (284 | ) |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Weighted average basic shares outstanding |   |   | **82.6** |   |   |   | 82.0 |   |   |   | **82.5** |   |   |   | 81.9 |   |
| Effect of dilutive securities |   |   | **-** |   |   |   | - |   |   |   | **-** |   |   |   | - |   |
| Weighted average diluted shares outstanding |   |   | **82.6** |   |   |   | 82.0 |   |   |   | **82.5** |   |   |   | 81.9 |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Net loss per share: |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Basic |   | $ | **(0.02** | ) |   | $ | (3.50 | ) |   | $ | **(0.13** | **)** |   | $ | (3.47 | ) |
| Diluted |   | $ | **(0.02** | ) |   | $ | (3.50 | ) |   | $ | **(0.13** | **)** |   | $ | (3.47 | ) |

Equity awards and shares of Preferred Stock are disregarded in the calculation of diluted earnings per share if they are determined to be anti-dilutive. For the three and six months ended June 30, 2021 and 2020, all of the shares of the Preferred Stock were anti-dilutive. For the three and six months ended June 30, 2021, respectively, we had approximately 4.1 million and 4.3 million anti-dilutive stock options, restricted stock units, and performance units. For the three and six months ended June 30, 2020, respectively, we had approximately 4.5 million and 4.2 million anti-dilutive stock options, restricted stock units, and performance units.

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**NOTE 9 – SEGMENT INFORMATION**

Our business is comprised of three operating and reportable segments: U.S., Canada and International. Our International segment consists of our operations outside of the U.S. and Canada. These segments represent our business of selling PVF to the energy sector across each of the gas utilities, downstream and industrial, upstream production and midstream pipeline sectors.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |   | **2021** |   |   | **2020** |   |
| **Sales** |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| U.S. |   | $ | **558** |   |   | $ | 474 |   |   | $ | **1,042** |   |   | $ | 1,112 |   |
| Canada |   |   | **30** |   |   |   | 28 |   |   |   | **62** |   |   |   | 78 |   |
| International |   |   | **98** |   |   |   | 100 |   |   |   | **191** |   |   |   | 206 |   |
| Consolidated sales |   | $ | **686** |   |   | $ | 602 |   |   | $ | **1,295** |   |   | $ | 1,396 |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| **Operating income (loss)** |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| U.S. |   | $ | **7** |   |   | $ | (226 | ) |   | $ | **6** |   |   | $ | (208 | ) |
| Canada |   |   | **-** |   |   |   | (2 | ) |   |   | **-** |   |   |   | (2 | ) |
| International |   |   | **3** |   |   |   | (61 | ) |   |   | **7** |   |   |   | (57 | ) |
| Total operating income (loss) |   |   | **10** |   |   |   | (289 | ) |   |   | **13** |   |   |   | (267 | ) |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| **Interest expense** |   |   | **(6** | ) |   |   | (7 | ) |   |   | **(12** | **)** |   |   | (15 | ) |
| **Other, net** |   |   | **1** |   |   |   | (2 | ) |   |   | **1** |   |   |   | (2 | ) |
| **Income (loss) before income taxes** |   | $ | **5** |   |   | $ | (298 | ) |   | $ | **2** |   |   | $ | (284 | ) |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **June 30,** |   |   | **December 31,** |   |
|   |   | **2021** |   |   | **2020** |   |
| **Total assets** |   |   |   |  |   |   |   |  |
| U.S. |   | $ | **1,493** |   |   | $ | 1,506 |   |
| Canada |   |   | **49** |   |   |   | 53 |   |
| International |   |   | **203** |   |   |   | 222 |   |
| Total assets |   | $ | **1,745** |   |   | $ | 1,781 |   |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |
| **Type** |   | **2021** |   |   | **2020** |   |   | **2021** |   |   | **2020** |   |
| Line pipe |   | $ | **100** |   |   | $ | 80 |   |   | $ | **165** |   |   | $ | 180 |   |
| Carbon fittings and flanges |   |   | **88** |   |   |   | 73 |   |   |   | **173** |   |   |   | 188 |   |
| Total carbon pipe, fittings and flanges |   |   | **188** |   |   |   | 153 |   |   |   | **338** |   |   |   | 368 |   |
| Valves, automation, measurement and instrumentation |   |   | **243** |   |   |   | 249 |   |   |   | **484** |   |   |   | 572 |   |
| Gas products |   |   | **162** |   |   |   | 114 |   |   |   | **296** |   |   |   | 248 |   |
| Stainless steel and alloy pipe and fittings |   |   | **36** |   |   |   | 30 |   |   |   | **65** |   |   |   | 67 |   |
| General products |   |   | **57** |   |   |   | 56 |   |   |   | **112** |   |   |   | 141 |   |
|   |   | $ | **686** |   |   | $ | 602 |   |   | $ | **1,295** |   |   | $ | 1,396 |   |

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**NOTE 10 – FAIR VALUE MEASUREMENTS**

From time to time, we use derivative financial instruments to help manage our exposure to interest rate risk and fluctuations in foreign currencies.

**Interest Rate Swap:** In March 2018, we entered into a five year interest rate swap that became effective on March 31, 2018, with a notional amount of $250 million from which the Company will receive payments at 1-month LIBOR and make monthly payments at a fixed rate of 2.7145% with settlement and reset dates on or near the last business day of each month until maturity. The fair value of the swap at inception was zero.

We have designated the interest rate swap as an effective cash flow hedge utilizing the guidance under ASU 2017-12. As such, the valuation of the interest rate swap is recorded as an asset or liability, and the gain or loss on the derivative is recorded as a component of other comprehensive income. Interest rate swap agreements are reported on the accompanying balance sheets at fair value utilizing observable Level 2 inputs such as yield curves and other market-based factors. We obtain dealer quotations to value our interest rate swap agreements. The fair value of our interest rate swap is estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rates and the expected cash flows at current market interest rates. The fair value of the interest rate swap was a liability of $11 million and $14 million as of June 30, 2021 and December 31, 2020, respectively.

**Foreign Exchange Forward Contracts:** Foreign exchange forward contracts are reported at fair value utilizing Level 2 inputs, as the fair value is based on broker quotes for the same or similar derivative instruments. Our foreign exchange derivative instruments are freestanding, have not been designated as hedges and, accordingly, changes in their fair market value are recorded in earnings. The total notional amount of our forward foreign exchange contracts and options was approximately $2 million and $3 million at June 30, 2021 and December 31, 2020, respectively. The fair value of our foreign exchange contracts was not material as of June 30, 2021 and December 31, 2020.

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 $297 million and $383 million at June 30, 2021 and December 31, 2020, respectively. We estimate the fair value of the Term Loan using Level 2 inputs, or quoted market prices. The fair value of our debt was $297 million and $372 million at June 30, 2021 and December 31, 2020 respectively.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

***Litigation***

*Asbestos Claims.*  We are one of many defendants in lawsuits that plaintiffs have brought seeking damages for personal injuries that exposure to asbestos allegedly caused. Plaintiffs and their family members have brought these lawsuits against a large volume of defendant entities as a result of the defendants’ manufacture, distribution, supply or other involvement with asbestos, asbestos containing-products or equipment or activities that allegedly caused plaintiffs to be exposed to asbestos. These plaintiffs typically assert exposure to asbestos as a consequence of third-party manufactured products that our MRC Global (US) Inc. subsidiary purportedly distributed. As of June 30, 2021, we are named a defendant in approximately 586 lawsuits involving approximately 1,152 claims. No asbestos lawsuit has resulted in a judgment against us to date, with a majority being settled, dismissed or otherwise resolved. Applicable third-party insurance has substantially covered these claims, and insurance should continue to cover a substantial majority of existing and anticipated future claims. Accordingly, we have recorded a liability for our estimate of the most likely settlement of asserted claims and a related receivable from insurers for our estimated recovery, to the extent we believe that the amounts of recovery are probable. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

