

MRC GLOBAL INC.  
Form 10-K  
February 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

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Fulbright Tower

1301 McKinney Street, Suite 2300

Houston, Texas

77010

(Address of Principal Executive Offices) (Zip Code)

(877) 294-7574

(Registrant's Telephone Number, including Area Code)

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

Title of each class Name of each exchange on which registered

Common Stock New York Stock Exchange

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

(Title of class)

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

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

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

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

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

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

Large accelerated filer   Accelerated filer

Non-accelerated filer   Smaller reporting company

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

The Company's common stock is listed on the New York Stock Exchange under the symbol "MRC". The aggregate market value of voting common stock held by non-affiliates was \$1.561 billion as of the close of trading as reported on the New York Stock Exchange on June 30, 2017. There were 91,651,168 shares of the registrant's common stock (excluding 287,699 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of February 9, 2018.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement relating to the 2018 Annual Meeting of Stockholders, to be filed within 120 days of the end of the fiscal year covered by this report, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## PART I

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

### ITEM 1. BUSINESS

#### General

We are the largest global industrial distributor, 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. We offer approximately 170,000 SKUs, including an extensive array of PVF, oilfield supply, valve automation, measurement, instrumentation and other general and specialty products from our global network of suppliers. Through our U.S., Canadian and International segments, we serve our more than 16,000 customers through approximately 300 service locations including regional distribution centers, branches, corporate offices and third party pipe yards, where we often deploy pipe near customer locations. We are diversified by geography, the industry sectors we serve and the products we sell.

Our customers use the PVF and oilfield supplies that we supply in mission critical process applications that require us to provide a high degree of product knowledge, technical expertise and comprehensive value added services to our customers. We seek to provide best-in-class service and a one-stop shop for our customers by satisfying the most complex, multi-site needs of many of the largest companies in the energy sector as their primary PVF supplier. We provide services such as product testing, manufacturer assessments, multiple daily deliveries, volume purchasing, inventory and zone store management and warehousing, technical support, training, just-in-time delivery, truck stocking, order consolidation, product tagging and system interfaces customized to customer and supplier specifications for tracking and replenishing inventory, engineering of control packages, and valve inspection and repair, which we believe result in deeply integrated customer relationships. We believe the critical role we play in our customers’ supply chain, together with our extensive product and services 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.

In 2016, global customer spending fell by 27%, following a 21% decline in 2015. This brought spending to its lowest levels since 2009 and marked the first time in nearly 30 years that our customers’ global spending had been down in consecutive years. However, our business rebounded in 2017 with sales growth of 20% and prominent exploration and production (“E&P”) spending surveys, which include many of our customers, forecast that spending will continue to increase in 2018 and 2019. We have benefited historically from several growth trends within the energy industry, including high levels of customer expansion and maintenance expenditures. Long-term growth in spending has been driven by several factors, including demand growth for petroleum and petroleum derived products, underinvestment in global energy infrastructure, growth in shale and unconventional exploration and production (“E&P”) activity, and anticipated strength in the oil, natural gas, refined products and petrochemical sectors. In the longer term, we believe carbon based energy will continue to play a critical role in supporting economic growth, particularly in developing countries. In the near term, however, customer spending will continue to be sensitive to global oil and natural gas prices and general economic conditions. As such, we expect our business will continue to experience periods of volatility.

MRC Global Inc. was incorporated in Delaware on November 20, 2006. Our principal executive office is located at 1301 McKinney Street, Suite 2300, Houston, Texas 77010. Our telephone number is (877) 294-7574. Our website address is [www.mrcglobal.com](http://www.mrcglobal.com). Information contained on our website is expressly not incorporated by reference into

this document.

### Business Strategy

As an industrial distributor of PVF and related products to the energy industry, our strategy is focused on growth, margin enhancement and the development of long-term customer relationships within the markets we serve. Our strategic objectives are to increase our market share by executing global preferred supplier contracts with new and existing customers, growing organically by maintaining a focus on our managed and targeted growth accounts, enhancing our product and service offerings, extending our global platform to major PVF energy markets through acquisitions, investing in technology systems and branch infrastructure to achieve improved operational excellence and optimizing our working capital.

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

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

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

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

Our acquisition strategy is focused on those businesses that will broaden our international geographic footprint, in certain energy intensive regions, or those that expand our product offerings, particularly in valves, valve automation, instrumentation, stainless and alloy or within a particular sector, such as downstream. We also consider “bolt-on” acquisitions that supplement our existing offerings. Capital and operating expense spending by the energy industry outside of North America is generally greater than spending in North America, particularly in the upstream and downstream sectors. Much of that spending is done by large integrated oil companies to whom we supply in North America. Our strategy is aimed to capture more of the integrated oil companies international spending and bring our value added business proposition to their worldwide operations. We also believe that being able to serve our customers globally provides us an advantage in obtaining master service or framework agreements both internationally as well as in North America as international oil company customers, in particular, look for a “one-stop shop” provider for their PVF needs.

We invest in information technology (“IT”) systems and branch infrastructure to achieve improved operational excellence. Our concept of operational excellence leverages standardized business processes to deliver top tier safety performance, a consistent customer experience and a lower overall cost to serve. We have implemented an ERP system in our International segment, reducing the number of systems from 14 to one. We now have two operating systems globally to facilitate continued improvements in operational excellence. Through the further development of our electronic catalog, MRCGOTM, we continue to enhance and add to the customer experience. Our digital strategy is designed to add further differentiation to our product and service offering with an objective to maintain or grow our business with new and existing customers.

## Operations

Our business is segregated into four geographical operating segments, our U.S. Eastern Region and Gulf Coast, U.S. Western Region, Canadian, and International operations. These segments represent our business of providing PVF and related products and services to the energy industry, across each of the upstream, midstream and downstream sectors. For reporting purposes, our U.S. operating segments are aggregated based on their economic similarities. Financial information regarding our reportable segments appears in “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 14 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

Our U.S. reportable segment represented approximately 79% of our consolidated revenue in 2017. We maintain distribution operations throughout the country with concentrations in the most active oil and natural gas producing regions. Our network is comprised of 102 branch locations, 9 distribution centers, 13 valve and engineering centers and 32 third-party pipe yards.

Our Canadian segment represented approximately 8% of our consolidated revenue in 2017. Our distribution operations extend throughout the western part of Canada with concentrations in Alberta and western Saskatchewan. In Canada, we have 25 branch locations, one distribution center, one valve and engineering center and 8 third-party pipe yards.

Our International segment represented approximately 13% of our consolidated revenue in 2017. This segment includes 50 branch locations located throughout Europe, Asia, Australasia, the Middle East and Caspian with six distribution centers in the United Kingdom, Norway, Singapore, the Netherlands, the United Arab Emirates and Australia. We also maintain 13 valve and engineering centers in Europe, Asia and Australia.

