

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, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number: 001-35479

MRC Global Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-5956993
(I.R.S. Employer
Identification No.)

Fulbright Tower
1301 McKinney Street, Suite 2300
Houston, Texas
(Address of Principal Executive Offices)

77010
(Zip Code)

(877) 294-7574

(Registrant's Telephone Number, including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 [X] Accelerated filer [] Non-accelerated filer (do not check if a smaller reporting company) []
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 [X]

The Company's common stock is traded on the New York Stock Exchange under the symbol "MRC". There were 94,492,896 shares of the registrant's common stock (excluding 286,481 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of July 28, 2017.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except shares)

| | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 37 | \$ 109 |
| Accounts receivable, net | 522 | 399 |
| Inventories, net | 592 | 561 |
| Other current assets | 47 | 48 |
| Total current assets | <u>1,198</u> | <u>1,117</u> |
| Other assets | 21 | 19 |
| Property, plant and equipment, net | 138 | 135 |
| Intangible assets: | | |
| Goodwill, net | 485 | 482 |
| Other intangible assets, net | 390 | 411 |
| | <u>\$ 2,232</u> | <u>\$ 2,164</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 388 | \$ 314 |
| Accrued expenses and other current liabilities | 114 | 111 |
| Current portion of long-term debt | 8 | 8 |
| Total current liabilities | <u>510</u> | <u>433</u> |
| Long-term obligations: | | |
| Long-term debt, net | 402 | 406 |
| Deferred income taxes | 177 | 184 |
| Other liabilities | 23 | 23 |
| 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, 103,030,267 and 102,529,637 issued, respectively | 1 | 1 |
| Additional paid-in capital | 1,683 | 1,677 |
| Retained deficit | (574) | (574) |
| Less: Treasury stock at cost: 8,537,410 and 7,677,580 shares, respectively | (125) | (107) |
| Accumulated other comprehensive loss | (220) | (234) |
| | <u>765</u> | <u>763</u> |
| | <u>\$ 2,232</u> | <u>\$ 2,164</u> |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Sales | \$ 922 | \$ 746 | \$ 1,784 | \$ 1,529 |
| Cost of sales | 773 | 621 | 1,495 | 1,271 |
| Gross profit | 149 | 125 | 289 | 258 |
| Selling, general and administrative expenses | 132 | 135 | 258 | 272 |
| Operating income (loss) | 17 | (10) | 31 | (14) |
| Other expense: | | | | |
| Interest expense | (8) | (9) | (15) | (17) |
| Other, net | - | - | - | (1) |
| Income (loss) before income taxes | 9 | (19) | 16 | (32) |
| Income tax expense (benefit) | 3 | (2) | 4 | (7) |
| Net income (loss) | 6 | (17) | 12 | (25) |
| Series A preferred stock dividends | 6 | 6 | 12 | 12 |
| Net income (loss) attributable to common stockholders | \$ - | \$ (23) | \$ - | \$ (37) |
| Basic income (loss) per common share | \$ - | \$ (0.24) | \$ - | \$ (0.37) |
| Diluted income (loss) per common share | \$ - | \$ (0.24) | \$ - | \$ (0.37) |
| Weighted-average common shares, basic | 94.5 | 97.7 | 94.6 | 99.2 |
| Weighted-average common shares, diluted | 95.6 | 97.7 | 96.0 | 99.2 |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

(in millions)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Net income (loss) | \$ 6 | \$ (17) | \$ 12 | \$ (25) |
| Other comprehensive income (loss) | | | | |
| Foreign currency translation adjustments | 8 | (4) | 14 | 12 |
| Comprehensive income (loss) | \$ 14 | \$ (21) | \$ 26 | \$ (13) |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

(in millions)

| | Six Months Ended | |
|--|------------------|------------------|
| | June 30, 2017 | June 30, 2016 |
| Operating activities | | |
| Net income (loss) | \$ 12 | \$ (25) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operations: | | |
| Depreciation and amortization | 11 | 10 |
| Amortization of intangibles | 22 | 23 |
| Equity-based compensation expense | 9 | 7 |
| Deferred income tax benefit | (7) | (5) |
| Amortization of debt issuance costs | 2 | 2 |
| Increase (decrease) in LIFO reserve | 6 | (4) |
| Foreign currency (gains) losses | (2) | 2 |
| Other | 4 | 4 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (117) | 104 |
| Inventories | (33) | 51 |
| Other current assets | 7 | 2 |
| Income taxes payable | (12) | (6) |
| Accounts payable | 68 | (10) |
| Accrued expenses and other current liabilities | 6 | (7) |
| Net cash (used in) provided by operations | <u>(24)</u> | <u>148</u> |
| Investing activities | | |
| Purchases of property, plant and equipment | (14) | (14) |
| Proceeds from the disposition of non-core product line | - | 48 |
| Other investing activities | - | 2 |
| Net cash (used in) provided by investing activities | <u>(14)</u> | <u>36</u> |
| Financing activities | | |
| Payments on revolving credit facilities | (223) | (27) |
| Proceeds from revolving credit facilities | 223 | 27 |
| Payments on long-term obligations | (4) | (4) |
| Purchase of common stock | (18) | (71) |
| Dividends paid on preferred stock | (12) | (12) |
| Repurchases of shares to satisfy tax withholdings | (3) | - |
| Net cash used in financing activities | <u>(37)</u> | <u>(87)</u> |
| (Decrease) increase in cash | (75) | 97 |
| Effect of foreign exchange rate on cash | 3 | 1 |
| Cash -- beginning of period | 109 | 69 |
| Cash -- end of period | <u>\$ 37</u> | <u>\$ 167</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 13 | \$ 16 |
| Cash paid for income taxes | \$ 22 | \$ 6 |

See notes to condensed consolidated financial statements.

NOTE 1 – BACKGROUND AND BASIS OF PRESENTATION

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

Basis of Presentation: We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2017. We have derived our condensed consolidated balance sheet as of December 31, 2016 from the audited consolidated financial statements for the year ended December 31, 2016. 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, 2016.

The consolidated financial statements include the accounts of MRC Global Inc. and its wholly owned and majority owned subsidiaries (collectively referred to as the “Company” or by such terms as “we,” “our” or “us”). All material intercompany balances and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (“FASB”) issued a comprehensive new revenue recognition standard, which will supersede previous existing revenue recognition guidance. The Accounting Standards Update (“ASU”) also provides guidance on accounting for certain contract costs and requires new disclosures. During fiscal 2016, the FASB issued additional clarification guidance on the new revenue recognition standard, which also included certain scope improvements and practical expedients. The standard (including clarification guidance issued) is effective for fiscal periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective adoption. To date, we have performed a formal review of contracts with 36 of our largest customers which represented 58% of 2016 revenue. We are in the process of evaluating the impact of the new guidance based on our review of the contracts with these large customers. The balance of our revenue is derived from thousands of customers with which we generally interact in a transactional relationship where goods are purchased from our branch locations. Based on our analysis to date, we do not expect the guidance to have a material impact on the timing of our revenue recognition. We plan to adopt the standard in the first quarter of 2018 and have determined that we will utilize the modified retrospective transition method. We are still assessing the impact of the standard on our internal control processes and information systems. However, we do not currently believe that significant modifications of our systems will be required.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will replace the existing guidance in ASC 870, *Leases*. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2018. We are in the process of evaluating the effect of the adoption of ASU 2016-02 on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740)*. The guidance requires companies to recognize the income tax effects of intercompany sales and transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period in which the transfer occurs. The effective date will be the first quarter of fiscal year 2018, with early adoption permitted. The changes are required to be applied by means of a cumulative-effect adjustment recorded in retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The amendments in ASU 2017-04 eliminate the current two-step approach used to test goodwill for impairment and require an entity to apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair

value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for fiscal years, including interim periods within, beginning after December 15, 2019 (upon the first goodwill impairment test performed during that fiscal year). Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. A reporting entity must apply the amendments in ASU 2017-04 using a prospective approach. The Company does not expect the adoption of ASU 2017-04 to have a material impact to its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718) Scope of Modification Accounting* which clarifies modification accounting for share-based payment awards should not be applied if the fair value, vesting conditions, and the classification of the modified award as an equity instrument or as a liability instrument are the same before and immediately after the modification. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Adoption will be applied prospectively to awards modified on or after the adoption date. The Company does not expect the adoption of ASU 2017-09 to have a material impact to its consolidated financial statements.