*Other Legal Claims and Proceedings.*  From time to time, we have been subject to various claims and involved in legal proceedings incidental to the nature of our businesses. We maintain insurance coverage to reduce financial risk associated with certain of these claims and proceedings. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

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*Product Claims.*  From time to time, in the ordinary course of our business, our customers may claim that the products that we distribute are either defective or require repair or replacement under warranties that either we or the manufacturer may provide to the customer. These proceedings are, in the opinion of management, ordinary and routine matters incidental to our normal business. Our purchase orders with our suppliers generally require the manufacturer to indemnify us against any product liability claims, leaving the manufacturer ultimately responsible for these claims. In many cases, state, provincial or foreign law provides protection to distributors for these sorts of claims, shifting the responsibility to the manufacturer. In some cases, we could be required to repair or replace the products for the benefit of our customer and seek our recovery from the manufacturer for our expense. In our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

***Customer Contracts***

We have contracts and agreements with many of our customers that dictate certain terms of our sales arrangements (pricing, deliverables, etc.). While we make every effort to abide by the terms of these contracts, certain provisions are complex and often subject to varying interpretations. Under the terms of these contracts, our customers have the right to audit our adherence to the contract terms. Historically, any settlements that have resulted from these customer audits have not been material to our consolidated financial statements.

***Purchase Commitments***

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

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***ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. As used in this Form 10-Q, unless otherwise indicated or the context otherwise requires, all references to the “Company,” “MRC Global,” “we,” “our” or “us” refer to MRC Global Inc. and its consolidated subsidiaries.*

**Cautionary Note Regarding Forward-Looking Statements**

Management’s Discussion and Analysis of Financial Condition and Results of Operations (as well as other sections of this Quarterly Report on Form 10-Q) contain forward-looking statementswithin 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 similar expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in the oil and natural gas industry. These forward-looking statements are not guarantees of future performance. These statements are based on management’s expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, most of which are difficult to predict and many of which are beyond our control, including the factors described under “Risk Factors,” that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Such risks and uncertainties include, among other things:

|  |  |  |
| --- | --- | --- |
|   | ● | decreases in oil and natural gas prices; |

|  |  |  |
| --- | --- | --- |
|   | ● | decreases in oil and natural gas industry expenditure levels, which may result from decreased oil and natural gas prices or other factors; |

|  |  |  |
| --- | --- | --- |
|   | ● | 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 or adverse change in the value of certain of the products we distribute if tariffs and duties on these products are imposed or lifted; |

|  |  |  |
| --- | --- | --- |
|   | ● | significant substitution of alternative fuels for oil and gas; |

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|  |  |  |
| --- | --- | --- |
|   | ● | 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; |

|  |  |  |
| --- | --- | --- |
|   | ● | adverse health events, such as a pandemic; |

|  |  |  |
| --- | --- | --- |
|   | ● | interruption in the proper functioning of our information systems; |

|  |  |  |
| --- | --- | --- |
|   | ● | the occurrence of cybersecurity incidents; |

|  |  |  |
| --- | --- | --- |
|   | ● | loss of third-party transportation providers; |

|  |  |  |
| --- | --- | --- |
|   | ● | potential inability to obtain necessary capital; |

|  |  |  |
| --- | --- | --- |
|   | ● | risks related to adverse weather events or natural disasters; |

|  |  |  |
| --- | --- | --- |
|   | ● | impairment of our goodwill or other intangible assets; |

|  |  |  |
| --- | --- | --- |
|   | ● | adverse changes in political or economic conditions in the countries in which we operate; |

|  |  |  |
| --- | --- | --- |
|   | ● | exposure to U.S. and international laws and regulations, including the Foreign Corrupt Practices Act and the U.K. Bribery Act and other economic sanctions programs; |

|  |  |  |
| --- | --- | --- |
|   | ● | risks associated with international instability and geopolitical developments, including armed conflicts and terrorism; |

|  |  |  |
| --- | --- | --- |
|   | ● | risks relating to ongoing evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act; |

|  |  |  |
| --- | --- | --- |
|   | ● | our intention not to pay dividends; and |

|  |  |  |
| --- | --- | --- |
|   | ● | risks related to changing laws and regulations, including trade policies and tariffs. |

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 leading global distributor of pipe, valves, and fittings ("PVF") and other infrastructure products and services to diversified energy and industrial end-markets. We provide innovative supply chain solutions, technical product expertise and a robust digital platform to customers globally through our leading position across each of our diversified end-markets including the following sectors:

|  |  |  |
| --- | --- | --- |
|   | ● | gas utilities (storage and distribution of natural gas) |
|   | ● | downstream and industrial (crude oil refining and petrochemical and chemical processing and general industrials) |
|   | ● | upstream production (exploration, production and extraction of underground oil and gas) |
|   | ● | midstream pipeline (gathering, processing and transmission of oil and gas) |

We offer over 200,000 SKUs, including an extensive array of PVF, oilfield supply, valve automation and modification, measurement, instrumentation and other general and specialty products from our global network of over 10,000 suppliers. With over 100 years of experience, our over 2,500 employees serve approximately 12,000 customers through approximately 220 service locations including regional distribution centers, branches, corporate offices and third party pipe yards, where we often deploy pipe near customer locations.

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**Key Drivers of Our Business**

Our revenue is predominantly derived from the sale of PVF and other oilfield and industrial supplies to energy and industrial users 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 gas utilities, downstream and industrial, upstream production and midstream pipeline sectors of the industry. Long-term growth in spending has been driven by several factors, including demand growth for petroleum and petroleum derived products, 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 and petrochemical sectors. The outlook for future oil, natural gas, refined products and petrochemical PVF spending is influenced by numerous factors, including the following:

|  |  |  |
| --- | --- | --- |
|   | ● | *Energy Infrastructure Integrity and Modernization.*Ongoing maintenance and upgrading of existing energy facilities, pipelines and other infrastructure equipment is a meaningful driver for business across the sectors we serve. This is particularly true for gas utilities which is currently our largest sector by sales. Activity with customers in this market is dependent on new residential and commercial development as well as upgrades of existing infrastructure. Maintenance of an aging network of pipelines is a critical requirement for these customers irrespective of broader economic conditions. As a result, this business tends to be more stable over time and moves independently of commodity prices.   |

|  |  |  |
| --- | --- | --- |
|   | ● | *Oil and Natural Gas Demand and Prices*. Sales of PVF and related infrastructure 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, natural gas and refined products. Demand for oil and natural gas along with both current and projected prices and the costs necessary to produce oil and gas, impact other drivers of our business, including capital spending by customers, additions to and maintenance of pipelines, refinery utilization and petrochemical processing activity. |
|   | ● | *Economic Conditions*. Changes in the general economy or in the energy sector (domestically or internationally) can cause demand for fuels, feedstocks and petroleum-derived products to vary thereby causing demand for the products we distribute to materially change. |

|  |  |  |
| --- | --- | --- |
|   | ● | *Manufacturer and Distributor Inventory Levels of PVF and Related Products*. Manufacturer and distributor inventory levels of PVF and related products can change significantly from period to period. 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 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 Demand*. Fluctuations in steel prices can lead to volatility in the pricing of the products we distribute, especially carbon steel line pipe 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. Additionally, supply chain disruptions with key manufacturers or in markets in which we source products can impact the availability of inventory we require to support our customers. Furthermore, logistical challenges, including inflation and availability of freight providers and containers for shipping can also significantly impact our profitability and inventory lead-times. |

**Recent Trends and Outlook**

During the first six months of 2021, the average oil price of West Texas Intermediate (“WTI”) increased to $62.21 per barrel from $36.58 per barrel in the first six months of 2020. Natural gas prices increased to an average price of $3.22/MMBtu (Henry Hub) for the first six months of 2021 compared to $1.80/MMBtu (Henry Hub) for the first six months of 2020.North American drilling rig activity decreased 24% in the six months ended June 30, 2021, as compared to the same period of 2020. U.S. well completions were up 3% in the six months ended June 30, 2021, compared to the same period in 2020.