**Safety.** In our business, safety is of paramount importance to us and to our customers. Injuries and loss of life can have a terrible impact on our employees, the employees of our customers and our and their respective suppliers, contractors and business invitees at the work site as well as any of their families. In addition, unsafe conditions can cause or contribute to injuries, deaths, property damage and pollution that, in turn, can create significant liabilities for which insurance may not always be sufficient. We are also subject to many safety regulatory standards such as those standards that the U.S. Occupational Health and Safety Administration, the U.S. Environmental Protection Agency and the Department of Transportation or state or foreign agencies of a similar nature may impose and enforce upon us. Failure to meet those standards can result in fines, penalties or agency actions that can impose additional costs upon our business. For all of these reasons, we and our customers demand high safety standards and practices to prevent the occurrence of unsafe conditions and any resulting harm. Our operations, therefore, focus every day on the safety of our employees and those with whom we do business. Our safety programs are designed to focus on the highest likely safety risks in our business and to build a culture of safe practices and continuous safety improvement for our employees, our customers and others with whom we do business or otherwise come into contact.

Among other safety measures, we track our total recordable incident rate (“TRIR”) and our lost work day rate (“LWDR”), both per 200,000 hours worked. Our TRIR has fallen over the past three years from 1.14 in 2015 to 0.78 in 2017. This compares favorably to the U.S. Bureau of Labor Statistics (“BLS”) average of 5.0 for wholesalers of metal products. This was the lowest annual TRIR in our Company’s history. Likewise, our LWDR was 0.26 in 2017. This also compares favorably to the BLS average of 1.9 for wholesalers of metal products. A 2016 survey that the National Association of Wholesaler Distributors conducted of 45 distribution companies with over \$1 billion in revenue placed us in the top quartile of U.S. companies in safety performance for the surveyed distributors based on OSHA TRIR. In addition, our recordable vehicle incident rate (“RVIR”) has also remained low at 0.65.

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

- Valves, Automation, Measurement and Instrumentation. Product offering includes ball, butterfly, gate, globe, check, diaphragm, needle and plug valves, which are manufactured from cast steel, stainless/alloy steel, forged steel, carbon steel or cast and ductile iron. Valves are generally used in oilfield and industrial applications to control direction, velocity and pressure of fluids and gases within transmission networks. Other products include lined corrosion resistant piping systems, control valves, valve automation and top work components used for regulating flow and on/off service, measurement products and a wide range of steam and instrumentation products.
- Carbon Steel Fittings and Flanges. Carbon steel fittings and flanges include carbon weld fittings, flanges and piping components used primarily to connect piping and valve systems for the transmission of various liquids and gases. These products are used across all the industries in which we operate.
- Stainless Steel and Alloy Fittings, Flanges and Pipe. Stainless steel and alloy pipe and fittings include stainless, alloy and corrosion resistant pipe, tubing, fittings and flanges. These are used most often in the chemical, refining and power generation industries but are used across all of the sectors in which we operate. Alloy products are principally used in high-pressure, high-temperature and high-corrosion applications typically seen in process piping applications.
- Gas Products. Natural gas distribution products include risers, meters, polyethylene pipe and fittings and various other components and industrial supplies used primarily in the distribution of natural gas to residential and commercial customers.
- Line Pipe. Carbon line pipe is typically used in high-yield, high-stress and abrasive applications such as the gathering and transmission of oil, natural gas and natural gas liquids (“NGL”).
- Other. Other includes oilfield supplies and other industrial products such as mill and safety and electrical supplies. We offer a comprehensive range of oilfield and industrial supplies and completion equipment, including high density polyethylene pipe, fittings and rods. Additionally, we can supply a wide range of specialized production equipment including tanks and separators used in our upstream sector.

**Services:** We provide many of our customers with a comprehensive array of services including multiple deliveries each day, zone store management, valve tagging and system interfaces that link the customer to our proprietary information systems. This allows us to interface with our customers’ IT systems with cross-referenced part numbers, streamlining the ordering process making it easier and more efficient to purchase our products. Such services strengthen our position with customers as we become more integrated into their supply chain and we are able to market a “total transaction value” solution rather than individual products.

We continue to invest in and expand our comprehensive information systems. In 2017, we completed the transition of our International business to a single ERP platform. These systems, which provide for customer and supplier electronic integrations, information sharing and e-commerce applications, including our MRCGOTM electronic

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

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

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**Suppliers:** We source the products we distribute from a global network of approximately 12,000 suppliers in over 40 countries. We have approximately 100 dedicated supply chain management employees that handle purchasing. Our suppliers benefit from access to our large, diversified customer base and, by consolidating customer orders allowing for manufacturing efficiencies, we benefit from stronger purchasing power and preferred vendor programs. Our purchases from our 25 largest suppliers in 2017 approximated 43% of our total purchases, with our single largest supplier constituting approximately 9%. We are the largest customer for many of our suppliers, and we source the majority of the products we distribute directly from the manufacturer. The remainder of the products we distribute are sourced from manufacturer representatives, trading companies and, in some instances, other distributors.

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

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

**Sales and Marketing:** We distribute our products to a wide variety of end-users, and we have operations in 22 countries and direct sales into over 100 countries around the world. We have approximately 1,500 operations personnel around the world. Our broad inventory offering and distribution network allows us to serve large global customers with consistent, high-quality service that is unrivaled in our industry. Local relationships, depth of inventory, responsive service and timely delivery are critical to the sales process in the PVF distribution industry. Our sales efforts are customer and product driven and provide a system that is more responsive to changing customer and product needs than a traditional, fully centralized structure.

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

Our over 450 account managers and external sales representatives develop relationships with prospective and existing customers in an effort to better understand their needs and to increase the number of our products specified or approved by a given customer. Outside sales representatives may be branch outside sales representatives, focused on customer relationships in specific geographies, or technical outside sales representatives, who focus on specific products and provide detailed technical support to customers. Internationally, for valve sales, the majority of our sales force is comprised of qualified engineers who are able to meet complex customer requirements, select optimal solutions from a range of products to increase customers' efficiency and lower total product lifecycle costs.

Our inside sales force of over 800 customer service representatives is responsible for processing orders generated by new and existing customers as well as by our outside sales force. The customer service representatives develop order packages based on specific customer needs, interface with manufacturers to determine product availability, ensure on-time delivery and establish pricing of materials and services based on guidelines and predetermined metrics that management establishes.

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

Customers: Our principal customers are companies active in the upstream, midstream and downstream sectors of the energy industry. Due to the demanding operating conditions in the energy industry, high costs and safety risks associated with equipment failure, customers prefer highly reliable products and vendors with established qualifications, reputation and experience. As our PVF products

typically are mission critical and represent a fraction of the total cost of a given project, our customers often place a premium on service and high reliability given the high cost to them of maintenance or project delays. We strive to build long-term relationships with our customers by maintaining our reputation as a supplier of high-quality, reliable products and value-added services and solutions.

We have a diverse customer base of over 16,000 customers. We are not dependent on any one customer or group of customers. A majority of our customers are offered terms of net 30 days (payment is due within 30 days of the date of the invoice). Customers generally have the right to return products we have sold, subject to certain conditions and limitations, although returns have historically been immaterial to our sales. For the year ended December 31, 2017, our 25 largest customers represented approximately 53% of our total sales, with our single largest customer constituting approximately 7%. For many of our largest customers, we are often their sole or primary PVF provider by sector or geography, their largest or second largest supplier in aggregate or, in certain instances, the sole provider for their upstream, midstream and downstream procurement needs. We believe that many customers for which we are not the exclusive or comprehensive sole source PVF provider will continue to reduce their number of suppliers in an effort to reduce costs and administrative burdens and focus on their core operations. As such, we believe these customers will seek to select PVF distributors with the most extensive product offering and broadest geographic presence. Furthermore, we believe our business will benefit as companies in the energy industry continue to consolidate and the larger, resulting companies look to larger distributors such as ourselves as their sole or primary source PVF provider.