NOTE 2 – INVENTORIES

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

| | June 30, 2017 | December 31, 2016 |
|--|--------------------------|------------------------------|
| Finished goods inventory at average cost: | | |
| Line pipe | \$ 139 | \$ 124 |
| Valves, automation, measurement and instrumentation | 240 | 225 |
| All other products | 320 | 313 |
| | 699 | 662 |
| Less: Excess of average cost over LIFO cost (LIFO reserve) | (73) | (67) |
| Less: Other inventory reserves | (34) | (34) |
| | \$ 592 | \$ 561 |

In 2016, we experienced reductions in inventory quantities, resulting in a liquidation of a last-in, first out (“LIFO”) inventory layer that was carried at a lower cost prevailing from a prior year, as compared with current costs (a “LIFO decrement”). A LIFO decrement results in the erosion of layers created in earlier years, and, therefore, a LIFO layer is not created for years that have decrements. For the three and six months ended June 30, 2016, the effect of this LIFO decrement decreased cost of sales by approximately \$2 million and \$3 million, respectively. We do not anticipate a LIFO decrement in 2017.

NOTE 3 – LONG-TERM DEBT

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

| | June 30, 2017 | December 31, 2016 |
|---|--------------------------|------------------------------|
| Senior Secured Term Loan B, net of discount and issuance costs of \$3 and \$4, respectively | \$ 410 | \$ 414 |
| Global ABL Facility | - | - |
| | 410 | 414 |
| Less: current portion | 8 | 8 |
| | \$ 402 | \$ 406 |

Senior Secured Term Loan B: We have a seven year Senior Secured Term Loan B (the “Term Loan”) with an original principal amount of \$794 million which amortizes in equal quarterly installments of 1% per year with the balance payable in November 2019, when the facility matures. Subject to securing additional lender commitments, the Term Loan allows for incremental increases in facility size up to an aggregate of \$200 million, plus an additional amount such that the Company’s senior secured leverage ratio (as defined under the Term Loan) would not exceed 3.50 to 1.00. MRC Global (US) Inc. is the borrower under this facility, which is guaranteed by MRC Global Inc. as well as all of its wholly owned U.S. subsidiaries. In addition, it is secured by a second lien on the assets securing our Global ABL Facility (which includes accounts receivable, inventory and related assets) and a first lien on substantially all of the other assets of MRC Global Inc. and those of its U.S.

subsidiaries, as well as a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of first tier, non-U.S. subsidiaries. We are required to repay the Term Loan with certain asset sales and insurance proceeds, certain debt proceeds and 50% of excess cash flow (reducing to 25% if our senior secured leverage ratio is no more than 2.75 to 1.00 and 0% if our senior secured leverage ratio is no more than 2.50 to 1.00). In addition, the Term Loan contains a number of customary restrictive covenants.

The interest rate for the Term Loan, including the amortization of original issue discount and debt issuance costs, was 5.57% as of June 30, 2017 and 5.51% at December 31, 2016.

Global ABL Facility: We have a \$1.05 billion multi-currency global asset-based revolving credit facility (the “Global ABL Facility”) that matures in July 2019. This facility is comprised of \$977 million in revolver commitments in the United States, \$30 million in Norway, \$20 million in Canada, \$5 million in the United Kingdom, \$10 million in Australia, \$4 million in the Netherlands and \$4 million in Belgium. It contains an accordion feature that allows us to increase the principal amount of the facility by up to \$300 million, subject to securing additional lender commitments. MRC Global Inc. and each of its current and future wholly owned material U.S. subsidiaries guarantee the obligations of our borrower subsidiaries under the Global ABL Facility. Additionally, each of our non-U.S. borrower subsidiaries guarantees the obligations of our other non-U.S. borrower subsidiaries under the Global ABL Facility. Outstanding obligations are generally secured by a first priority security interest in accounts receivable, inventory and related assets. Excess Availability, as defined under our Global ABL Facility, was \$505 million as of June 30, 2017.

NOTE 4 – INCOME TAXES

In the first quarter of 2017, we adopted ASU 2016-09, *Compensation - Stock Compensation*, which simplified the accounting for taxes related to stock based compensation. Under the standard, excess tax benefits and certain tax deficiencies are no longer recorded in additional paid-in capital (“APIC”), and APIC pools are eliminated. Instead, all excess tax benefits and tax deficiencies are recorded as income tax expense or benefit in the income statement. In addition, excess tax benefits are presented as operating activities rather than financing activities in the statement of cash flows. For the three and six months ended June 30, 2017, we recorded a tax benefit of \$0 million and \$2 million, respectively, related to the vesting of stock awards. The impacts of this standard are reflected in the consolidated financial statements on a prospective basis.

For interim periods, our income tax expense is computed based upon our estimated annual effective tax rate. Our effective tax rates for the three and six months ended June 30, 2017 were 33% and 25%, respectively. The effective tax rates for the three and six months ended June 30, 2016 were 11% and 22%, respectively. Our rates generally differ from the U.S. federal statutory rate of 35% as a result of state income taxes and differing, generally lower, foreign income tax rates. The effective tax rate for the six months ended June 30, 2017 was lower than our U.S. federal statutory rate primarily due to the discrete impact of the implementation of ASU 2016-09 and a benefit related to foreign currency exchange losses. Our 2016 effective tax rates were significantly lower than our U.S. federal statutory rate due to forecasted pre-tax losses across all segments including significant pre-tax losses in jurisdictions where there was no corresponding tax benefit.

NOTE 5 – 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. Holders of Preferred Stock are entitled to vote together with the holders of the common stock as a single class, in each case, on an as-converted basis, except where a separate class vote of the common stockholders is required by law. Holders of Preferred Stock have certain limited special approval rights, including with respect to the issuance of pari passu or senior equity securities of the Company.

The Preferred Stock is convertible at the option of the holders into shares of common stock at an initial conversion rate of 55.9284 shares of common stock for each share of Preferred Stock, which represents an initial conversion price of approximately \$17.88 per share of common stock, subject to adjustment. On or after the fifth anniversary of the initial issuance of the Preferred Stock, the Company will have the option to redeem, in whole but not in part, all the outstanding shares of Preferred Stock, subject to certain redemption price adjustments on the basis of the date of the conversion. We may elect to convert the Preferred Stock, in whole but not in part, into the relevant number of shares of common stock on or after the 54th month after the initial issuance of the Preferred Stock if the last reported sale price of the common stock has been at least 150% of the conversion price then in effect for a specified period. The conversion rate is subject to customary anti-dilution and other adjustments.

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.