The energy industry, and our business in turn, is cyclical in nature. In the first half of 2020, demand for oil and natural gas declined sharply because of the COVID-19 pandemic. This resulted in lower commodity prices, which, in turn, led to a significant decline in oil and gas industry spending. Based on an average of industry research estimates, there was a decrease in oil and gas industry spending in 2020 of 32% globally, including approximately 45% in the U.S. upstream production market. These reductions in spending directly impacted both the upstream production and midstream pipeline components of our business. In addition, our customers in the downstream and industrial sector deferred turnarounds and routine maintenance as well as idled facilities to preserve liquidity and comply with COVID-19 related limitations on employee activities. Furthermore, approximately 80% of our business is concentrated in the U.S. where the majority of industry spending reductions occurred.

In the first half of 2021, we began to see an improvement in the demand for oil and natural gas as the roll out of the COVID-19 vaccinations gradually improved around the globe and pandemic restrictions eased. The increasing optimism related to demand recovery has led to higher commodity prices and although demand levels remain below pre-pandemic levels, there is growing confidence of returning to 2019 levels in the coming years. Also contributing to the improvement in oil prices has been cooperation within OPEC to implement production cuts over the last year; however, it was recently announced that OPEC intends to increase production beginning in August 2021 that will continue into late 2022 to match increasing demand expectations. Demand recovery could still possibly slow or pause as a result of additional waves of pandemic outbreak or heightened pandemic control measures. Over the longer term, we could also experience a structural shift in the global economy and its demand for oil and natural gas as a result of changes in the way people work, travel and interact.

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Notwithstanding the ongoing uncertainty, we experienced a 5% sequential growth in sales in the first quarter of 2021 as compared to the fourth quarter of 2020, followed by a 13% sequential growth in the second quarter of 2021. North American rig count, which is a leading indicator of activity levels, increased by 31% from the fourth quarter of 2020 to the second quarter of 2021. Recent spending plan estimates by sell-side research analysts indicate U.S. upstream spending in 2021 will be higher compared to 2020, although the percentage increases can vary significantly by customer and we expect a continued focus on capital discipline by oil and gas exploration and production operators. For example, the majority of rig count and completion activity increases to date have been led by private operators, which historically have not been our primary customer base. Despite this we have seen a substantial improvement in both our upstream and midstream sectors in the first half of 2021.

Our gas utility business had the most significant contribution to our revenue improvement in the second quarter of 2021, with an increase of 28% compared to the first quarter. This continues to be our largest sector making up approximately 39% of our total company revenue in the second quarter of 2021. This business, which is largely independent of oil and gas commodity prices, was also initially impacted by certain customer activity delays due to COVID-19 concerns but did not experience any material budget cuts or project cancellations. This sector is expected to have the most significant revenue improvement in 2021 with a double-digit percentage increase compared to 2020 due to increased customer activity levels as pandemic restrictions ease and customers continue to execute their integrity upgrade programs.

In January 2021, a new U.S. President took office and a new U.S. Congress was seated. Both have publicly stated a desire to support alternative energy sources such as solar, wind and “green” hydrogen, reduce U.S. emissions of greenhouse gases and generally address climate change. To that end, the new administration has implemented executive orders for the U.S. to rejoin the Paris Agreement, which presumably will require the U.S. to set greenhouse gas reduction goals and enact policies to meet those goals. It has also announced an aggressive policy agenda to change the tax system, increase corporate and other income taxes, modify the relationships between the United States and other countries and make changes that reverse actions taken by the prior President. Until specific laws are passed, executive actions are taken or federal regulatory action is enacted, it is unclear what impact these policies will have on our business. However, we believe that carbon-based energy will continue to play a critical role in supporting economic growth, particularly in developing countries, and that oil and gas demand will continue to be significant in the coming decades. The U.S. EIA in its Reference Case published in the Annual Energy Outlook 2021 projects U.S. energy consumption rising by 17% between 2020 and 2050. Even as the EIA projects in its Reference Case that renewables become the fastest growing energy source by 2050, the EIA also projects petroleum and other liquids demand in the U.S. to rise by 16% in that timeframe and natural gas to rise more than 22% after reaching a trough in 2021. While the U.S. EIA has not recently published a global outlook, its U.S. Reference Case suggests increasing world demand for hydrocarbons may also increase. This would require an increase in oil and gas to meet the rise in demand from current levels, which would continue to provide a robust market for our existing goods and services. Furthermore, our largest customers are among the leading investors in renewable energy technology. As they further rebalance their capital investment from traditional, carbon-based energy to alternative sources, we expect to continue to supply them and enhance our product and service offerings as needed to support their changing requirements, including in areas such as carbon capture, biofuels and wind.

During the COVID-19 pandemic crisis, we have continued to operate our business. Our warehouses and regional distribution centers have remained open. Under various isolation orders by national, state, provincial and local governments, we have been exempted as an "essential' business as the products we sell are necessary for the maintenance and functioning of the energy infrastructure. We have taken measures to safeguard the health and welfare of our employees. As the COVID-19 vaccines have become more widely distributed, we have begun to reopen our offices. In the U.S., in particular, all of our offices are open under appropriate safety measures.

As of July 12, 2021, of our approximate 2,500 employees, we had 5 employees with current cases of COVID-19. We monitor guidelines of the U.S. Centers for Disease Control ("CDC") and other authorities on an ongoing basis, and as various governmental isolation orders evolve, we continue to review our operational plans to continue operating our business while addressing the health and safety of our employees and those with whom our business comes into contact.

As a distribution business, we have also closely monitored the ability of our suppliers and transportation providers to continue the functioning of our supply chain, particularly in cases where there are limited alternative sources of supply. While there were initially some temporary interruptions of manufacturing for some of our products in the Spring of 2020, most of these manufacturers have now resumed production. We have not experienced significant delays by transportation providers, but we are experiencing significant increases in transportation costs as the economy of the U.S. and other countries begins to recover from the initial onset of the pandemic. Our inventory position for most products has allowed us to continue supply to most customers with little interruption. In those instances where there is interruption, we are working with our customers to discuss the impact of the COVID-19 delay. We continue to monitor the situation and have ongoing dialogue with our customers regarding the status of impacted orders.

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In recent years, the United States imposed tariffs on imports of some products that we distribute. Although these actions generally cause the price we pay for products to increase, we are generally able to leverage long-standing relationships with our suppliers and the volume of our purchases to receive market competitive pricing. In addition, our contracts with customers generally allow us to react quickly to price increases through mechanisms that enable us to pass those increases along to customers as they occur. Of course, the price increases that tariffs and quotas engender may be offset by the pricing impacts of lower demand that the COVID-19 pandemic has caused. These issues are dynamic and continue to evolve. To the extent our products are further impacted by pricing fluctuations caused by tariffs and quotas, the ultimate impact on our revenue and cost of sales, which is determined using the last-in, first-out ("LIFO") inventory costing methodology, remains subject to uncertainty and volatility.

We determine backlog by the amount of unshipped customer orders, either specific or general in nature, which the customer may revise or cancel in certain instances. The table below details our backlog by segment (in millions):

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|   |   | **June 30,** |   |   | **December 31,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |   | **2020** |   |
| U.S. |   | $ | **257** |   |   | $ | 193 |   |   | $ | 220 |   |
| Canada |   |   | **13** |   |   |   | 13 |   |   |   | 22 |   |
| International |   |   | **124** |   |   |   | 134 |   |   |   | 150 |   |
|   |   | $ | **394** |   |   | $ | 340 |   |   | $ | 392 |   |

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 within twelve months.