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

	Year Ended December 31,		
	2017	2016	2015*
U.S.	\$ 559	\$ 472	\$ 305
Canada	40	36	34
International	233	241	161
	\$ 832	\$ 749	\$ 500

\*Amount excludes U.S. OCTG backlog of \$42 million for 2015. We disposed of our U.S. OCTG product line in February 2016.

As of December 31, 2017 and 2016, respectively, approximately 14% and 28% of our ending backlog was associated with one customer in our U.S segment. In addition, approximately 14% and 10% of our ending backlog for 2017 and 2016, respectively, was associated with one customer in our International segment. In each case, these are related to significant ongoing customer projects. There can be no assurance that the backlog amounts will ultimately be realized as revenue or that we will earn a profit on the backlog of orders, but we expect that substantially all of the sales in our backlog will be realized within twelve months.

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

Employees: We have approximately 3,450 employees of which 127 employees belong to a union and are covered by collective bargaining agreements. We also have 130 employees in Norway and Australia that are not members of a union but are covered by union negotiated agreements. We consider our relationships with our employees to be good.

For a breakdown of our annual revenue by geography, see “Note 14—Segment, Geographic and Product Line Information” to the audited consolidated financial statements as of December 31, 2017.

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## Environmental Matters

We are subject to a variety of federal, state, local, foreign and provincial environmental, health and safety laws, regulations and permitting requirements (collectively, “environmental laws”), including those governing the following:

- the discharge of pollutants or hazardous substances into the air, soil or water,
- the generation, handling, use, management, storage and disposal of, or exposure to, hazardous substances and wastes,
  - the responsibility to investigate, remediate, monitor and clean up contamination and
- occupational health and safety.

Historically, the costs to comply with environmental laws have not been material to our financial position, results of operations or cash flows. We are not aware of any pending environmental compliance or remediation matters that, in the opinion of management, are reasonably likely to have a material effect on our business, financial position or results of operations or cash flows. However, our failure to comply with applicable environmental laws could result in fines, penalties, enforcement actions, employee, neighbor or other third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Certain environmental laws, such as the U.S. federal Superfund law or its state or foreign equivalents, may impose the obligation to investigate, remediate, monitor and clean up contamination at a facility on current and former owners, lessees or operators or on persons who may have sent waste to that facility for disposal. These environmental laws may impose liability without regard to fault or to the legality of the activities giving rise to the contamination.

Although we are not aware of any active litigation against us under the U.S. federal Superfund law or its state or foreign equivalents, we have identified contamination at several of our current and former facilities, and we have incurred and will continue to incur costs to investigate, remediate, monitor and clean up these conditions. Moreover, we may incur liabilities in connection with environmental conditions currently unknown to us relating to our prior, existing or future owned or leased sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired. We believe that indemnities contained in certain of our acquisition agreements may cover certain environmental conditions existing at the time of the acquisition subject to certain terms, limitations and conditions. However, if these indemnification provisions terminate or if the indemnifying parties do not fulfill their indemnification obligations, we may be subject to liability with respect to the environmental matters that those indemnification provisions address.

Certain governments at the international, national, regional and state level are at various stages of considering or implementing treaties and environmental laws that could limit emissions of greenhouse gases, including carbon dioxide, associated with the burning of fossil fuels. For instance, in September 2016, 175 countries ratified the Paris Agreement, which requires member countries to review and determine their respective goals towards reducing greenhouse gas emissions. Certain states and regions have also adopted or are considering environmental laws that impose overall caps or taxes on greenhouse gas emissions from certain sectors or facility categories or mandate the increased use of electricity from renewable energy sources. It is not possible to predict how new environmental laws to address greenhouse gas emissions would impact our business or that of our customers, but these laws and regulations could impose costs on us or negatively impact the market for the products we distribute and, consequently, our business. Even so, the U.S. Energy Information Administration in its International Energy Outlook Report 2017 continues to project, in its reference case, increases in world energy consumption for oil and gas through 2040 despite these and other efforts to reduce consumption of fossil fuels.

In addition, the U.S. Environmental Protection Agency (“EPA”) has implemented regulations that require permits for and reductions in greenhouse gas emissions for certain categories of emission sources, including (among others) New Source Performance Standards for new power plants and emission guidelines for existing power plants (commonly known as the “Clean Power Plan”). In anticipation of and in response to these regulations, United States electric

producers have been switching from coal to natural gas as a cleaner burning fuel source. This replacement of natural gas for coal has benefitted our business as our customers include natural gas producers. There have been various court challenges and proposed regulatory changes to these EPA regulations. Even so, switching from coal to natural gas has continued, in part, driven by low natural gas prices as well as continued regulatory uncertainty regarding coal emissions.

Also, federal, state, local, foreign and provincial governments have adopted, or are considering the adoption of, environmental laws that could impose more stringent permitting; disclosure; wastewater and other waste disposal; greenhouse gas, ethane or volatile organic compound control, leak detection and repair requirements; and well construction and testing requirements on our customers' hydraulic fracturing.

Environmental laws applicable to our business and the business of our customers, including environmental laws regulating the energy industry, and the interpretation or enforcement of these environmental laws, are constantly evolving; it is impossible to predict accurately the effect that changes in these environmental laws, or their interpretation or enforcement, may have upon our business, financial condition or results of operations. Should environmental laws, or their interpretation or enforcement, become more stringent,

our costs, or the costs of our customers, could increase, which may have a material adverse effect on our business, financial position, results of operations or cash flows.

#### Exchange Rate Information

In this report, unless otherwise indicated, foreign currency amounts are converted into U.S. dollar amounts at the exchange rates in effect on December 31, 2017 and 2016 for balance sheet figures. Income statement figures are converted on a monthly basis, using each month's average conversion rate.

#### Available Information

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

## ITEM 1A. RISK FACTORS

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

### Risks Related to Our Business

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

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

Volatile oil and gas prices affect demand for our products.

As evidenced by the decline of oil prices from late 2014 through 2016, prices for oil and natural gas are cyclical and subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of other factors that are beyond our control. Any sustained decrease in capital expenditures in the oil and natural gas industry could have a material adverse effect on us.