NOTE 6 – STOCKHOLDERS’ EQUITY

Share Repurchase Program

In November 2015, the Company’s board of directors authorized a share repurchase program for common stock up to \$100 million, which was increased in November 2016 to \$125 million. The shares may be repurchased at management’s discretion in the open market. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice. In the first quarter of 2017, the Company completed the repurchase of all shares authorized under the program.

Summary of share repurchase activity under the repurchase program:

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Number of shares acquired on the open market | - | 2,399,400 | 859,830 | 5,278,274 |
| Average price per share | \$ - | \$ 13.82 | \$ 20.54 | \$ 13.59 |
| Total cost of acquired shares (in millions) | \$ - | \$ 33 | \$ 18 | \$ 71 |

In total, we have acquired 8,537,410 shares under this program at an average price per share of \$14.64 for a total cost of \$125 million. There were 94,492,857 shares of common stock outstanding as of June 30, 2017.

Equity Compensation Plans

Our 2011 Omnibus Incentive Plan originally had 3,250,000 shares reserved for issuance under the plan. In April 2015, our shareholders approved an additional 4,250,000 shares for reservation for issuance under the plan. The plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. Since the adoption of the 2011 Omnibus Incentive Plan, the Company’s Board of Directors has periodically granted stock options, restricted stock awards, restricted stock units and performance share units to directors and employees. 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 ratably over a three to five year period on the anniversaries of the date specified in the employees’ respective stock option, restricted stock award, restricted stock unit and performance share unit award agreements, subject to accelerated vesting under certain circumstances set forth in the agreements. Vesting for directors generally occurs on the one-year anniversary of the grant date. In 2017, 164,098 performance share unit awards, 543,319 restricted stock units, and 63,272 shares of restricted stock have been granted to employees and members of our board of directors. To date, since the plan’s inception in 2011, before consideration of forfeitures, 5,858,998 shares have been granted to management, members of our board of directors and key employees 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):

| | <u>June 30,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|--------------------------------------|--------------------------------|------------------------------------|
| Currency translation adjustments | \$ (219) | \$ (233) |
| Pension related adjustments | (1) | (1) |
| Accumulated other comprehensive loss | <u>\$ (220)</u> | <u>\$ (234)</u> |

Earnings per Share

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

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | <u>June 30,</u> <u>2017</u> | <u>June 30,</u> <u>2016</u> | <u>June 30,</u> <u>2017</u> | <u>June 30,</u> <u>2016</u> |
| Net income (loss) | \$ 6 | \$ (17) | \$ 12 | \$ (25) |
| Less: Dividends on Series A Preferred Stock | 6 | 6 | 12 | 12 |
| Net income (loss) attributable to common stockholders | <u>\$ -</u> | <u>\$ (23)</u> | <u>\$ -</u> | <u>\$ (37)</u> |
| Weighted average basic shares outstanding | 94.5 | 97.7 | 94.6 | 99.2 |
| Effect of dilutive securities | 1.1 | - | 1.4 | - |
| Weighted average diluted shares outstanding | <u>95.6</u> | <u>97.7</u> | <u>96.0</u> | <u>99.2</u> |
| Net income (loss) per share: | | | | |
| Basic | \$ - | \$ (0.24) | \$ - | \$ (0.37) |
| Diluted | \$ - | \$ (0.24) | \$ - | \$ (0.37) |

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, 2017, all of the shares of the Preferred Stock were anti-dilutive. For the three and six months ended June 30, 2017, we had approximately 2.1 million anti-dilutive stock options. For the three and six months ended June 30, 2016, we had approximately 3.7 million anti-dilutive stock options. There were 0.8 million and 0.7 million anti-dilutive restricted stock, restricted units or performance stock unit awards for the three and six months ended June 30, 2016, respectively.

NOTE 7 – SEGMENT INFORMATION

Our business is comprised of four operating segments: U.S. Eastern Region and Gulf Coast, U.S. Western Region, 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 upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining and petrochemical and chemical processing and general industrials) markets. Our two U.S. operating segments have been aggregated into a single reportable segment based on their economic similarities. As a result, we report segment information for the U.S., Canada and International.

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|----------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Sales | | | | |
| U.S. | \$ 720 | \$ 551 | \$ 1,386 | \$ 1,157 |
| Canada | 69 | 54 | 146 | 118 |
| International | 133 | 141 | 252 | 254 |
| Consolidated sales | \$ 922 | \$ 746 | \$ 1,784 | \$ 1,529 |
| Operating income (loss) | | | | |
| U.S. | \$ 21 | \$ (2) | \$ 32 | \$ 2 |
| Canada | 1 | (2) | 4 | (3) |
| International | (5) | (6) | (5) | (13) |
| Total operating income (loss) | 17 | (10) | \$ 31 | \$ (14) |
| Interest expense | (8) | (9) | (15) | (17) |
| Other, net | - | - | - | (1) |
| Income (loss) before income taxes | \$ 9 | \$ (19) | \$ 16 | \$ (32) |
| | | | | |
| | | | June 30, 2017 | December 31, 2016 |
| Total assets | | | | |
| U.S. | | | \$ 1,886 | \$ 1,862 |
| Canada | | | 145 | 139 |
| International | | | 201 | 163 |
| Total assets | | | \$ 2,232 | \$ 2,164 |

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

| Type | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Valves, automation, measurement and instrumentation | \$ 327 | \$ 299 | \$ 649 | \$ 598 |
| Line pipe | 170 | 96 | 316 | 228 |
| Gas products | 143 | 108 | 277 | 208 |
| Carbon steel fittings and flanges | 139 | 116 | 262 | 236 |
| Stainless steel and alloy pipe and fittings | 50 | 47 | 91 | 95 |
| Other | 93 | 80 | 189 | 164 |
| | \$ 922 | \$ 746 | \$ 1,784 | \$ 1,529 |

NOTE 8 – FAIR VALUE MEASUREMENTS

From time to time, we use derivative financial instruments to help manage our exposure to interest rate risk and fluctuations in foreign currencies. All of our derivative instruments are freestanding and, accordingly, changes in their fair market value are recorded in earnings. As of June 30, 2017, we do not have any interest rate swap agreements. Foreign exchange forward contracts and options are reported at fair value utilizing Level 2 inputs, as the fair value is based on broker quotes for the same or similar derivative instruments. The total notional amount of our forward foreign exchange contracts and options was approximately \$54 million and \$36 million at June 30, 2017 and December 31, 2016, respectively. We had approximately \$0 million recorded as liabilities on our consolidated balance sheets as of June 30, 2017 and December 31, 2016.

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 \$410 million and \$414 million at June 30, 2017 and December 31, 2016, 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 \$417 million at June 30, 2017 and December 31, 2016.

NOTE 9 – 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, 2017, we are named a defendant in approximately 508 lawsuits involving approximately 1,128 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.

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

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

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

In June 2017, Midfield and Europump and certain individual defendants and related entities settled the case. As part of the settlement, MRC Global (Canada) ULC agreed to pay \$6 million in exchange for a release from Weatherford and agreement to dismiss the case. The Company had previously recorded a reserve of \$3 million. As a result of the settlement, an additional charge of \$3 million was recorded in the second quarter of 2017.

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.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. As used in this Form 10-Q, unless otherwise indicated or the context otherwise requires, all references to the "Company", "MRC Global", "we", "our" or "us" refer to MRC Global Inc. and its consolidated subsidiaries. All references throughout this section (and elsewhere in this report) to amounts available for borrowing under various credit facilities refer to amounts actually available for borrowing after giving effect to any borrowing base limitations that the facility imposes.