The following table shows key industry indicators for the three and six months ended June 30, 2021 and 2020:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |   | **2021** |   |   | **2020** |   |
| *Average Rig Count (1):* |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| United States |   |   | **450** |   |   |   | 392 |   |   |   | **423** |   |   |   | 588 |   |
| Canada |   |   | **72** |   |   |   | 25 |   |   |   | **107** |   |   |   | 110 |   |
| Total North America |   |   | **522** |   |   |   | 417 |   |   |   | **530** |   |   |   | 698 |   |
| International |   |   | **734** |   |   |   | 834 |   |   |   | **716** |   |   |   | 954 |   |
| Total |   |   | **1,256** |   |   |   | 1,251 |   |   |   | **1,246** |   |   |   | 1,652 |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| *Average Commodity Prices (2):* |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| WTI crude oil (per barrel) |   | $ | **66.19** |   |   | $ | 27.96 |   |   | $ | **62.21** |   |   | $ | 36.58 |   |
| Brent crude oil (per barrel) |   | $ | **68.98** |   |   | $ | 29.70 |   |   | $ | **64.95** |   |   | $ | 40.23 |   |
| Natural gas ($/MMBtu) |   | $ | **2.95** |   |   | $ | 1.70 |   |   | $ | **3.22** |   |   | $ | 1.80 |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Average Monthly U.S. Well Permits (3) |   |   | **1,885** |   |   |   | 1,441 |   |   |   | **1,863** |   |   |   | 1,844 |   |
| U.S. Wells Completed (2) |   |   | **2,394** |   |   |   | 1,082 |   |   |   | **4,406** |   |   |   | 4,266 |   |
| 3:2:1 Crack Spread (4) |   | $ | **20.74** |   |   | $ | 12.11 |   |   | $ | **18.66** |   |   | $ | 12.91 |   |

|  |
| --- |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| *(1) Source-Baker Hughes (www.bhge.com) (Total rig count includes oil, natural gas and other rigs.)* |
| *(2) Source-Department of Energy, EIA (www.eia.gov) (As revised)* |
| *(3) Source-Evercore ISI Research* |
| *(4) Source-Bloomberg* |

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**Results of Operations**

***Three Months Ended******June 30, 2021 Compared to the Three Months Ended******June 30, 2020***

The breakdown of our sales by sector for the three months ended June 30, 2021 and 2020 was as follows (in millions):

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |
|   |   | **June 30, 2021** |   |   | **June 30, 2020** |   |
| Gas utilities |   | $ | **269** |   |   |   | **39** | **%** |   | $ | 205 |   |   |   | 34 | % |
| Downstream & industrial |   |   | **191** |   |   |   | **28** | **%** |   |   | 176 |   |   |   | 29 | % |
| Upstream production |   |   | **143** |   |   |   | **21** | **%** |   |   | 134 |   |   |   | 22 | % |
| Midstream pipeline |   |   | **83** |   |   |   | **12** | **%** |   |   | 87 |   |   |   | 15 | % |
|   |   | $ | **686** |   |   |   | **100** | **%** |   | $ | 602 |   |   |   | 100 | % |

For the three months ended June 30, 2021 and 2020, the following table summarizes our results of operations (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |   |   |   |  |   |   |   |  |
|   |   | **June 30,** |   |   | **June 30,** |   |   |   |   |  |   |   |   |  |
|   |   | **2021** |   |   | **2020** |   |   | **$ Change** |   |   | **% Change** |   |
| *Sales:* |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| U.S. |   | $ | **558** |   |   | $ | 474 |   |   | $ | 84 |   |   |   | 18 | % |
| Canada |   |   | **30** |   |   |   | 28 |   |   |   | 2 |   |   |   | 7 | % |
| International |   |   | **98** |   |   |   | 100 |   |   |   | (2 | ) |   |   | (2 | )% |
| Consolidated |   | $ | **686** |   |   | $ | 602 |   |   | $ | 84 |   |   |   | 14 | % |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| *Operating income (loss):* |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| U.S. |   | $ | **7** |   |   | $ | (226 | ) |   | $ | 233 |   |   |   | N/M |   |
| Canada |   |   | **-** |   |   |   | (2 | ) |   |   | 2 |   |   |   | N/M |   |
| International |   |   | **3** |   |   |   | (61 | ) |   |   | 64 |   |   |   | N/M |   |
| Consolidated |   |   | **10** |   |   |   | (289 | ) |   |   | 299 |   |   |   | N/M |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Interest expense |   |   | **(6** | ) |   |   | (7 | ) |   |   | 1 |   |   |   | (14 | )% |
| Other, net |   |   | **1** |   |   |   | (2 | ) |   |   | 3 |   |   |   | N/M |   |
| Income tax (expense) benefit |   |   | **(1** | ) |   |   | 17 |   |   |   | (18 | ) |   |   | N/M |   |
| Net income (loss) |   |   | **4** |   |   |   | (281 | ) |   |   | 285 |   |   |   | N/M |   |
| Series A preferred stock dividends |   |   | **6** |   |   |   | 6 |   |   |   | - |   |   |   | 0 | % |
| Net loss attributable to common stockholders |   | $ | **(2** | **)** |   | $ | (287 | ) |   | $ | 285 |   |   |   | (99 | )% |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Gross profit |   | $ | **112** |   |   | $ | 79 |   |   | $ | 33 |   |   |   | 42 | % |
| Adjusted Gross Profit (1) |   | $ | **134** |   |   | $ | 118 |   |   | $ | 16 |   |   |   | 14 | % |
| Adjusted EBITDA (1) |   | $ | **36** |   |   | $ | 17 |   |   | $ | 19 |   |   |   | N/M |   |

(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 22-24 herein.

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 ***Sales****.*  Our sales were $686 million for the three months ended June 30, 2021 as compared to $602 million for the three months ended June 30, 2020, an increase of $84 million, or 14%. The strengthening of foreign currencies in areas where we operate relative to the U.S. dollar favorably impacted sales by $14 million, or 2%.

*U.S. Segment—*Our U.S. sales increased to $558 million for the three months ended June 30, 2021 from $474 million for the three months ended June 30, 2020. This $84 million, or 18%, increase reflected a $67 million increase in the gas utilities sector driven by the full implementation of a new customer contract as well as increased activity levels as pandemic restrictions eased and customers continued to execute their integrity upgrade programs, a $10 million increase in the downstream and industrial sector due to increased turnaround and small project spending, a $15 million increase in the upstream production sector due to increased customer spending driven by improved commodity prices and a corresponding increase in well completions, offset by an $8 million decrease in the midstream pipeline sector due to the completion of non-repeatable project activity in 2020.

*Canada Segment—*Our Canada sales increased to $30 million for the three months ended June 30, 2021 from $28 million for the three months ended June 30, 2020, an increase of $2 million, or 7%. Improved commodity pricing, the easing of pandemic restrictions, as well as small projects and turnarounds all contributed to the increase. The strengthening of the Canadian dollar relative to the U.S. dollar favorably impacted sales by $3 million, or 11%.

*International Segment*—Our International sales decreased to $98 million for the three months ended June 30, 2021 from $100 million for the same period in 2020. The $2 million, or 2%, decrease is primarily driven by lower activity levels in the upstream sector in the U.K. In addition, the strengthening of foreign currencies in areas where we operate relative to the U.S. dollar favorably impacted sales by $11 million, or 11%.

***Gross Profit****.*  Our gross profit was $112 million (16.3% of sales) for the three months ended June 30, 2021 as compared to $79 million (13.1% of sales) for the three months ended June 30, 2020. As compared to average cost, our LIFO inventory costing methodology increased cost of sales by $11 million for the second quarter of 2021 compared to a $6 million reduction in the second quarter of 2020. In addition, gross profit for the three months ended June 30, 2020 was negatively impacted by $34 million of inventory-related charges due to the COVID-19 pandemic and related economic downturn.