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

- the level of domestic and worldwide oil and natural gas production and inventories;
- the level of drilling activity and the availability of attractive oil and natural gas field prospects, which governmental actions may affect, such as regulatory actions or legislation, or other restrictions on drilling, including those related to environmental concerns;
- the discovery rate of new oil and natural gas reserves and the expected cost of developing new reserves;
- the actual cost of finding and producing oil and natural gas;
- depletion rates;
- domestic and worldwide refinery overcapacity or undercapacity and utilization rates;
- the availability of transportation infrastructure and refining capacity;
- increases in the cost of products and services that the oil and gas industry uses, such as those that we provide, which may result from increases in the cost of raw materials such as steel;
- shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- the economic or political attractiveness of alternative fuels, such as coal, hydrocarbon, wind, solar energy and biomass-based fuels;

- increases in oil and natural gas prices or historically high oil and natural gas prices, which could lower demand for oil and natural gas products;
- worldwide economic activity including growth in non-OECD countries, including (among others) China and India;
- interest rates and the cost of capital;
- national government policies, including government policies that could nationalize or expropriate oil and natural gas exploration, production, refining or transportation assets;
- the ability of the Organization of Petroleum Exporting Countries (“OPEC”) along with other countries, such as Russia, to set and maintain production levels and prices for oil;
- the impact of armed hostilities, or the threat or perception of armed hostilities;

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

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

General economic conditions may adversely affect our business.

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

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

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

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

Historically, users of PVF and related products have purchased certain amounts of these products through distributors and not directly from manufacturers. If customers were to purchase the products that we sell directly from manufacturers, or if manufacturers sought to increase their efforts to sell directly to end users, we could experience a significant decrease in profitability. These or other developments that remove us from, or limit our role in, the distribution chain, may harm our competitive position in the marketplace, reduce our sales and earnings and adversely affect our business.

We may experience unexpected supply shortages.

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

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

In the future, we may face supply cost increases due to, among other things, unexpected increases in demand for supplies, decreases in production of supplies, increases in the cost of raw materials, transportation, changes in exchange rates or the imposition of import taxes or tariff on imported products. Any inability to pass supply price increases on to our customers could have a material adverse effect on us. For example, we may be unable to pass increased supply costs on to our customers because significant amounts of our

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

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

Given the nature of our business, and consistent with industry practice, we do not have contracts with most of our suppliers. We generally make our purchases through purchase orders. Therefore, most of our suppliers have the ability to terminate their relationships with us at any time. Approximately 43% of our total purchases during the year ended December 31, 2017 were from our 25 largest suppliers. Although we believe there are numerous manufacturers with the capacity to supply the products we distribute, the loss of one or more of our major suppliers could have an adverse effect on our product offerings and our business. Such a loss would require us to rely more heavily on our other existing suppliers or develop relationships with new suppliers, which may cause us to pay higher prices for products due to, among other things, a loss of volume discount benefits currently obtained from our major suppliers.

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

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

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

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

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

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



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

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

Given the nature of our business, and consistent with industry practice, we do not have long-term contracts with many of our customers. In addition, our contracts, including our maintenance, repair and operations (“MRO”) contracts, generally do not commit our customers to any minimum purchase volume. Therefore, a significant number of our customers, including our MRO customers, may terminate their relationships with us or reduce their purchasing volume at any time. Furthermore, the long-term customer contracts that we do have are generally terminable without cause on short notice. Our 25 largest customers represented approximately 53% of our sales for the year ended December 31, 2017. The products that we may sell to any particular customer depend in large part on the size of that customer’s capital expenditure budget in a particular year and on the results of competitive bids for major projects. Consequently, a customer that accounts for a significant portion of our sales in one fiscal year may represent an immaterial portion of our sales in subsequent fiscal years. The loss of a significant customer, or a substantial decrease in a significant customer’s orders, may have an adverse effect on our sales and revenue. In addition, we are subject to customer audit clauses in many of our multi-year contracts. If we are not able to provide the proper documentation or support for invoices per the contract terms, we may be subject to negotiated settlements with our major customers.

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

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

Customer credit risks could result in losses.

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

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

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

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

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

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

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

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

We have now and will likely continue to have indebtedness. As of December 31, 2017, we had total debt outstanding of \$526 million and excess availability of \$437 million under our credit facilities. We may incur significant additional indebtedness in the future. If new indebtedness is added to our current indebtedness, the risks described below could increase. Our significant level of indebtedness could have important consequences, such as:

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

In addition, borrowings under our credit facilities bear interest at variable rates. If market interest rates increase, the variable-rate debt will create higher debt service requirements, which could adversely affect our cash flow. Our interest expense for the year ended December 31, 2017 was \$31 million.

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

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

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

In addition, any defaults under our credit facilities, including our global asset-based lending facility ("Global ABL Facility"), our senior secured term loan B ("Term Loan") or our other debt could trigger cross defaults under other or future credit agreements and may permit acceleration of our other indebtedness. If our indebtedness is accelerated, we

cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. For a description of our credit facilities and indebtedness, see “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources”.

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

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

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

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

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

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

If tariffs and duties on imports into the U.S. of certain of the products that we sell are lifted or imposed, we could have too many of these products in inventory competing against less expensive imports or conversely pay higher prices for products that we sell.

U.S. law currently imposes tariffs and duties on imports from certain foreign countries of line pipe and, to a lesser extent, on imports of certain other products that we sell. If these tariffs and duties are lifted or reduced or if the level of these imported products otherwise increase, and our U.S. customers accept these imported products, we could be materially and adversely affected to the extent that we would then have higher-cost products in our inventory or experience lower prices and margins due to increased supplies of these products that could drive down prices and margins. If prices of these products were to decrease significantly, we might not be able to profitably sell these products, and the value of our inventory would decline. In addition, significant price decreases could result in a significantly longer holding period for some of our inventory. Conversely, if tariffs and duties are imposed on imports from certain foreign countries of products that we sell, we could be required to pay higher prices for our products. Demand for the products we distribute, the actions of our competitors and other factors will influence whether we will be able to pass on additional cost increases to our customers, and we may be unsuccessful in doing so.

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

We are subject to a variety of federal, state, local, foreign and provincial environmental, health and safety laws, regulations and permitting requirements (collectively, "environmental laws"), including those governing the following:

- the discharge of pollutants or hazardous substances into the air, soil or water;
- the generation, handling, use, management, storage and disposal of, or exposure to, hazardous substances and wastes;
  - the responsibility to investigate, remediate, monitor and clean up contamination and
- occupational health and safety.

Our failure to comply with applicable environmental laws could result in fines, penalties, enforcement actions, employee, neighbor or other third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Certain environmental laws, such as the U.S. federal Superfund law or its state or foreign equivalents, may impose the obligation to investigate, remediate, monitor and clean up contamination at a facility on current and former owners, lessees or operators or on persons who may have sent waste to that facility for disposal. These environmental laws may impose liability without regard to fault or to the legality of the activities giving rise to the contamination. Although we are not aware of any active litigation against us under the U.S. federal Superfund law or its state or foreign equivalents, we have identified contamination at several of our current and former facilities, and we have incurred and will continue to incur costs to investigate, remediate, monitor and clean up these conditions. Moreover, we may incur liabilities in connection with environmental conditions currently unknown to us relating to our prior, existing or future owned or leased sites or operations or those of predecessor companies whose liabilities we may have assumed

or acquired. We believe that indemnities contained in certain of our acquisition agreements may cover certain environmental conditions existing at the time of the acquisition subject to certain terms, limitations and conditions. However, if these indemnification provisions terminate or if the indemnifying parties do not fulfill their indemnification obligations, we may be subject to liability with respect to the environmental matters that those indemnification provisions address. Although our responsibility for the clean-up of contamination or pollution to date has not been material, were there to be a significant release of contamination or pollution related to our operations, our obligation to clean up that contamination or pollution could have a material adverse effect on our business, financial position, results of operations or cash flows.