Cautionary Note Regarding Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations (as well as other sections of this Quarterly Report on Form 10-Q) contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include those preceded by, followed by or including the words "will," "expect," "intended," "anticipated," "believe," "project," "forecast," "propose," "plan," "estimate," "enable," and 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;
- increased usage of alternative fuels, which may negatively affect oil and natural gas industry expenditure levels;
- U.S. and international general economic conditions;
- our ability to compete successfully with other companies in our industry;
- the risk that manufacturers of the products we distribute will sell a substantial amount of goods directly to end users in the industry sectors we serve;
- unexpected supply shortages;
- cost increases by our suppliers;
- our lack of long-term contracts with most of our suppliers;
- suppliers' price reductions of products that we sell, which could cause the value of our inventory to decline;
- decreases in steel prices, which could significantly lower our profit;
- increases in steel prices, which we may be unable to pass along to our customers which could significantly lower our profit;
- our lack of long-term contracts with many of our customers and our lack of contracts with customers that require minimum purchase volumes;
- changes in our customer and product mix;
- risks related to our customers' creditworthiness;
- the success of our acquisition strategies;
- the potential adverse effects associated with integrating acquisitions into our business and whether these acquisitions will yield their intended benefits;
- our significant indebtedness;
- the dependence on our subsidiaries for cash to meet our obligations;

- changes in our credit profile;
- a decline in demand for certain of the products we distribute if import restrictions on these products are lifted;
- environmental, health and safety laws and regulations and the interpretation or implementation thereof;
- the sufficiency of our insurance policies to cover losses, including liabilities arising from litigation;
- product liability claims against us;
- pending or future asbestos-related claims against us;
- the potential loss of key personnel;
- interruption in the proper functioning of our information systems;
- the occurrence of cybersecurity incidents;
- loss of third-party transportation providers;
- potential inability to obtain necessary capital;
- risks related to adverse weather events or natural disasters;
- impairment of our goodwill or other intangible assets;
- adverse changes in political or economic conditions in the countries in which we operate;
- exposure to U.S. and international laws and regulations, including the Foreign Corrupt Practices Act and the U.K. Bribery Act and other economic sanctions programs;
- risks associated with international instability and geopolitical developments;
- risks relating to ongoing evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act;
- the impact on us of changes in U.S. generally accepted accounting principles or tax laws;
- our intention not to pay dividends; and
- the impact of U.S government policies.

Undue reliance should not be placed on our forward-looking statements. Although forward-looking statements reflect our good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except to the extent law requires.

Overview

We are the largest global industrial distributor, based on sales, of pipe, valves, and fittings (“PVF”) and related products and services to the energy industry and hold a leading position in our industry across each of the upstream (exploration, production and extraction of underground oil and natural gas), midstream (gathering and transmission of oil and natural gas, natural gas utilities and the storage and distribution of oil and natural gas) and downstream (crude oil refining, petrochemical and chemical processing and general industrials) sectors. Our business is segregated into three geographic reportable segments, consisting of our U.S., Canada and International operations. We serve our customers from approximately 300 service locations. We offer a wide array of PVF and oilfield supplies encompassing a complete line of products from our global network of over 12,000 suppliers to our more than 17,000 customers. We are diversified by geography, the industry sectors we serve and the products we sell. We seek to provide best-in-class service to our customers by satisfying the most complex, multi-site needs of many of the largest companies in the energy sector as their primary PVF supplier. We believe the critical role we play in our customers’ supply chain, together with our extensive product offering, broad global presence, customer-linked scalable information systems and efficient distribution capabilities, serve to solidify our long-standing customer relationships and drive our growth. As a result, we have an average relationship of over 25 years with our 25 largest customers.

Key Drivers of Our Business

Our revenues are predominantly derived from the sale of PVF and other oilfield and industrial supplies to the energy sector globally. Our business is therefore dependent upon both the current conditions and future prospects in the energy industry and, in particular, maintenance and expansionary operating and capital expenditures by our customers in the upstream, midstream and downstream sectors of the industry. We saw customer spending fall off significantly beginning in late 2014 and continuing through 2016 as a result of lower oil and natural gas prices. Long-term growth in spending has been driven by several factors, including underinvestment in global energy infrastructure, growth in shale and unconventional exploration and production (“E&P”) activity, and anticipated strength in the oil, natural gas, refined products and petrochemical sectors. The outlook for future oil, natural gas, refined products and petrochemical PVF spending is influenced by numerous factors, including the following:

- *Oil and Natural Gas Prices.* Sales of PVF and related products to the oil and natural gas industry constitute over 90% 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. Oil and natural gas prices, both current and projected, along with the costs necessary to produce oil and gas, impact other drivers of our business, including capital spending by customers, additions and maintenance to pipeline mileage, refinery utilization and petrochemical processing activity.
- *Economic Conditions.* The demand for the products we distribute is dependent on the general economy, the energy sector and other factors. Changes in the general economy or in the energy sector (domestically or internationally) can cause 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 Supply and Demand.* Fluctuations in steel prices can lead to volatility in the pricing of the products we distribute, especially carbon steel tubular products, which can influence the buying patterns of our customers. A majority of the products we distribute contain various types of steel. The worldwide supply and demand for these products, or other steel products that we do not supply, impacts the pricing and availability of our products and, ultimately, our sales and operating profitability.

Recent Trends and Outlook

During the first six months of 2017, the average oil price of West Texas Intermediate (“WTI”) increased to \$49.85 per barrel from \$39.55 per barrel in the first six months of 2016. Natural gas prices increased to an average price of \$3.05/Mcf (Henry Hub) for the first six months of 2017 compared to \$2.07/Mcf (Henry Hub) for the first six months of 2016. North American drilling rig activity increased 73% in the first six months of 2017 as compared to the first six months of 2016.

In recent years, there has been an increase in the global supply of crude oil, including the contribution of U.S. shale oil, at a pace exceeding demand growth. This increase combined with a hesitance on the part of the Organization of Petroleum Exporting Countries (“OPEC”) to curb production triggered a dramatic decline in oil prices that began in late 2014 and continued throughout 2016. This low price environment, in turn, resulted in a dramatic decline in E&P capital spending by our customers, which directly impacts our business. In 2016, customer spending fell by 27%, following a 21% decline in 2015, which brought spending to its lowest levels since 2009. This marked the first time in nearly 30 years that global spending has been down in consecutive years. However, since its November 2016 announcement, OPEC has attempted to enforce production cuts and we are encouraged by recent improvements in oil prices and drilling activity and expect 2017 revenue to be higher than 2016. Prominent E&P spending surveys, which include many of our customers, indicate that 2017 spending will increase in North America with additional growth in 2018 and 2019, while forecasts outside of North America are more subdued. We expect our business to follow the same trend. However, in the short-term, oil prices remain volatile and changes in oil prices could impact customer spending levels.

In January 2017, a new U.S. President took office and a new U.S. Congress was seated. They have publicly made statements regarding the desire to support United States energy producers, refocus the EPA on its core mission, focus on United States interests first and lessen the regulatory burden on businesses to create job growth. These statements have been further supported by the approval of a number of pipeline projects. They have also announced an aggressive policy agenda to change the tax system, modify the relationships between the United States and other countries, cancel or modify trade treaties and remake relationships with other countries. Until specific laws are passed, executive actions are taken or federal regulatory

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action is enacted, it is unclear what impact these policies will have on our business. While at first impression these policies could decrease the regulatory and tax burden on our business and the businesses of our U.S. customers, increase oil and gas production in the U.S. and, as a result, our U.S. business activity and increase the sales of product from our U.S. suppliers, it is not clear that all impacts would be positive. However, in the absence of specifics and given the government's generally supportive stance for the oil and gas industry, and based on E&P spending surveys and our customers' current outlook for oil and gas supply and demand, we expect our business to increase in 2017.