***Adjusted Gross Profit****.*  Adjusted Gross Profit increased to $134 million (19.5% of sales) for the three months ended June 30, 2021 from $118 million (19.6% of sales) for the three months ended June 30, 2020, an increase of $16 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, plus inventory-related charges incremental to normal operations and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Profit because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

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

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |
|   |   | **June 30,** |   |   | **Percentage** |   |   | **June 30,** |   |   | **Percentage** |   |
|   |   | **2021** |   |   | **of Revenue** |   |   | **2020** |   |   | **of Revenue\*** |   |
| Gross profit, as reported |   | $ | **112** |   |   |   | **16.3** | **%** |   | $ | 79 |   |   |   | 13.1 | % |
| Depreciation and amortization |   |   | **5** |   |   |   | **0.7** | **%** |   |   | 5 |   |   |   | 0.8 | % |
| Amortization of intangibles |   |   | **6** |   |   |   | **0.9** | **%** |   |   | 6 |   |   |   | 1.0 | % |
| Increase (decrease) in LIFO reserve |   |   | **11** |   |   |   | **1.6** | **%** |   |   | (6 | ) |   |   | (1.0 | )% |
| Inventory-related charges |   |   | - |   |   |   | **0.0** | **%** |   |   | 34 |   |   |   | 5.6 | % |
| Adjusted Gross Profit |   | $ | **134** |   |   |   | **19.5** | **%** |   | $ | 118 |   |   |   | 19.6 | % |

 *\*Does not foot due to rounding*

***Selling, General and Administrative (“SG&A”) Expenses****.*  Our SG&A expenses were $102 million for the three months ended June 30, 2021 as compared to $126 million for the three months ended June 30, 2020. The $24 million decrease in SG&A was driven by lower employee-related costs, including incentives and benefits, resulting from the decline in business activity. Additionally, the strengthening of foreign currencies in areas where we operate outside of the U.S. dollar unfavorably impacted SG&A by $3 million. For the three months ended June 30, 2020 personnel costs were partially offset by $15 million of expenses associated with facilities closures and $7 million of severance and restructuring charges. Excluding these charges, SG&A would have been $104 million.  22

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***Goodwill and Intangible Asset Impairment.***In the first half of 2020, demand for oil and natural gas declined sharply as a result of the COVID-19 pandemic. This disruption in demand and the resulting decline in the price of oil had a dramatic negative impact on our business. We experienced a significant reduction in sales beginning in April 2020, which resulted in a more pessimistic long-term outlook due to the significant reduction in the demand for oil, the implications of that demand destruction on the price of oil for an extended period of time and actions our customers have taken to curtail costs and reduce spending. As a result of these developments, we concluded that it was more likely than not the fair values of our U.S. and International reporting units were lower than their carrying values. Accordingly, we completed an interim goodwill impairment test as of April 30, 2020. This test resulted in a $217 million goodwill impairment charge comprised of $177 million in our U.S. reporting unit and $40 million in our International reporting unit.

As a result of the same factors that necessitated an interim impairment test for goodwill, we completed an interim impairment test for our U.S. indefinite-lived tradename asset. This test resulted in an impairment charge of $25 million. The remaining balance of the indefinite-lived tradename was $107 million as of June 30, 2021. The U.S. tradename is our only indefinite-lived intangible asset.

***Operating Income (Loss)****.* Operating income was $10 million for the three months ended June 30, 2021 as compared to operating loss of $289 million for the three months ended June 30, 2020, an increase of $299 million.

*U.S. Segment*—Operating income for our U.S. segment was $7 million for the three months ended June 30, 2021 compared to operating loss of $226 million for the three months ended June 30, 2020, a $233 million increase. Operating loss for the second quarter of 2020 was impacted by $202 million of goodwill and intangible asset impairments, $19 million of inventory-related charges, $6 million of severance costs, and $2 million of costs associated with facility closures. Excluding these charges, operating income would have been $3 million.

*Canada Segment*—Operating income for our Canada segment was $0 million for the three months ended June 30, 2021 and 2020 as compared to $2 million operating loss for the three months ended June 30, 2020.

*International Segment*—Operating income for our international segment was $3 million for the three months ended June 30, 2021 as compared to operating loss of $61 million for the three months ended June 30, 2020. The $61 million operating loss included $40 million of goodwill impairment charges, $14 million of inventory-related charges, $1 million of severance costs and $12 million of costs associated with facility closures.  Excluding these charges, operating income would have been $6 million for the three months ended June 30, 2020.

***Interest Expense****.* Our interest expense was $6 million and $7 million for the three months ended June 30, 2021 and 2020, respectively. The decrease in interest expense was attributable to lower average debt levels and interest rates during the second quarter of 2021 as compared to the second quarter of 2020.

***Other, net****.* Our other income was $1 million for the three months ended June 30, 2021 as compared to other expense of $2 million for the three months ended June 30, 2020*.*Other expense in the second quarter of 2020 included $3 million of asset write-downs related to facility closures.

***Income Tax Expense (Benefit)****.* Our income tax expense was $1 million for the three months ended June 30, 2021 as compared to $17 million benefit for the three months ended June 30, 2020. We typically record income tax expense for interim periods based on estimated annual effective tax rates. However, due to the uncertainty in our industry and the effects of COVID-19, the income tax expense for the three months ended June 30, 2021 was computed based on a year-to-date effective tax rate. We will return to utilizing an estimated annual effective tax rate when appropriate. Our effective tax rates were 20% and 6% for the three months ended June 30, 2021 and 2020, respectively. Our rates generally differ from the U.S. federal statutory rate of 21% as a result of state income taxes and differing foreign income tax rates.

***Net Income (Loss)****.* Our net income was $4 million for the three months ended June 30, 2021 as compared to net loss of $281 million for the three months ended June 30, 2020.

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***Adjusted EBITDA****.* Adjusted EBITDA, a non-GAAP financial measure, was $36 million (5.2% of sales) for the three months ended June 30, 2021 as compared to $17 million (2.8% of sales) for the three months ended June 30, 2020.

We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles and certain other expenses, including non-cash expenses such as equity-based compensation, severance and restructuring, changes in the fair value of derivative instruments, long-lived asset impairments (including goodwill and intangible assets), inventory-related charges incremental to normal operations and plus or minus the impact of our LIFO inventory costing methodology.

We believe Adjusted EBITDA provides investors a helpful measure for comparing our operating performance with the performance of other companies that may have different financing and capital structures or tax rates. We believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, which can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted EBITDA as a key performance indicator in managing our business. 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, a non-GAAP financial measure, with net income, as derived from our financial statements (in millions):

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Three Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |
| Net income (loss) |   | $ | **4** |   |   | $ | (281 | ) |
| Income tax expense (benefit) |   |   | **1** |   |   |   | (17 | ) |
| Interest expense |   |   | **6** |   |   |   | 7 |   |
| Depreciation and amortization |   |   | **5** |   |   |   | 5 |   |
| Amortization of intangibles |   |   | **6** |   |   |   | 6 |   |
| Goodwill and intangible asset impairment |   |   | - |   |   |   | 242 |   |
| Inventory-related charges |   |   | - |   |   |   | 34 |   |
| Facility closures |   |   | - |   |   |   | 18 |   |
| Severance and restructuring |   |   | - |   |   |   | 7 |   |
| Increase (decrease) in LIFO reserve |   |   | **11** |   |   |   | (6 | ) |
| Equity-based compensation expense |   |   | **2** |   |   |   | 3 |   |
| Foreign currency losses (gains) |   |   | **1** |   |   |   | (1 | ) |
| Adjusted EBITDA |   | $ | **36** |   |   | $ | 17 |   |

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***Six Months Ended June 30, 2021 Compared to the******Six Months Ended June 30, 2020***

The breakdown of our sales by sector for the six months ended June 30, 2021 and 2020 was as follows (in millions):

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Six Months Ended** |   |
|   |   | **June 30, 2021** |   |   | **June 30, 2020** |   |
| Gas utilities |   | $ | **479** |   |   |   | **37** | **%** |   | $ | 407 |   |   |   | 29 | % |
| Downstream & industrial |   |   | **385** |   |   |   | **30** | **%** |   |   | 427 |   |   |   | 31 | % |
| Upstream production |   |   | **270** |   |   |   | **21** | **%** |   |   | 356 |   |   |   | 25 | % |
| Midstream pipeline |   |   | **161** |   |   |   | **12** | **%** |   |   | 206 |   |   |   | 15 | % |
|   |   | $ | **1,295** |   |   |   | **100** | **%** |   | $ | 1,396 |   |   |   | 100 | % |