Certain governments at the international, national, regional and state level are at various stages of considering or implementing treaties and environmental laws that could limit emissions of greenhouse gases, including carbon dioxide, associated with the burning of fossil fuels. It is not possible to predict how new environmental laws to address greenhouse gas emissions would impact our business or that of our customers, but these laws and regulations could impose costs on us or negatively impact the market for the products we distribute and, consequently, our business.

In addition, federal, state, local, foreign and provincial governments have adopted, or are considering the adoption of, environmental laws that could impose more stringent permitting; disclosure; wastewater and other waste disposal; greenhouse gas, ethane or volatile organic compound control, leak detection and repair requirements; and well construction and testing requirements on our customers' hydraulic fracturing.

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

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

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

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



various objections and exceptions to coverage that could make uncertain the timing and amount of any possible insurance recovery. Finally, while we may have insurance coverage, we cannot guarantee that the insurance carrier will have the financial wherewithal to pay a claim otherwise covered by insurance, and as a result we may be responsible for any such claims.

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

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

coverage for all liabilities (including but not limited to liability for certain events involving pollution or other environmental claims). Our insurance does not cover damages from breach of contract by us or based on alleged fraud or deceptive trade practices.

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

We are a defendant in lawsuits involving approximately 1,153 claims, arising from exposure to asbestos-containing materials included in products that we distributed in the past. Each claim involves allegations of exposure to asbestos-containing materials by a single individual, his or her spouse or family members. The complaints in these lawsuits typically name many other defendants. In the majority of these lawsuits, little or no information is known regarding the nature of the plaintiffs' alleged injuries or their connection with the products we distributed. Based on our experience with asbestos litigation to date, as well as the existence of certain insurance coverage, we do not believe that the outcome of these pending claims will have a material impact on us. However, the potential liability associated with asbestos claims is subject to many uncertainties, including negative trends with respect to settlement payments, dismissal rates and the types of medical conditions alleged in pending or future claims, negative developments in the claims pending against us, the current or future insolvency of co-defendants, adverse changes in relevant laws or the interpretation of those laws and the extent to which insurance will be available to pay for defense costs, judgments or settlements. Further, while we anticipate that additional claims will be filed against us in the future, we are unable to predict with any certainty the number, timing and magnitude of future claims. Therefore, we can give no assurance that pending or future asbestos litigation will not ultimately have a material adverse effect on us. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations, Commitments and Contingencies—Legal Proceedings" and "Item 3—Legal Proceedings" for more information.

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

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

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

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

theft of proprietary Company information.

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

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Our three primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our Company's reputation and image and private data exposure. We have implemented hardware and software solutions, processes, training and procedures to help mitigate this risk, but these measures, as well as our organization's increased awareness of our risk of a cyber incident, do not guarantee that our financial results and operations will not be negatively impacted by such an incident. While we also have some insurance to protect against the financial damage that a cyber incident could cause, there can be no guarantee that the insurance would be adequate for every type of incident to protect against the financial damages that could occur. In some incidents, the Company may be required to shut off its

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computer systems, reboot them and reestablish its information from back up tapes. In other incidents, the Company may be required under various laws to notify any third parties whose data has been compromised. These incidents can adversely affect us.

Among others, cyber incidents could include the following:

- Denial of service attacks, whereby third parties attempt to slow down or shut down our computer systems by overloading information interfaces, which in turn, could interrupt our operations.
- Computer virus software that infects our computer systems to either allow third parties unauthorized access to private, confidential data or denies the Company access from its own information, often for the attacker's financial gain by demanding a ransom.
- Theft of private information. An unauthorized disclosure of sensitive or confidential supplier, customer or Company information or employee information could cause a theft or unwanted disclosure of data.
- E-mail or other forms of spoofing or "phishing" whereby third parties attempt to trick or induce employees to provide private information, such as passwords, social security numbers or other identifying information, to allow the third party to fraudulently attempt to invoice the Company or gain access to the Company's computer systems.
- Intrusion into payment systems. The Company does not generally accept credit cards for payment as most of its customers are industrial and energy companies who provide payment through invoicing processes. Even so, a portion of our payment methods also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems.
- Supplier or customer cyber incidents. Our suppliers and customers also rely upon computer information systems to operate their respective businesses. If any of them experience a cyber incident, this could adversely impact their operations. Suppliers could delay providing product to us for our distribution to our customers. Customers, especially those who do business with us through electronic data interchanges, could be negatively impacted by cyber incidents applicable to them, which, could slow order processing from them or payments to us.
- Cyber incidents applicable to outsourced information systems. We outsource the operations of a significant portion of our computer information systems to third party service providers, which store our information on hosted or cloud systems. Although we review their security precautions with them and attempt to hold them contractually responsible for cyber incidents applicable to our information on their systems, there can be no assurance that these vendors will maintain adequate security to stop an incident, inform us of an incident in a timely manner or perform as required in the their agreements.

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

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

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

We may require more capital in the future to:

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

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

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

Certain areas in which we operate have been susceptible to more frequent and more severe weather events, such as hurricanes, tornadoes, and floods and to natural disasters such as earthquakes. These events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Additionally, we may experience communication

disruptions with our customers, vendors and employees. These events can cause physical damage to our branches and require us to close branches. Additionally, our sales order backlog and shipments can experience a temporary decline immediately following these events.

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

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

As of December 31, 2017, we had \$854 million of goodwill and other intangibles recorded on our consolidated balance sheet. A substantial portion of these intangible assets results from our use of purchase accounting in connection with the acquisitions we have made over the past several years. In accordance with the purchase accounting method, the excess of the cost of an acquisition over the fair value of identifiable tangible and intangible assets is assigned to goodwill. The amortization expense associated with our identifiable intangible assets will have a negative effect on our future reported earnings. Many other companies, including many of our competitors, may not have the significant acquired intangible assets that we have because they may not have participated in recent acquisitions and business combination transactions similar to ours. Thus, the amortization of identifiable intangible assets may not negatively affect their reported earnings to the same degree as ours.

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

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

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

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

sanctions.

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

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

Doing business on a worldwide basis requires us to comply with the laws and regulations of the U.S. government and various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners and investment decisions. In particular, our operations are subject to U.S. and foreign anti-corruption and trade control laws and regulations, such as the Foreign Corrupt Practices Act (“FCPA”), export controls and economic sanctions programs, including those administered by the U.S. Treasury

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Department's Office of Foreign Assets Control ("OFAC"). As a result of doing business in foreign countries and with foreign partners, we are exposed to a heightened risk of violating anti-corruption and trade control laws and sanctions regulations.