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, 2017 | December 31, 2016 | June 30, 2016 |
|---------------|--------------------------|------------------------------|--------------------------|
| U.S. | \$ 564 | \$ 472 | \$ 376 |
| Canada | 34 | 36 | 34 |
| International | 229 | 241 | 247 |
| | \$ 827 | \$ 749 | \$ 657 |

Approximately 21% and 28% of our June 30, 2017 and December 31, 2016 ending backlog, respectively, was associated with one customer in our U.S. segment as the result of a significant ongoing customer project. There can be no assurance that the backlog amounts will ultimately be realized as revenue or that we will earn a profit on the backlog of orders, but we expect that substantially all of the sales in our backlog will be realized in the next twelve months.

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| <i>Average Rig Count (1):</i> | | | | |
| United States | 895 | 422 | 819 | 483 |
| Canada | 117 | 48 | 206 | 108 |
| International | 958 | 943 | 948 | 979 |
| Total | 1,970 | 1,413 | 1,973 | 1,570 |
| <i>Average Commodity Prices (2):</i> | | | | |
| WTI crude oil (per barrel) | \$ 48.10 | \$ 45.46 | \$ 49.85 | \$ 39.55 |
| Brent crude oil (per barrel) | \$ 49.55 | \$ 45.57 | \$ 51.57 | \$ 39.80 |
| Natural gas (\$/Mcf) | \$ 3.08 | \$ 2.15 | \$ 3.05 | \$ 2.07 |
| <i>Average Monthly U.S. Well Permits (3)</i> | | | | |
| | 3,482 | 2,048 | 3,391 | 2,051 |
| 3:2:1 Crack Spread (4) | \$ 17.04 | \$ 17.12 | \$ 16.38 | \$ 16.29 |

(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)

(3) Source-Rig Data (U.S.)

(4) Source- Bloomberg

Results of Operations
Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

The breakdown of our sales by sector for the three months ended June 30, 2017 and 2016 was as follows (in millions):

| | Three Months Ended | | | |
|------------|--------------------|-------------|---------------|-------------|
| | June 30, 2017 | | June 30, 2016 | |
| Upstream | \$ 258 | 28% | \$ 211 | 28% |
| Midstream | 420 | 46% | 292 | 39% |
| Downstream | 244 | 26% | 243 | 33% |
| | <u>\$ 922</u> | <u>100%</u> | <u>\$ 746</u> | <u>100%</u> |

For the three months ended June 30, 2017 and 2016, the following table summarizes our results of operations (in millions):

| | Three Months Ended | | | |
|---|--------------------|------------------|---------------|------------|
| | June 30, 2017 | June 30, 2016 | \$ Change | % Change |
| Sales: | | | | |
| U.S. | \$ 720 | \$ 551 | \$ 169 | 31% |
| Canada | 69 | 54 | 15 | 28% |
| International | 133 | 141 | (8) | (6%) |
| Consolidated | <u>\$ 922</u> | <u>\$ 746</u> | <u>\$ 176</u> | <u>24%</u> |
| Operating income (loss): | | | | |
| U.S. | \$ 21 | \$ (2) | \$ 23 | N/M |
| Canada | 1 | (2) | 3 | N/M |
| International | (5) | (6) | 1 | (17%) |
| Consolidated | 17 | (10) | 27 | N/M |
| Interest expense | (8) | (9) | 1 | (11%) |
| Other income (expense) | - | - | - | N/M |
| Income tax (expense) benefit | (3) | 2 | (5) | N/M |
| Net income (loss) | 6 | (17) | 23 | N/M |
| Series A preferred stock dividends | 6 | 6 | - | 0% |
| Net income (loss) attributable to common stockholders | <u>\$ -</u> | <u>\$ (23)</u> | <u>\$ 23</u> | <u>N/M</u> |
| Gross profit | \$ 149 | \$ 125 | \$ 24 | 19% |
| Adjusted Gross Profit (1) | \$ 171 | \$ 140 | \$ 31 | 22% |
| Adjusted EBITDA (1) | \$ 44 | \$ 15 | \$ 29 | 193% |

(1) Adjusted Gross Profit and Adjusted EBITDA are non-GAAP financial measures. For a reconciliation of these measures to an equivalent GAAP measure, see pages 18-20 herein.

Sales. Sales include the revenue recognized from the sale of products we distribute, services we provide and freight billings to customers, less cash discounts taken by customers in return for their early payment. Our sales were \$922 million for the three months ended June 30, 2017 as compared to \$746 million for the three months ended June 30, 2016, an increase of \$176 million, or 24%.

U.S. Segment—Our U.S. sales increased to \$720 million for the three months ended June 30, 2017 from \$551 million for the three months ended June 30, 2016. This \$169 million, or 31%, increase reflected a \$60 million increase in the upstream sector,

a \$103 million increase in the midstream sector and a \$6 million increase in the downstream sector. The increase in the midstream sector is related to a large, ongoing transmission project with one of our customers and the increase in the upstream sector is related to the increase in rig count and well completions.

Canada Segment—Our Canada sales increased to \$69 million for the three months ended June 30, 2017 from \$54 million for the three months ended June 30, 2016. This \$15 million, or 28%, increase was primarily due to the upstream business as a result of an increase in rig count and a milder spring break-up compared to a year ago. Canadian sales were unfavorably impacted by \$3 million, or 6%, as a result of the weaker Canadian dollar relative to the U.S. dollar.

International Segment—Our International sales decreased to \$133 million for the three months ended June 30, 2017 from \$141 million for the same period in 2016. The \$8 million, or 6%, decrease was primarily due to a \$26 million decrease in the upstream business, related to one of our project customers in Norway, and a \$7 million decrease in the downstream business offset by a \$25 million Australian line pipe contract in the midstream sector. The impact of the decline in foreign currencies in areas where we operate outside of the U.S. dollar was a \$3 million, or 2%, reduction in sales.

Gross Profit. Our gross profit was \$149 million (16.2% of sales) for the three months ended June 30, 2017 as compared to \$125 million (16.8% of sales) for the three months ended June 30, 2016. The \$24 million increase was primarily attributable to the increase in sales volumes. The reduction in gross profit percentage for the three months ended June 30, 2017 compared to the same period in 2016 was the result of the lower margin nature of the large midstream projects in the U.S. and International segments. In addition, our last-in, first-out (“LIFO”) inventory costing methodology resulted in an increase in cost of sales of \$5 million and a reduction of cost of sales of \$1 million in the second quarter of 2017 and 2016, respectively.

Certain purchasing costs and warehousing activities (including receiving, inspection and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross profit may not be comparable to others that may include these expenses as a component of cost of sales. Purchasing and warehousing costs were \$7 million for each of the three months ended June 30, 2017 and 2016.