For the six months ended June 30, 2021 and 2020, the following table summarizes our results of operations (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|   |   | **Six Months Ended** |   |   |   |   |  |   |   |   |  |
|   |   | **June 30,** |   |   | **June 30,** |   |   |   |   |  |   |   |   |  |
|   |   | **2021** |   |   | **2020** |   |   | **$ Change** |   |   | **% Change** |   |
| *Sales:* |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| U.S. |   | $ | **1,042** |   |   | $ | 1,112 |   |   | $ | (70 | ) |   |   | (6 | )% |
| Canada |   |   | **62** |   |   |   | 78 |   |   |   | (16 | ) |   |   | (21 | )% |
| International |   |   | **191** |   |   |   | 206 |   |   |   | (15 | ) |   |   | (7 | )% |
| Consolidated |   | $ | **1,295** |   |   | $ | 1,396 |   |   | $ | (101 | ) |   |   | (7 | )% |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| *Operating income (loss):* |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |
| U.S. |   | $ | **6** |   |   | $ | (208 | ) |   | $ | 214 |   |   |   | N/M |   |
| Canada |   |   | - |   |   |   | (2 | ) |   |   | 2 |   |   |   | N/M |   |
| International |   |   | **7** |   |   |   | (57 | ) |   |   | 64 |   |   |   | N/M |   |
| Consolidated |   |   | **13** |   |   |   | (267 | ) |   |   | 280 |   |   |   | N/M |   |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Interest expense |   |   | **(12** | **)** |   |   | (15 | ) |   |   | 3 |   |   |   | (20 | )% |
| Other, net |   |   | **1** |   |   |   | (2 | ) |   |   | 3 |   |   |   | N/M |   |
| Income tax (expense) benefit |   |   | **(1** | ) |   |   | 12 |   |   |   | (13 | ) |   |   | N/M |   |
| Net income (loss) |   |   | **1** |   |   |   | (272 | ) |   |   | 273 |   |   |   | N/M |   |
| Series A preferred stock dividends |   |   | **12** |   |   |   | 12 |   |   |   | - |   |   |   | 0 | % |
| Net loss attributable to common stockholders |   | $ | **(11** | **)** |   | $ | (284 | ) |   | $ | 273 |   |   |   | (96 | )% |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Gross profit |   | $ | **215** |   |   | $ | 227 |   |   | $ | (12 | ) |   |   | (5 | )% |
| Adjusted Gross Profit (1) |   | $ | **252** |   |   | $ | 275 |   |   | $ | (23 | ) |   |   | (8 | )% |
| Adjusted EBITDA (1) |   | $ | **60** |   |   | $ | 51 |   |   | $ | 9 |   |   |   | 18 | % |

(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 26-28 herein.

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 ***Sales****.*  Our sales were $1,295 million for the six months ended June 30, 2021 as compared to $1,396 million for the six months ended June 30, 2020, a decrease of $101 million, or 7%. The decline was primarily due to the first quarter of 2020 being largely unaffected by the COVID-19 pandemic before impacting revenue in the second quarter of 2020. The strengthening of foreign currencies in areas where we operate relative to the U.S. dollar favorably impacted sales by $24 million, or 2%.

*U.S. Segment—*Our U.S. sales decreased to $1,042 million for the six months ended June 30, 2021 from $1,112 million for the six months ended June 30, 2020. This $70 million, or 6%, decrease reflected a $42 million decrease in the downstream and industrial sector, a $56 million decrease in the upstream production sector, a $49 million decrease in the midstream pipeline sector offset by a $77 million increase in the gas utilities sector.  Downstream and industrial sales declined due to delayed or reduced maintenance spending from lower demand as well as non-recurring turnarounds.  The decline in the upstream production sector is a result of reduced customer spending and lower activity levels. The decline in the midstream pipeline sector is attributable to lower production levels and reduced demand for infrastructure, as well as the timing of project activity.  The increase in the gas utilities sector was primarily due to increasing activity levels as pandemic restrictions eased and customers continued to execute their integrity upgrade programs.

*Canada Segment—*Our Canada sales decreased to $62 million for the six months ended June 30, 2021 from $78 million for the six months ended June 30, 2020, a decrease of $16 million, or 21%. The decline was primarily due to an $11 million decrease in the upstream production sector, due to reduced demand. The strengthening of the Canadian dollar relative to the U.S. dollar favorably impacted sales by $5 million, or 6%.

*International Segment*—Our International sales decreased to $191 million for the six months ended June 30, 2021 from $206 million for the same period in 2020. The $15 million, or 7%, decrease is attributable to reduced spending in the upstream production sector due to lower activity associated with reduced demand. The strengthening of foreign currencies in areas where we operate relative to the U.S. dollar favorably impacted sales by $19 million, or 9%.

***Gross Profit****.*  Our gross profit was $215 million (16.6% of sales) for the six months ended June 30, 2021 as compared to $227 million (16.3% of sales) for the six months ended June 30, 2020. As compared to average cost, our LIFO inventory costing methodology increased cost of sales by $15 million for the first six months of 2021 compared to a reduction of $9 million in the first six months of 2020.

***Adjusted Gross Profit****.*  Adjusted Gross Profit decreased to $252 million (19.5% of sales) for the six months ended June 30, 2021 from $275 million (19.7% of sales) for the six months ended June 30, 2020, a decrease of $23 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, plus inventory-related charges incremental to normal operations and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Profit because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

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

|  |  |  |  |
| --- | --- | --- | --- |
|    |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **Percentage** |   |   | **June 30,** |   |   | **Percentage** |   |
|   |   | **2021** |   |   | **of Revenue** |   |   | **2020** |   |   | **of Revenue** |   |
| Gross profit, as reported |   | $ | **215** |   |   |   | **16.6** | **%** |   | $ | 227 |   |   |   | 16.3 | % |
| Depreciation and amortization |   |   | **10** |   |   |   | **0.8** | **%** |   |   | 10 |   |   |   | 0.7 | % |
| Amortization of intangibles |   |   | **12** |   |   |   | **0.9** | **%** |   |   | 13 |   |   |   | 0.9 | % |
| Increase (decrease) in LIFO reserve |   |   | **15** |   |   |   | **1.2** | **%** |   |   | (9 | ) |   |   | (0.6 | )% |
| Inventory-related charges |   |   | **-** |   |   |   | **0.0** | **%** |   |   | 34 |   |   |   | 2.4 | % |
| Adjusted Gross Profit |   | $ | **252** |   |   |   | **19.5** | **%** |   | $ | 275 |   |   |   | 19.7 | % |
|   |   |   |   |  |   |   |   |  |   |   |   |  |   |   |   |  |

***Selling, General and Administrative (“SG&A”) Expenses****.*  Our SG&A expenses were $202 million for the six months ended June 30, 2021 as compared to $252 million for the six months ended June 30, 2020. The $50 million decrease in SG&A was driven by lower employee-related costs, including incentives and benefits, resulting from the decline in business activity. SG&A in the first half of 2021 included $2 million of employee separation costs. Additionally, the strengthening of foreign currencies in areas where we operate outside of the U.S. dollar unfavorably impacted SG&A by $5 million. In the first half of 2020, SG&A included $15 million of expenses associated with facilities closures and $7 million of severance and restructuring charges. Excluding these charges, SG&A would have been $230 million. 26

***Goodwill and Intangible Asset Impairment.*** In the first half of 2020, demand for oil and natural gas declined sharply as a result of the COVID-19 pandemic. This disruption in demand and the resulting decline in the price of oil had a dramatic negative impact on our business. We experienced a significant reduction in sales beginning in April 2020, which resulted in a more pessimistic long-term outlook due to the significant reduction in the demand for oil, the implications of that demand destruction on the price of oil for an extended period of time and actions our customers have taken to curtail costs and reduce spending. As a result of these developments, we concluded that it was more likely than not the fair values of our U.S. and International reporting units were lower than their carrying values. Accordingly, we completed an interim goodwill impairment test as of April 30, 2020. This test resulted in a $217 million goodwill impairment charge comprised of $177 million in our U.S. reporting unit and $40 million in our International reporting unit.