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

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

Violations of anti-corruption and trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have established policies and procedures designed to assist our compliance with applicable U.S. and international anti-corruption and trade control laws and regulations, including the FCPA, the Bribery Act and trade controls and sanctions programs that OFAC administers, and have trained our employees to comply with these laws and regulations. However, there can be no assurance that all of our employees, consultants, agents or other associated persons will not take actions in violation of our policies and these laws and regulations, and that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our local, strategic or joint venture partners take inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could have a material adverse effect on our reputation, business, financial condition and results of operations. In addition, various state and municipal governments, universities and other investors maintain prohibitions or restrictions on investments in companies that do business with sanctioned countries, persons and entities, which could adversely affect the market for our common stock and other securities.

We face risks associated with international instability and geopolitical developments.

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

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

Section 404 of the Sarbanes-Oxley Act requires us to annually evaluate our internal controls systems over financial reporting. This is not a static process as we may change our processes each year or acquire new companies that have different controls than our existing controls. Upon completion of this process each year, we may identify control deficiencies of varying degrees of severity under applicable U.S. Securities and Exchange Commission ("SEC") and



Public Company Accounting Oversight Board (“PCAOB”) rules and regulations that remain unremediated. We are required to report, among other things, control deficiencies that constitute a “material weakness” or changes in internal controls that, or that are reasonably likely to, materially affect internal controls over financial reporting. A “material weakness” is a significant deficiency or combination of significant deficiencies in internal control over financial reporting that results in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

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

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

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

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

We have operations in the U.S. and in 21 countries. Expected and unexpected changes in the business and legal environments in the countries in which we operate can impact us. Compliance with and changes in laws, regulations and other legal and business issues could impact our ability to manage our costs and to meet our earnings goals. Compliance related matters could also limit our ability to do business in certain countries. Changes that could have a significant cost to us include new legislation, new regulations, or a differing interpretation of existing laws and regulations, changes in tax law or tax rates, the unfavorable resolution of tax assessments or audits by various taxing authorities, changes in trade and other treaties that lead to differing tariffs and trade rules, the expansion of currency exchange controls, export controls or additional restrictions on doing business in countries subject to sanctions in which we operate or intend to operate. For instance, we have provisionally accounted for changes from the recently enacted U.S. Tax Cuts and Jobs Act of 2017; however, this provisional accounting is subject to change based on our continued assessment of the impact of the law and any changes by the U.S. Internal Revenue Service and Treasury Department on the interpretation and application of the law. Similarly, the European Union and its constituent countries have recently implemented the General Data Protection Regulation, which is applicable to certain European countries in which we operate. Changing law and regulation can impact our operations and adversely affect us.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

#### ITEM 2. PROPERTIES

In North America, we operate a hub and spoke model that is centered around our 10 distribution centers in the U.S. and Canada with 127 branch locations which have inventory and local employees and house 14 valve and engineering service centers. Our U.S. network is comprised of 102 branch locations and nine distribution centers. We own our Charleston, WV corporate office and our Nitro, WV and our Houston, TX (Darien Street) distribution centers and lease the remaining seven distribution centers. In Canada, we have 25 branch locations and we own our one distribution center in Nisku, Alberta, Canada. We own less than 10% of our branch locations as we primarily lease the facilities.

Outside North America, we operate through a network of 50 branch locations located throughout Europe, Asia, Australasia, the Middle East and Caspian, including six distribution centers in the United Kingdom, Norway, Singapore, the Netherlands, the United Arab Emirates and Australia. Thirteen valve and engineering service centers are housed within our distribution centers and branch locations. We own our Brussels, Belgium location, and the remainder of our locations are leased.

Our Company maintains its principal executive office at 1301 McKinney Street, Suite 2300, Houston, Texas, 77010 and also maintains a corporate office in Charleston, West Virginia. These locations have corporate functions such as executive management, accounting, human resources, legal, marketing, supply chain management, business development and information technology.

ITEM 3.LEGAL PROCEEDINGS

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

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

ultimate disposition of these claims and proceedings are not expected to have a material adverse effect on our financial position, results of operations or cash flows.

For information regarding asbestos cases in which we are a defendant and other claims and proceedings, see “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations, Commitments and Contingencies—Legal Proceedings” and “Note 16—Commitments and Contingencies” to our audited consolidated financial statements included elsewhere in this report.

#### ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, period of service and the title of each of our executive officers as of February 16, 2018 are listed below.

Andrew R. Lane, age 58, has served as our president and chief executive officer (“CEO”) since September 2008. He has also served as a director of MRC Global Inc. since September 2008 and was chairman of the board from December 2009 to April 2016. From December 2004 to December 2007, he served as executive vice president and chief operating officer of Halliburton Company, where he was responsible for Halliburton’s overall operational performance. Prior to that, he held a variety of leadership roles within Halliburton. Mr. Lane received a B.S. in mechanical engineering from Southern Methodist University in 1981 (cum laude). He also completed the Advanced Management Program (“A.M.P.”) at Harvard Business School in 2000.

James E. Braun, age 58, has served as our executive vice president and chief financial officer since November 2011. Prior to joining the Company, Mr. Braun served as chief financial officer of Newpark Resources, Inc. since 2006. Newpark provides drilling fluids and other products and services to the oil and gas exploration and production industry, both inside and outside of the U.S. Before joining Newpark, Mr. Braun was chief financial officer of Baker Oil Tools, one of the largest divisions of Baker Hughes Incorporated, a leading provider of drilling, formation evaluation, completion and production products and services to the worldwide oil and gas industry. From 1998 until 2002, he was vice president, finance and administration of Baker Petrolite, the oilfield specialty chemical business division of Baker Hughes. Previously, he served as vice president and controller of Baker Hughes. Mr. Braun is a CPA and was formerly a partner with Deloitte & Touche. Mr. Braun received a B.A. in accounting from the University of Illinois at Urbana-Champaign.

Daniel J. Churay, age 55, has served as our executive vice president – corporate affairs, general counsel and corporate secretary since May 2012. In his current role, Mr. Churay manages the Company’s human resources, legal, risk and compliance, external and government affairs and certain shared services functions. He also acts as corporate secretary to the Company’s board of directors. Prior to May 2012, Mr. Churay served as executive vice president and general counsel since August 2011 and as our corporate secretary since November 2011. From December 2010 to June 2011, he served as president and CEO of Rex Energy Corporation, an independent oil and gas company. From September 2002 to December 2010, Mr. Churay served as executive vice president, general counsel and secretary of YRC Worldwide Inc., a transportation and logistics company. Mr. Churay received a bachelor’s degree in economics from the University of Texas and a juris doctorate from the University of Houston Law Center, where he was a member of the Law Review.

Steinar Aasland, age 52, is our senior vice president of international operations since August 2015. Prior to that role, he served as our senior vice president – Europe since April 2014. Before that, he was the CEO of Stream AS, which was acquired by MRC Global in 2014, and was responsible for all business activities of its three subsidiaries, Teamtrade, Solberg & Andersen and Energy Piping. Mr. Aasland has more than 20 years of executive management experience in the PVF industry. Mr. Aasland currently serves as the Chairman of the Board for the Stavanger Chamber of Commerce. He is a mechanical engineer and holds a masters degree in strategy and management from BI

Norwegian Business School.