Adjusted Gross Profit. Adjusted Gross Profit increased to \$171 million (18.5% of sales) for the three months ended June 30, 2017 from \$140 million (18.8% of sales) for the three months ended June 30, 2016, an increase of \$31 million. Adjusted Gross Profit is a non-GAAP financial measure. We define Adjusted Gross Profit as sales, less cost of sales, plus depreciation and amortization, plus amortization of intangibles, and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Profit because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

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

| | Three Months Ended | | | |
|-------------------------------------|--------------------|---------------------------|------------------|---------------------------|
| | June 30, 2017 | Percentage of Revenue* | June 30, 2016 | Percentage of Revenue* |
| Gross profit, as reported | \$ 149 | 16.2% | \$ 125 | 16.8% |
| Depreciation and amortization | 6 | 0.7% | 5 | 0.7% |
| Amortization of intangibles | 11 | 1.2% | 11 | 1.5% |
| Increase (decrease) in LIFO reserve | 5 | 0.5% | (1) | (0.1%) |
| Adjusted Gross Profit | \$ 171 | 18.5% | \$ 140 | 18.8% |

*Does not foot due to rounding.

Selling, General and Administrative (“SG&A”) Expenses. Costs such as salaries, wages, employee benefits, rent, utilities, communications, insurance, fuel and taxes (other than state and federal income taxes) that are necessary to operate our branch and corporate operations are included in SG&A. Also contained in this category are certain items that are nonoperational in nature, including certain costs of acquiring and integrating other businesses. Our SG&A expenses were \$132 million for the three months ended June 30, 2017 as compared to \$135 million for the three months ended June 30, 2016. Severance and restructuring charges for the three months ended June 30, 2016 totaled \$4 million. No such expenses were incurred for the three months ending June 30, 2017.

Operating Income (Loss). Operating income was \$17 million for the three months ended June 30, 2017, as compared to a \$10 million operating loss for the three months ended June 30, 2016, an improvement of \$27 million.

U.S. Segment—Operating income for our U.S. segment was \$21 million for the three months ended June 30, 2017 compared to a \$2 million operating loss for the three months ended June 30, 2016. The \$23 million increase in operating income was primarily driven by higher sales. Severance costs included in operating expenses were \$2 million for the three months ended June 30, 2016. No such expenses were incurred for the three months ending June 30, 2017.

Canada Segment—Operating income for our Canada segment was \$1 million for the three months ended June 30, 2017 as compared to a \$2 million operating loss for the three months ended June 30, 2016. The \$3 million increase was a result of higher sales volume.

International Segment—Our International segment incurred an operating loss of \$5 million for the three months ended June 30, 2017 as compared to an operating loss of \$6 million for the three months ended June 30, 2016. The improvement of \$1 million was the result of lower SG&A including severance costs offset by the reduction in sales. Severance costs included in operating expenses were \$0 million and \$2 million for the three months ended June 30, 2017 and 2016, respectively.

Interest Expense. Our interest expense was \$8 million for the three month period ended June 30, 2017 as compared to \$9 million for the three months ended June 30, 2016. This represented a decrease of \$1 million resulting from lower average debt levels.

Other Income (Expense). Our other income was \$0 million for the three month periods ended June 30, 2017 and 2016. For the three months ended June 30, 2017, other expense included a \$3 million charge associated with the settlement of a litigation matter offset by \$2 million of foreign currency gains.

Income Tax (Expense) Benefit. Our income tax expense was \$3 million for the three months ended June 30, 2017 as compared to a \$2 million benefit for the three months ended June 30, 2016. For interim periods, our income tax expense is computed based upon our estimated annual effective tax rate. Our effective tax rates were 33% and 11% for the three months ended June 30, 2017 and 2016, respectively. Our rates generally differ from the U.S. federal statutory rate of 35% as a result of state income taxes and differing, generally lower, foreign income tax rates. The 2016 effective tax rate was significantly lower than our federal statutory rate due to forecasted pre-tax losses across all segments including significant pre-tax losses in jurisdictions where there was no corresponding tax benefit.

Net Income (Loss). Our net income was \$6 million for the three months ended June 30, 2017 as compared to a net loss of \$17 million for the three months ended June 30, 2016, an increase of \$23 million.

Adjusted EBITDA. Adjusted EBITDA, a non-GAAP financial measure, was \$ 44million (4.8% of sales) for the three months ended June 30, 2017 as compared to \$15 million (2.0% of sales) for the three months ended June 30, 2016.

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 and asset impairments, including inventory) 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, 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 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 (loss), as derived from our financial statements (in millions):

| | Three Months Ended | |
|--|---------------------------|--------------------------|
| | June 30, 2017 | June 30, 2016 |
| Net income (loss) | \$ 6 | \$ (17) |
| Income tax expense (benefit) | 3 | (2) |
| Interest expense | 8 | 9 |
| Depreciation and amortization | 6 | 5 |
| Amortization of intangibles | 11 | 11 |
| Increase (decrease) in LIFO reserve | 5 | (1) |
| Change in fair value of derivative instruments | (1) | 1 |
| Equity-based compensation expense | 5 | 4 |
| Severance and restructuring charges | - | 4 |
| Litigation settlement | 3 | - |
| Foreign currency (gains) losses | (2) | 1 |
| Adjusted EBITDA | <u>\$ 44</u> | <u>\$ 15</u> |

Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

The breakdown of our sales by sector for the six months ended June 30, 2017 and 2016 was as follows (in millions):

| | Six Months Ended | | | |
|------------|-------------------------|-------------|----------------------|-------------|
| | June 30, 2017 | | June 30, 2016 | |
| Upstream | \$ 503 | 28% | \$ 442 | 29% |
| Midstream | 791 | 44% | 570 | 37% |
| Downstream | 490 | 28% | 517 | 34% |
| | <u>\$ 1,784</u> | <u>100%</u> | <u>\$ 1,529</u> | <u>100%</u> |

For the six months ended June 30, 2017 and 2016, the following table summarizes our results of operations (in millions):

| | Six Months Ended | | | |
|---|--------------------------|--------------------------|------------------|-----------------|
| | June 30, 2017 | June 30, 2016 | \$ Change | % Change |
| Sales: | | | | |
| U.S. | \$ 1,386 | \$ 1,157 | \$ 229 | 20% |
| Canada | 146 | 118 | 28 | 24% |
| International | 252 | 254 | (2) | (1%) |
| Consolidated | <u>\$ 1,784</u> | <u>\$ 1,529</u> | <u>\$ 255</u> | 17% |
| Operating income (loss): | | | | |
| U.S. | \$ 32 | \$ 2 | \$ 30 | N/M |
| Canada | 4 | (3) | 7 | N/M |
| International | (5) | (13) | 8 | (62%) |
| Consolidated | <u>31</u> | <u>(14)</u> | 45 | N/M |
| Interest expense | (15) | (17) | 2 | (12%) |
| Other income (expense) | - | (1) | 1 | N/M |
| Income tax (expense) benefit | (4) | 7 | (11) | N/M |
| Net income (loss) | 12 | (25) | 37 | N/M |
| Series A preferred stock dividends | 12 | 12 | - | 0% |
| Net income (loss) attributable to common stockholders | <u>\$ -</u> | <u>\$ (37)</u> | <u>\$ 37</u> | N/M |
| Gross profit | <u>\$ 289</u> | <u>\$ 258</u> | <u>\$ 31</u> | 12% |
| Adjusted Gross Profit (1) | <u>\$ 328</u> | <u>\$ 287</u> | <u>\$ 41</u> | 14% |
| Adjusted EBITDA (1) | <u>\$ 80</u> | <u>\$ 34</u> | <u>\$ 46</u> | 135% |

(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.

Sales. Our sales were \$1,784 million for the six months ended June 30, 2017 as compared to \$1,529 million for the six months ended June 30, 2016, an increase of \$255 million, or 17%.