As a result of the same factors that necessitated an interim impairment test for goodwill, we completed an interim impairment test for our U.S. indefinite-lived tradename asset. This test resulted in an impairment charge of $25 million. The remaining balance of the indefinite-lived tradename was $107 million as of June 30, 2021. The U.S. tradename is our only indefinite-lived intangible asset.

***Operating Income (Loss)****.* Operating income was $13 million for the six months ended June 30, 2021 as compared to operating loss of $267 million for the six months ended June 30, 2020, an increase of $280 million.

*U.S. Segment*—Operating income for our U.S. segment was $6 million for the six months ended June 30, 2021 compared to operating loss of $208 million for the six months ended June 30, 2020. The $208 million loss in the first half of 2020 was impacted by $202 million of goodwill and intangible asset impairments, $19 million of inventory-related charges, $6 million of severance costs, and $2 million of costs associated with facility closures.  Excluding these charges, operating income would have been $21 million.

*Canada Segment*—Operating income for our Canada segment was $0 million for the six months ended June 30, 2021 compared to operating loss of $2 million for the six months ended June 30, 2020. The $2 million loss in the first half of 2020 included $1 million of costs associated with facility closures.

*International Segment*—Operating income for our International segment was $7 million for the six months ended June 30, 2021 compared to operating loss of $57 million for the six months ended June 30, 2020. The $57 million loss in the first half of 2020 included $40 million of goodwill impairment charges, $14 million of inventory-related charges, $1 million of severance and $12 million of cost associated with facility closures.  Excluding these charges, operating income would have been $10 million.

***Interest Expense****.* Our interest expense was $12 million and $15 million for the six months ended June 30, 2021 and 2020, respectively. The decrease in interest expense was primarily attributable to lower average debt levels during the first six months of 2021 as compared to the first six months of 2020.

***Other, net****.*  Our other income was $1 million for the six months ended June 30, 2021 compared to other expense of $2 million for the six months ended June 30, 2020.

***Income Tax Expense (Benefit)****.*  Our income tax expense was $1 million for the six months ended June 30, 2021 as compared to income tax benefit of $12 million for the six months ended June 30, 2020. We typically record income tax expense for interim periods based on estimated annual effective tax rates. However, due to the uncertainty in our industry and the effects of COVID-19, the income tax expense for the six months ended June 30, 2021 was computed based on a year-to-date effective tax rate. We will return to utilizing an estimated annual effective tax rate when appropriate. Our effective tax rates were 50% and 4% for the six months ended June 30, 2021 and 2020, respectively. The 50% effective tax rate for the six months ended June 30, 2021 was primarily driven by the low level of pre-tax income and losses netted across all jurisdictions. Our rates generally differ from the U.S. federal statutory rate of 21% as a result of state income taxes and differing foreign income tax rates.

***Net Income (Loss)****.*  We had net income of $1 million for the six months ended June 30, 2021 compared to net loss of $272 million for the six months ended June 30, 2020.

***Adjusted EBITDA****.*  Adjusted EBITDA, a non-GAAP financial measure, was $60 million (4.6% of sales) for the six months ended June 30, 2021 as compared to $51 million (3.7% of sales) for the six months ended June 30, 2020.

We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles and certain other expenses, including non-cash expenses such as equity-based compensation, severance and restructuring, changes in the fair value of derivative instruments, long-lived asset impairments (including goodwill and intangible assets), inventory-related charges incremental to normal operations and plus or minus the impact of our LIFO inventory costing methodology.

We believe Adjusted EBITDA provides investors a helpful measure for comparing our operating performance with the performance of other companies that may have different financing and capital structures or tax rates. We believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, which can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted EBITDA as a key performance indicator in managing our business. 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.

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

|  |  |  |  |
| --- | --- | --- | --- |
|    |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |
| Net income (loss) |   | $ | **1** |   |   | $ | (272 | ) |
| Income tax expense (benefit) |   |   | **1** |   |   |   | (12 | ) |
| Interest expense |   |   | **12** |   |   |   | 15 |   |
| Depreciation and amortization |   |   | **10** |   |   |   | 10 |   |
| Amortization of intangibles |   |   | **12** |   |   |   | 13 |   |
| Goodwill and intangible asset impairment |   |   | - |   |   |   | 242 |   |
| Inventory-related charges |   |   | - |   |   |   | 34 |   |
| Facility closures |   |   | - |   |   |   | 18 |   |
| Severance and restructuring |   |   | - |   |   |   | 7 |   |
| Employee separation |   |   | **1** |   |   |   | - |   |
| Increase (decrease) in LIFO reserve |   |   | **15** |   |   |   | (9 | ) |
| Equity-based compensation expense |   |   | **7** |   |   |   | 5 |   |
| Gain on early extinguishment of debt |   |   | **-** |   |   |   | (1 | ) |
| Foreign currency losses |   |   | **1** |   |   |   | 1 |   |
| Adjusted EBITDA |   | $ | **60** |   |   | $ | 51 |   |

 **Liquidity and Capital Resources**

 Our primary credit facilities consist of a Term Loan maturing in September 2024 with an original principal amount of $400 million and an $800 million Global ABL Facility. As of June 30, 2021, the outstanding balance on our Term Loan, net of original issue discount and issuance costs, was $297 million. On an annual basis, we are required to repay an amount equal to 50% of excess cash flow, as defined in the Term Loan agreement, reducing to 25% if the Company’s senior secured leverage ratio is no more than 2.75 to 1.00. No payment of excess cash flow is required if the Company’s senior secured leverage ratio is less than or equal to 2.50 to 1.00. Under the terms of the Term Loan, the amount of cash used in the determination of the senior secured leverage ratio is limited to $75 million. Under this provision of the Term Loan, in April 2021 we made a payment of $86 million as a result of excess cash flow generation in 2020. We do not expect to make a similar payment for 2021 in 2022.

The Global ABL Facility matures in September 2022 and provides $675 million in revolver commitments in the United States, $65 million in Canada, $18 million in Norway, $15 million in Australia, $13 million in the Netherlands, $7 million in the United Kingdom and $7 million in Belgium. The Global ABL Facility contains an accordion feature that allows us to increase the principal amount of the facility by up to $200 million, subject to securing additional lender commitments. 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. As of June 30, 2021, we had no borrowings outstanding and $444 million of Excess Availability, as defined under our Global ABL Facility.

Our primary sources of liquidity consist of cash generated from our operating activities, existing cash balances and borrowings under our Global ABL Facility. Our ability to generate sufficient cash flows from our operating activities will continue to be primarily dependent on our sales of products and services to our customers at margins sufficient to cover our fixed and variable expenses. At June 30, 2021, our total liquidity, consisting of cash on hand and amounts available under our Global ABL Facility, was $507 million. As of June 30, 2021 and December 31, 2020, we had cash of $63 million and $119 million, respectively, a significant portion of which was maintained in the accounts of our various foreign subsidiaries and, if transferred among countries or repatriated to the U.S., 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.

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. In the first quarter of 2021, Moody's Investor Services changed our ratings outlook from negative to stable and, in the second quarter of 2021, Standard & Poor's Global Ratings revised the Company's outlook to stable. 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 six months ended June 30, 2021 and, based on our current forecasts, we expect to remain in compliance. Our credit facilities contain provisions that address the potential need to transition away from LIBOR if LIBOR is discontinued or replaced.