Grant Bates, age 46, is our senior vice president of operational excellence and chief information officer since April 2016. In this role, he is responsible for our global quality, safety, health and environment (QHSE) and our transportation, warehouse operations, business processes and customer implementation teams and information systems. Mr. Bates previously led our Canada region since March 2014 and served as regional vice president of the Australasian region since March 2012. Mr. Bates joined MRC Global in March 2012 through the acquisition of OneSteel Piping Systems. Prior to the acquisition, Mr. Bates served as the National Manager of OneSteel Piping Systems. He has more than a decade of experience in manufacturing and distribution in a variety of management roles, including several years as a business analyst and consulting engineer. Mr. Bates holds a B.E. in mechanical engineering from the University of Newcastle, a graduate diploma in management and a master of business administration from Deakin University.

John L. Bowhay, age 52, is our senior vice president – supply chain management, valve and technical product sales since August 2015. He previously served as senior vice president of Asia Pacific and Middle East operations since August 2014. Before that, Mr. Bowhay served as vice president of European operations since August 2013. Prior to this role, Mr. Bowhay served as the managing director for our United Kingdom operations and prior to that role, he was the vice president of sales in the U.K. He brings more than 31 years of industry experience and valve expertise to the MRC Global team. Mr. Bowhay attended the London Business School.

G. Tod Moss, age 56, is our senior vice president of U.S. Western Region and Canada operations since April 2016. Since 2001, Mr. Moss has held multiple operational leadership positions at our Company. He has been involved in opening and expanding many of our service locations in the Rockies, Alaska and North Dakota, as well as our Cheyenne, Tulsa, Odessa and Bakersfield regional distribution centers. Prior to these roles, Mr. Moss was the branch manager in Salt Lake City, Utah from 1993 – 2001, and served as assistant product manager of tubular products from 1991-1993. His early career included various field positions including inside sales, outside sales and responsibility for coordinating the line pipe sales and inventory level in the Western U.S. Mr. Moss began with Vinson Supply in 1984, which was later acquired by Red Man Pipe & Supply (a predecessor to the Company). Over the course of his

career, he has been involved in integrating the key acquisitions of Wesco Equipment, Dresser Oil Tools and Chaparral Supply. Mr. Moss attended the University of Utah.

Robert W. Stein, age 59, is our senior vice president of business development since April 2016. He previously led our downstream and integrated supply teams. Prior to that, Mr. Stein led our U.S. Southwestern region operations. He has been part of MRC Global since 1984 and has served in a variety of roles including regional and branch management, downstream business development, project services and integrated supply. Mr. Stein received a B.B.A. in business management from Sam Houston State University.

Karl W. Witt, age, 57, is our senior vice president of U.S. Eastern Region and Gulf Coast operations since April 2016. Prior to that, he served in a variety of roles including seven years as regional vice president of the Eastern region and seven years as regional vice president of the Midwest sub-region as well as warehouse manager, outside sales representative, branch manager and vice president of operations with Joliet Valves, which was acquired by McJunkin Red Man Corporation (a predecessor to the Company) in 2001. Mr. Witt attended South Suburban College in Chicago.

Elton Bond, age 42, has served as our senior vice president and chief accounting officer since May 2011. From September 2009 to May 2011, he served as senior vice president and treasurer. Prior to that, he served as vice president of finance and compliance since December 2008. Before that, Mr. Bond was the director of finance and compliance since January 2007. He started his career with MRC Global as the acquisition development manager in April 2006. Prior to joining MRC Global, Mr. Bond was employed with Ernst & Young LLP from 1997 to 2006, serving in a variety of roles, including senior manager of assurance and advisory business services. Mr. Bond received a B.B.A. from Marshall University in 1997. He is a member of the American Institute of Certified Public Accountants and a member of the West Virginia Society of CPAs.

## PART II

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

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

	2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock sale price				
High	\$ 22.26	\$ 20.77	\$ 17.57	\$ 18.51
Low	\$ 17.04	\$ 14.78	\$ 15.30	\$ 14.01
	2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	\$ 15.14	\$ 15.34	\$ 16.50	\$ 22.52
Low	\$ 8.50	\$ 12.65	\$ 11.50	\$ 13.68

As of February 9, 2018, there were 294 holders of record of the Company's common stock.

Our board of directors has not declared any dividends on common stock during 2017 or 2016 and currently has no intention to declare any dividends.

The Company's Global ABL Facility, Term Loan and our 6.5% Series A Convertible Perpetual Preferred Stock restrict our ability to declare cash dividends under certain circumstances. Any future dividends declared would be at the discretion of our board of directors and would depend on our financial condition, results of operations, cash flows, contractual obligations, the terms of our financing agreements at the time a dividend is considered, and other relevant factors.

#### Issuer Purchases of Securities

A summary of our purchases of MRC Global Inc. common stock during the fourth 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 (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 -				
October 31	-	\$ -	-	\$ 100,000,000
November 1 -				
November 30	1,832,337	\$ 15.20	1,832,337	\$ 72,155,809
December 1 -				
December 31	1,382,603 3,214,940	\$ 16.07	1,381,979	\$ 49,949,393

(1) We purchased 624 shares in connection with funding employee income tax withholding obligations arising upon the lapse of restrictions on restricted shares.

(2) We purchased 3,214,316 shares during the period as part of a share repurchase program authorized by the Company's board in October 2017. The plan allows for purchases of common stock up to \$100 million and is scheduled to expire in December 2018.

## PERFORMANCE GRAPH

The graph below compares the cumulative total shareholder return on our common stock to the S&P 500 Index and the Oil Service Sector Index. The total shareholder return assumes \$100 invested on December 31, 2012, in MRC Global Inc., the S&P 500 Index and the Oil Service Sector Index. It also assumes reinvestment of all dividends. The results shown in the graph below are not necessarily indicative of future performance.

### Comparison of Cumulative Total Return

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

## ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in millions, except per share amounts)				
Statement of Operations Data:					
Sales	\$ 3,646	\$ 3,041	\$ 4,529	\$ 5,933	\$ 5,231
Cost of sales	3,064	2,573	3,743	4,915	4,276
Gross profit	582	468	786	1,018	955
Selling, general and administrative expenses	536	524	606	716	643
Goodwill and intangible asset impairment	-	-	462	-	-
Operating income (loss)	46	(56)	(282)	302	312
Other expenses:					
Interest expense	(31)	(35)	(48)	(62)	(61)
Other, net	(8)	-	(12)	(14)	(14)
Income (loss) before income taxes	7	(91)	(342)	226	237
Income tax (benefit) expense	(43)	(8)	(11)	82	85
Net income (loss)	50	(83)	(331)	144	152
Series A preferred stock dividends	24	24	13	-	-
Net income (loss) attributable to common stockholders	\$ 26	\$ (107)	\$ (344)	\$ 144	\$ 152
Earnings (loss) per share amounts:					
Basic	\$ 0.28	\$ (1.10)	\$ (3.38)	\$ 1.41	\$ 1.50
Diluted	\$ 0.27	\$ (1.10)	\$ (3.38)	\$ 1.40	\$ 1.48
Weighted-average shares, basic	94.3	97.3	102.1	102.0	101.7
Weighted-average shares, diluted	95.6	97.3	102.1	102.8	102.5
Dividends (common)	-	-	-	-	-

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:					
Cash	\$ 48	\$ 109	\$ 69	\$ 25	\$ 25
Working capital (1)	756	684	960	1,504	1,084
Total assets	2,340	2,164	2,497	3,869	3,327
Long-term debt (2)	526	414	519	1,447	978
Redeemable preferred stock	355	355	355	-	-
Stockholders' equity	759	763	956	1,397	1,338

Year Ended December 31,  
2017 2016 2015 2014 2013

Other Financial Data:

Net cash flow:

Operating activities	\$ (48)	\$ 253	\$ 690	\$ (106)	\$ 324
Investing activities	(27)	16	(41)	(362)	(69)
Financing activities	9	(226)	(599)	467	(265)

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

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

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under “Cautionary Note Regarding Forward-Looking Statements” and “Item 1A—Risk Factors” and elsewhere in this report.