U.S. Segment—Our U.S. sales increased to \$1,386 million for the six months ended June 30, 2017 from \$1,157 million for the six months ended June 30, 2016. This \$229 million, or 20%, increase reflected a \$69 million increase in the upstream sector, a \$185 million increase in the midstream sector and a \$25 million decrease in the downstream sector. The increase in the midstream sector is primarily related to a large, ongoing transmission project with one of our customers while the decrease in the downstream sector was a result of the conclusion of a large petrochemical project. The increase in the upstream sector is related to the increase in rig count and well completions.

Canada Segment—Our Canada sales increased to \$146 million for the six months ended June 30, 2017 from \$118 million for the six months ended June 30, 2016. This \$28 million, or 24%, increase was primarily due to the increase in the upstream business.

International Segment—Our International sales decreased to \$252 million for the six months ended June 30, 2017 from \$254 million for the same period in 2016. The \$2 million, or 1%, decrease was due to the impact of the decline in foreign currencies in areas where we operate outside of the U.S. dollar, which was a \$4 million, or 2%, reduction in sales.

Gross Profit. Our gross profit was \$289 million (16.2% of sales) for the six months ended June 30, 2017 as compared to \$258 million (16.9% of sales) for the six months ended June 30, 2016. The \$31 million increase was primarily attributable to the increase in sales volumes. The reduction in gross profit percentage for the six months ended June 30, 2017 compared to the

same period in 2016 was the result of the lower margin nature of the large midstream projects in the U.S. and International segments. In addition, our LIFO inventory costing methodology resulted in an increase in cost of sales of \$6 million and a reduction in cost of sales of \$4 million in the first half of 2017 and 2016, respectively.

Certain purchasing costs and warehousing activities (including receiving, inspection and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross profit may not be comparable to others that may include these expenses as a component of cost of sales. Purchasing and warehousing costs were \$14 million and \$15 million for the six months ended June 30, 2017 and 2016, respectively.

Adjusted Gross Profit. Adjusted Gross Profit increased to \$328 million (18.4% of sales) for the six months ended June 30, 2017 from \$287 million (18.8% of sales) for the six months ended June 30, 2016, an increase of \$41 million. Adjusted Gross Profit is a non-GAAP financial measure. We define Adjusted Gross Profit as sales, less cost of sales, plus depreciation and amortization, plus amortization of intangibles, and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Profit because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

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

| | Six Months Ended | | | |
|-------------------------------------|------------------|---------------------------|------------------|--------------------------|
| | June 30, 2017 | Percentage of Revenue* | June 30, 2016 | Percentage of Revenue |
| Gross profit, as reported | \$ 289 | 16.2% | \$ 258 | 16.9% |
| Depreciation and amortization | 11 | 0.6% | 10 | 0.7% |
| Amortization of intangibles | 22 | 1.2% | 23 | 1.5% |
| Increase (decrease) in LIFO reserve | 6 | 0.3% | (4) | (0.3%) |
| Adjusted Gross Profit | <u>\$ 328</u> | <u>18.4%</u> | <u>\$ 287</u> | <u>18.8%</u> |

*Does not foot due to rounding.

Selling, General and Administrative (“SG&A”) Expenses. Our SG&A expenses were \$258 million for the six months ended June 30, 2017 as compared to \$272 million for the six months ended June 30, 2016. The \$14 million decline in SG&A is attributable to 2016 cost reduction measures including headcount reductions and associated severance costs. Severance and restructuring charges for the six months ended June 30, 2016 totaled \$9 million. No such expenses were incurred for the six months ending June 30, 2017.

Operating Income (Loss). Operating income was \$31 million for the six months ended June 30, 2017, as compared to a \$14 million operating loss for the six months ended June 30, 2016, an improvement of \$45 million.

U.S. Segment—Operating income for our U.S. segment was \$32 million for the six months ended June 30, 2017 compared to \$2 million for the six months ended June 30, 2016. The \$30 million increase was primarily driven by higher sales. Severance costs included in operating expenses were \$4 million for the six months ended June 30, 2016. No such expenses were incurred for the six months ending June 30, 2017.

Canada Segment—Operating income for our Canada segment was \$4 million for the six months ended June 30, 2017 as compared to a \$3 million operating loss for the six months ended June 30, 2016. The \$7 million increase was a result of higher sales volume.

International Segment—Our International segment incurred an operating loss of \$5 million for the six months ended June 30, 2017 as compared to an operating loss of \$13 million for the six months ended June 30, 2016. The improvement of \$8 million was the result of lower SG&A attributable to 2016 cost reduction measures including headcount reductions and associated severance costs. Severance costs included in operating expenses were \$0 million and \$4 million for the six months ended June 30, 2017 and 2016, respectively.

Interest Expense. Our interest expense was \$15 million for the six month period ended June 30, 2017 as compared to \$17 million for the six months ended June 30, 2016. This represented a decrease of \$2 million resulting from lower average debt levels.

Other Income (Expense). Our other income was \$0 million for the six month period ended June 30, 2017 as compared to expense of \$1 million for the six month period ended June 30, 2016. For the six months ended June 30, 2017, other expense included a \$3 million charge associated with the settlement of a litigation matter offset by \$2 million of foreign currency gains.

Income Tax (Expense) Benefit. Our income tax expense was \$4 million for the six months ended June 30, 2017 as compared to a benefit of \$7 million for the six months ended June 30, 2016. For interim periods, our income tax expense is computed based upon our estimated annual effective tax rate. Our effective tax rates were 25% and 22% for the six months ended June 30, 2017 and 2016, respectively. Our rates generally differ from the U.S. federal statutory rate of 35% as a result of state income taxes and differing, generally lower, foreign income tax rates. In the first six months of 2017, we adopted ASU 2016-09, *Compensation - Stock Compensation*, which requires all excess tax benefits and tax deficiencies are recorded as income tax expense or benefit in the income statement on a prospective basis. In the first six months of 2017, we recorded a tax benefit of \$2 million related to the vesting of stock awards. The 2017 effective tax rate is lower than our federal statutory rate primarily due to this discrete tax benefit and a benefit related to foreign currency exchange losses. The 2016 effective tax rate was significantly lower than our federal statutory rate due to forecasted pre-tax losses across all segments including significant pre-tax losses in jurisdictions where there was no corresponding tax benefit.

Net Income (Loss). Our net income was \$12 million for the six months ended June 30, 2017 as compared to a net loss of \$25 million for the six months ended June 30, 2016, an improvement of \$37 million.

Adjusted EBITDA. Adjusted EBITDA, a non-GAAP financial measure, was \$80 million (4.5% of sales) for the six months ended June 30, 2017 as compared to \$34 million (2.2% of sales) for the six months ended June 30, 2016.

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 and asset impairments, including inventory) 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, 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 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 (loss), as derived from our financial statements (in millions):

| | Six Months Ended | |
|--|--------------------------|--------------------------|
| | June 30, 2017 | June 30, 2016 |
| Net income (loss) | \$ 12 | \$ (25) |
| Income tax expense (benefit) | 4 | (7) |
| Interest expense | 15 | 17 |
| Depreciation and amortization | 11 | 10 |
| Amortization of intangibles | 22 | 23 |
| Increase (decrease) in LIFO reserve | 6 | (4) |
| Change in fair value of derivative instruments | - | 2 |
| Equity-based compensation expense | 9 | 7 |
| Severance and restructuring charges | - | 9 |
| Litigation settlement | 3 | - |
| Foreign currency (gains) losses | (2) | 2 |
| Adjusted EBITDA | <u>\$ 80</u> | <u>\$ 34</u> |

Liquidity and Capital Resources

Our primary sources of liquidity consist of cash generated from our operating activities, existing cash balances and borrowings under our Global ABL Facility. At June 30, 2017, our total liquidity, including cash on hand, was \$542 million. Our ability to generate sufficient cash flows from our operating activities will continue to be primarily dependent on our sales of products and services to our customers at margins sufficient to cover our fixed and variable expenses. As of June 30, 2017 and December 31, 2016, we had cash and cash equivalents of \$37 million and \$109 million, respectively. As of June 30, 2017 and December 31, 2016, \$37 million and \$61 million of our cash and cash equivalents, respectively, were maintained in the accounts of our various foreign subsidiaries. If such amounts were transferred among countries or repatriated to the U.S., such amounts may be subject to additional tax liabilities, which would be recognized in our financial statements in the period during which such decision would be made. We have the intent and ability to indefinitely reinvest the cash held by our foreign subsidiaries, and there are currently no plans that require the repatriation of this cash.

Our primary credit facilities consist of a seven-year Term Loan maturing in November 2019 with an original principal amount of \$794 million and a five-year \$1.05 billion Global ABL Facility that provides a \$977 million facility in the United States, a \$30 million facility in Norway, a \$20 million facility in Canada, a \$10 million facility in Australia, a \$5 million facility in the United Kingdom, a \$4 million facility in the Netherlands and a \$4 million facility in Belgium. As of June 30, 2017, the outstanding balance on our Term Loan, net of original issue discount and issuance costs, was \$410 million. The Global ABL Facility matures in July 2019. The Global ABL Facility contains an accordion feature that allows us to increase the principal amount of the facility by up to \$300 million, subject to securing additional lender commitments. As of June 30, 2017, we had no borrowings outstanding and \$505 million of Excess Availability, as defined under our Global ABL Facility. Availability is dependent on a borrowing base comprised of a percentage of eligible accounts receivable and inventory which is subject to redetermination from time to time.

Our credit ratings are below “investment grade” and as such could impact both our ability to raise new funds as well as the interest rates on our future borrowings. Our ability to incur additional debt is restricted by our existing obligations. We were in compliance with the covenants contained in our various credit facilities as of and during the six months ended June 30, 2017.

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

In November 2015, the Company's board of directors authorized a share repurchase program for common stock up to \$100 million, which was increased in November 2016 to \$125 million. The shares may be repurchased at management's discretion in the open market. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice. During the first quarter of 2017, we purchased 859,830 shares of common stock at a total cost of \$18 million, which completed the repurchase of all shares authorized under the program. In total under this plan, we have purchased 8,537,410 shares at a total cost of \$125 million.

Cash Flows

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

| | Six Months Ended | |
|--|--------------------------|--------------------------|
| | June 30, 2017 | June 30, 2016 |
| Net cash (used in) provided by: | | |
| Operating activities | \$ (24) | \$ 148 |
| Investing activities | (14) | 36 |
| Financing activities | (37) | (87) |
| Net (decrease) increase in cash and cash equivalents | \$ (75) | \$ 97 |

Operating Activities

Net cash used in operating activities was \$24 million during the six months ended June 30, 2017 compared to \$148 million provided by operating activities during the six months ended June 30, 2016. The decrease in cash provided by operations was primarily the result of working capital expansion in response to the increase in sales activity in the first six months of 2017 as compared to a working capital contraction in the first six months of 2016. Working capital growth used cash of \$81 million in the first six months of 2017 compared to providing cash of \$134 million in the first six months of 2016. In particular, growth in accounts receivable utilized \$117 million of cash in the first six months of 2017 as a result of the 17% increase in sales relative to the first six months of 2016 when accounts receivable contraction provided cash of \$104 million. This use of cash was offset by \$68 million generated from an increase in accounts payable, which was attributable to higher purchasing activities and the timing of payments to our suppliers.

Investing Activities

Net cash used in investing activities was \$14 million for the six months ended June 30, 2017, compared to \$36 million provided by investing activities for the six months ended June 30, 2016. The \$50 million increase in cash used in investing activities is the result of \$48 million in proceeds from the disposition of our U.S. OCTG product line in February 2016. Our capital expenditures were \$14 million for each of the six months ended June 30, 2017 and 2016. We expect capital expenditures in 2017 to be approximately \$45 million which includes our ongoing implementation of a new information technology system in the international segment and the build out of our new regional distribution center in LaPorte, Texas.

Financing Activities

Net cash used in financing activities was \$37 million for the six months ended June 30, 2017 compared to \$87 million for the six months ended June 30, 2016. In the first six months of 2017 and 2016, we used \$18 million and \$71 million to fund purchases of our common stock, respectively.

Critical Accounting Policies

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

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimates are made and when there are different estimates that management reasonably could have made, which would have a material impact on the presentation of our financial condition, changes in our financial condition or results of operations. For a description of our critical accounting policies, see "Item 7: "Management's Discussion and Analysis of Financial Condition and Results from Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

As of June 30, 2017, 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.

As part of a continuing effort to improve the Company's business processes management is evaluating its internal controls and may update certain controls to accommodate any modifications to its business processes or accounting procedures.

Changes in internal control over financial reporting.

The Company has undertaken a multi-year enterprise resource planning ("ERP") project to migrate certain systems to SAP software. During the second quarter of 2016, we completed the SAP implementation in our Asia Pacific-based businesses. During the second quarter of 2017, we completed the implementation effort in our European and Middle Eastern businesses. The implementation in our Nordic businesses is expected to occur in the third quarter of 2017. As a part of these implementations, various controls over financial reporting for the international segment changed.

Other than described above, there were no changes in our internal control over financial reporting that occurred during the first six months of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 9 - 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, 2016 under "Risk Factors".

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

A summary of our purchases of MRC Global Inc. common stock during the second quarter of fiscal year 2017 is as follows:

| | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------|--------------------------------------|------------------------------|--|--|
| Apr 1 - Apr 30 | 12,475 | \$ 18.23 | - | \$ - |
| May 1 - May 31 | - | \$ - | - | \$ - |
| Jun 1 - Jun 30 | 16 | \$ 17.25 | - | \$ - |
| | <u>12,491</u> | | | |

(1) We purchased 12,491 shares in connection with funding employee income tax withholding obligations arising upon the lapse of restrictions on restricted shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINING SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Number | Description |
|---------------|---|
| 31.1* | Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32** | Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 100* | The following financial information from MRC Global Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016, (ii) the Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2017 and 2016, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2017 and 2016, (iv) the Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2017 and 2016 and (v) Notes to Condensed Consolidated Financial Statements. |
| 101* | Interactive data file. |
| * | Filed herewith. |
| ** | Furnished herewith. |

SIGNATURES

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

MRC GLOBAL INC.

By: /s/ James E. Braun

James E. Braun

Executive Vice President and Chief Financial
Officer

Date: August 4, 2017

CERTIFICATION

I, Andrew R. Lane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2017 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: August 4, 2017

/s/ Andrew R. Lane

Name: Andrew R. Lane

Title: President and Chief Executive Officer

CERTIFICATION

I, James E. Braun, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2017 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: August 4, 2017

/s/ James E. Braun

Name: James E. Braun

Title: Executive Vice President and
Chief Financial Officer

**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, 2017 (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: August 4, 2017

/s/ Andrew R. Lane

Name: Andrew R. Lane

Title: President and Chief Executive Officer

/s/ James E. Braun

Name: James E. Braun

Title: Executive Vice President and
Chief Financial Officer