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

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***Cash Flows***

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

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | **Six Months Ended** |   |
|   |   | **June 30,** |   |   | **June 30,** |   |
|   |   | **2021** |   |   | **2020** |   |
| Net cash provided by (used in) : |   |   |   |   |   |   |   |   |
| Operating activities |   | $ | **47** |   |   | $ | 84 |   |
| Investing activities |   |   | **(2** | **)** |   |   | (5 | ) |
| Financing activities |   |   | **(101** | **)** |   |   | (90 | ) |
| Net decrease in cash and cash equivalents |   | $ | **(56** | ) |   | $ | (11 | ) |

***Operating Activities***

Net cash provided by operating activities was $47 million during the six months ended June 30, 2021 compared to $84 million during the six months ended June 30, 2020. In addition, a reduction in working capital used cash of $1 million in the first six months of 2021 compared to providing $48 million in the first six months of 2020. Accounts receivable used $62 million of cash in the first six months of 2021 compared to providing $69 million in the first six months of 2020. In addition, inventory provided $8 million of cash in the first six months of 2021 as compared to providing $41 million in the same period of 2020.  An increase in accounts payable provided $86 million in the first six months of 2021 as compared to $51 million cash utilized in the first six months of 2020.

***Investing Activities***

Net cash used in investing activities was primarily comprised of capital expenditures totaling $4 million and $5 million for the six months ended June 30, 2021 and 2020, respectively.

***Financing Activities***

Net cash used in financing activities was $101 million for the six months ended June 30, 2021 compared to $90 million for the six months ended June 30, 2020. In the first six months of 2021, we made a payment of $86 million on our Term Loan as a result of excess cash flow generation in 2020. In the first six months of 2020, we made net payments under our Global ABL Facility of $71 million. We used $12 million to pay dividends on preferred stock for the six months ended June 30, 2021 and 2020. In addition, we repurchased and retired $3 million of our outstanding term loan in March 2020.

***Critical Accounting Policies***

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

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimates are made and when there are different estimates that management reasonably could have made, which would have a material impact on the presentation of our financial condition, changes in our financial condition or results of operations. For a description of our critical accounting policies, see “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

We are primarily exposed to the market risk associated with unfavorable movements in interest rates, foreign currencies and steel price volatility. There have been no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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**ITEM 4. CONTROLS AND PROCEDURES**

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

As of June 30, 2021, we have reviewed, under the direction of our Chief Executive Officer and Chief Financial Officer, the Company’s disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

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

There were no changes in our internal control over financial reporting that occurred during the second quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II**—**other information**

**ITEM 1. LEGAL PROCEEDINGS**

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

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

For information regarding asbestos cases in which we are a defendant and other claims and proceedings, see “Note 11-Commitments and Contingencies” to our unaudited condensed consolidated financial statements.

**Item 1A.  Risk Factors**

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in Part I, Item 2 of this Quarterly Report on Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 under “Risk Factors”.

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

None.

**Item 3.  Defaults Upon Senior Securities**

None.

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**Item 4.  MINING SAFETY DISCLOSURES**

None.

**Item 5.  Other Information**

None.

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**Item 6.  Exhibits**

|  |  |  |
| --- | --- | --- |
| **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, File No. 001-35479).](http://www.sec.gov/Archives/edgar/data/1439095/000119312512166449/d334321dex31.htm) |
|   |   |   |
| 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, File No. 001-35479).](http://www.sec.gov/Archives/edgar/data/1439095/000119312513440228/d627585dex31.htm) |
|   |   |   |
| 3.3 |   | [Certificate of Designations, Preferences, Rights and Limitations of Series A Convertible Perpetual Preferred Stock of MRC Global Inc. (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on June 11, 2015, File No. 001-35479).](http://www.sec.gov/Archives/edgar/data/1439095/000119312515220651/d939010dex31.htm) |
|   |   |   |
| 31.1\* |   | [Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](file:///C%3A%5Crdg-iis%5Cproofapi%5CApp_Data%5Cex_245490.htm) |
|   |   |   |
| 31.2\* |   | [Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](file:///C%3A%5Crdg-iis%5Cproofapi%5CApp_Data%5Cex_245491.htm) |
|   |   |   |
| 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.](file:///C%3A%5Crdg-iis%5Cproofapi%5CApp_Data%5Cex_245492.htm) |
|   |   |   |
| 101\* |   | The following financial information from MRC Global Inc.’s Quarterly Report on Form 10-Q for the period ended June 30, 2021, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets at June 30, 2021 and December 31, 2020, (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2021 and 2020, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2021 and 2020, (iv) the Condensed Statements of Stockholders’ Equity for the six months ended June 30, 2021 and 2020, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2021 and 2020 and (vi) Notes to Condensed Consolidated Financial Statements. |
|   |   |   |
| 104\* |   | The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 formatted in Inline XBRL. |

\* Filed herewith.

\*\* Furnished herewith.

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**SIGNATURES**

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

Date: July 30, 2021

|  |  |
| --- | --- |
|   | MRC GLOBAL INC. |
|   |   |
|   | By: /s/ Kelly Youngblood   |
|   | Kelly YoungbloodExecutive Vice President and Chief Financial Officer |

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**Exhibit 31.1**

**CERTIFICATION**

I, Robert J. Saltiel, Jr., certify that:

|  |  |
| --- | --- |
| 1. | I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2021 of MRC Global Inc.; |

|  |  |
| --- | --- |
| 2. | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; |

|  |  |
| --- | --- |
| 3. | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; |

|  |  |
| --- | --- |
| 4. | The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: |

|  |  |  |
| --- | --- | --- |
|   | a. | Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |

|  |  |  |
| --- | --- | --- |
|   | b. | Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; |

|  |  |  |
| --- | --- | --- |
|   | c. | Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and |

|  |  |  |
| --- | --- | --- |
|   | d. | Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and |

|  |  |
| --- | --- |
| 5. | The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions): |

|  |  |  |
| --- | --- | --- |
|   | a. | All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and |

|  |  |  |
| --- | --- | --- |
|   | b. | Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting. |

Date: July 30, 2021

﻿

|  |  |
| --- | --- |
|   | /s/ Robert J. Saltiel, Jr. |
|   | Name:  | Robert J. Saltiel, Jr. |
|   | Title: | President and Chief Executive Officer |

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**Exhibit 31.2**

**CERTIFICATION**

I, Kelly Youngblood, certify that:

|  |  |
| --- | --- |
| 1. | I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2021 of MRC Global Inc.; |

|  |  |
| --- | --- |
| 2. | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; |

|  |  |
| --- | --- |
| 3. | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; |

|  |  |
| --- | --- |
| 4. | The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: |

|  |  |  |
| --- | --- | --- |
|   | a. | Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |

|  |  |  |
| --- | --- | --- |
|   | b. | Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; |

|  |  |  |
| --- | --- | --- |
|   | c. | Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and |

|  |  |  |
| --- | --- | --- |
|   | d. | Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and |

|  |  |
| --- | --- |
| 5. | The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions): |

|  |  |  |
| --- | --- | --- |
|   | a. | All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and |

|  |  |  |
| --- | --- | --- |
|   | b. | Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting. |

Date: July 30, 2021

﻿

|  |  |  |
| --- | --- | --- |
|   | ﻿ |   |
|   | ﻿ |   |
|   | /s/ Kelly Youngblood |
|   | Name:  | Kelly Youngblood |
|   | Title: | Executive Vice President and Chief Financial Officer |

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**Exhibit 32**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q of MRC Global Inc., a Delaware corporation (the “Company”), for the period ended June 30, 2021 (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

|  |  |  |
| --- | --- | --- |
|   | (1) | The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and |

|  |  |  |
| --- | --- | --- |
|   | (2) | The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. |

﻿

Date: July 30, 2021

|  |  |
| --- | --- |
|   | /s/ Robert J. Saltiel, Jr. |
|   | Name: | Robert J. Saltiel, Jr. |
|   | Title: | President and Chief Executive Officer |
|   | ﻿ |
|   | /s/ Kelly Youngblood |
|   | Name: | Kelly Youngblood |
|   | Title: | Executive Vice President and Chief Financial Officer |

﻿