### Cautionary Note Regarding Forward-Looking Statements

Management’s Discussion and Analysis of Financial Condition and Results of Operations (as well as other sections of this Annual Report on Form 10-K) contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include those preceded by, followed by or including the words “will,” “expect,” “intended,” “anticipated,” “believe,” “project,” “forecast,” “propose,” “plan,” “estimate,” “enable,” and other expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in the oil and natural gas industry. These forward-looking statements are not guarantees of future performance. These statements are based on management’s expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, most of which are difficult to predict and many of which are beyond our control, including the factors described under “Item 1A - Risk Factors,” that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Such risks and uncertainties include, among other things:

- decreases in oil and natural gas prices;
- decreases in oil and natural gas industry expenditure levels, which may result from decreased oil and natural gas prices or other factors;
- increased usage of alternative fuels, which may negatively affect oil and natural gas industry expenditure levels;
  - U.S. and international general economic conditions;
- our ability to compete successfully with other companies in our industry;
- the risk that manufacturers of the products we distribute will sell a substantial amount of goods directly to end users in the industry sectors we serve;
- unexpected supply shortages;
- cost increases by our suppliers;
- our lack of long-term contracts with most of our suppliers;
- suppliers’ price reductions of products that we sell, which could cause the value of our inventory to decline;
- decreases in steel prices, which could significantly lower our profit;
- increases in steel prices, which we may be unable to pass along to our customers which could significantly lower our profit;
- our lack of long-term contracts with many of our customers and our lack of contracts with customers that require minimum purchase volumes;
- changes in our customer and product mix;
- risks related to our customers’ creditworthiness;
- the success of our acquisition strategies;
- the potential adverse effects associated with integrating acquisitions into our business and whether these acquisitions will yield their intended benefits;

- our significant indebtedness;
- the dependence on our subsidiaries for cash to meet our obligations;
- changes in our credit profile;
- a decline in demand for certain of the products we distribute if import restrictions on these products are lifted;
- environmental, health and safety laws and regulations and the interpretation or implementation thereof;

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- 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;
- our intention not to pay dividends; and
- risks related to changing laws and regulations.

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 approximately 12,000 suppliers to our more than 16,000 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 revenue is predominantly derived from the sale of PVF and other oilfield and industrial supplies to the energy sector globally. Our business is, therefore, dependent upon both the current conditions and future prospects in the energy industry and, in particular, maintenance and expansionary operating and capital expenditures by our customers in the upstream, midstream and downstream sectors of the industry. Long-term growth in spending has been driven by several factors, including demand growth for petroleum and petroleum derived products, underinvestment in global energy infrastructure, growth in shale and unconventional exploration and production (“E&P”) activity, and anticipated strength in the oil, natural gas, refined products and petrochemical sectors. The outlook





for future oil, natural gas, refined products and petrochemical PVF spending is influenced by numerous factors, including the following:

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

#### Recent Trends and Outlook

During 2017, the average oil price of West Texas Intermediate (“WTI”) increased to \$50.80 per barrel compared to \$43.29 per barrel in 2016. Natural gas prices increased to an average price of \$2.99/Mcf (Henry Hub) for 2017 compared to \$2.52/Mcf (Henry Hub) for 2016. North American drilling rig activity increased 69% in 2017 compared to 2016. U.S. well completions were up 41% in 2017 as compared to 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 the initial 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 capital spending by our customers in each of our end market sectors, which directly impacted our business. Major capital projects and discretionary spending were negatively impacted as customers were reluctant to invest or spend in an uncertain oil and gas commodity price environment. However, our business rebounded with 20% sales growth in 2017, and we remain encouraged by stability in oil prices and sustained growth in drilling and completion activity. Prominent exploration and production (“E&P”) spending surveys, which include many of our customers, indicate that 2018 spending will increase by high single digits globally including double digit growth in North America combined with more modest growth internationally. In addition, a more favorable regulatory environment in 2017 as a result of the new Presidential administration in the United States, has benefited our business, particularly in the midstream sector. And our domestic downstream sector has benefitted from the improved access to and stability in pricing of the necessary feedstocks available from increased, and in some cases, new upstream production. We expect these favorable business trends to continue into 2018.

Our international segment has seen customer spending continue to decline, even as the U.S. and Canadian segment sales have increased from improved spending by our customer base in 2017. We took actions in 2016 to reduce our international footprint and cost structure and yet we have been unable to return to profitability. As such, we took further action in the fourth quarter of 2017 to reduce our headcount and cost structure in the international segment, particularly in Norway. As a result of these actions in the fourth quarter of 2017, we recorded \$20 million of charges, including \$14 million of severance and restructuring costs and a \$6 million write-down of inventory associated with a decision to reduce our local presence in Iraq.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was enacted. Among the significant changes to the U.S. Internal Revenue Code, the Tax Act reduced the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018 and created a new dividend-exemption territorial system with a one-time transition tax on foreign earnings which were previously not taxed in the U.S. The Tax Act also imposes a new base erosion and anti-abuse tax ("BEAT") and global intangible low-taxed income ("GILTI") tax, and places new or additional limitations on the deductibility of executive compensation and interest expense. As a result of this enacted change in tax laws, we recorded a provisional net tax benefit of \$50 million in the fourth quarter of 2017. The

provisional tax benefit of \$50 million includes a \$57 million non-cash benefit related to the re-measurement of deferred income taxes offset by a \$7 million transition tax expense which will be paid over a period of eight years. We are still analyzing the full impact of the Tax Act and any refinements of our estimates will be reflected in income tax expense or benefit in 2018. In addition, the reduction of the U.S. corporate tax rate is expected to lower our overall effective tax rate on a go forward basis.

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):

	Year Ended December 31,		
	2017	2016	2015*
U.S.	\$ 559	\$ 472	\$ 305
Canada	40	36	34
International	233	241	161
	\$ 832	\$ 749	\$ 500

\*Amount excludes U.S. OCTG backlog \$42 million for 2015. We disposed of our U.S. OCTG product line in February 2016.

As of December 31, 2017 and 2016, respectively, approximately 14% and 28% of our ending backlog was associated with one customer in our U.S segment. In addition, approximately 14% and 10% of our ending backlog for 2017 and 2016, respectively was associated with one customer in our International segment. In each case, these are related to significant ongoing customer projects. 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 2018.

The following table shows key industry indicators for the years ended December 31, 2017, 2016 and 2015: