MCJUNKIN RED MAN HOLDING CORP
Form 424B3
November 14, 2011

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-173037

PROSPECTUS SUPPLEMENT
(To Prospectus dated July 11, 2011)

MCJUNKIN RED MAN CORPORATION
$1,050,000,000
9.50% Senior Secured Notes due December 15, 2016

Attached hereto and incorporated by reference herein is our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 14, 2011. This Prospectus Supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, dated July 11, 2011, with respect to the 9.50% Senior Secured Notes due December 15, 2016, including any amendments or supplements thereto.

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE RISK FACTORS BEGINNING ON PAGE 11 OF THE PROSPECTUS FOR A DISCUSSION OF CERTAIN FACTORS THAT YOU SHOULD CONSIDER IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus has been prepared for and will be used by Goldman, Sachs & Co. in connection with offers and sales of the notes in market-making transactions. These transactions may occur in the open market or may be privately negotiated at prices related to prevailing market prices at the time of sales or at negotiated prices. Goldman, Sachs & Co. may act as principal or agent in these transactions. We will not receive any proceeds of such sales.

GOLDMAN, SACHS & CO.

November 14, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011
Or

o **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: 333-153091
McJUNKIN RED MAN HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**20-5956993**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2 Houston Center, 909 Fannin, Suite 3100 Houston, Texas	**77010**
(Address of Principal Executive Offices)	(Zip Code)

(877) 294-7574
(Registrant s Telephone Number, including Area Code)

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

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 þ No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o

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

There is no public market for the Company s common stock. There were 168,836,000 shares of the registrant s common stock, par value $0.01 per share, issued and outstanding as of November 11, 2011.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

McJUNKIN RED MAN HOLDING CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except per share amounts)

	September 30, 2011	December 31, 2010 *Note 1*
Assets		
Current assets:		
Cash	**$ 41,447**	$ 56,202
Accounts receivable, net	**840,467**	596,404
Inventories, net	**862,170**	765,367
Income taxes receivable	**15,626**	32,593
Other current assets	**11,276**	10,209
Total current assets	**1,770,986**	1,460,775
Other assets:		
Debt issuance costs, net	**27,189**	32,211
Assets held for sale	**1,447**	12,722
Other assets	**12,226**	14,212
	40,862	59,145
Fixed assets:		
Property, plant and equipment, net	**106,090**	104,725
Intangible assets:		
Goodwill	**565,911**	549,384
Other intangible assets, net	**783,557**	817,165
	1,349,468	1,366,549
	$ 3,267,406	$ 2,991,194

Table of Contents

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2011	December 31, 2010 *Note 1*
Liabilities and stockholders equity		
Current liabilities:		
Trade accounts payable	**$ 524,554**	$ 426,632
Accrued expenses and other liabilities	**135,334**	102,807
Deferred revenue	**4,097**	18,140
Deferred income taxes	**71,140**	70,636
Total current liabilities	**735,125**	618,215
Long-term obligations:		
Long-term debt, net	**1,505,591**	1,360,241
Deferred income taxes	**289,478**	303,083
Other liabilities	**18,213**	19,897
	1,813,282	1,683,221
Stockholders equity:		
Common stock, $0.01 par value per share; 800,000 shares authorized; issued and outstanding September 30, 2011 168,836, issued and outstanding December 31, 2010 168,808	**1,688**	1,688
Preferred stock, $0.01 par value per share; 150,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	**1,279,983**	1,273,716
Retained (deficit)	**(540,367)**	(565,790)
Accumulated other comprehensive (loss)	**(22,305)**	(19,856)
	718,999	689,758
	$ 3,267,406	$ 2,991,194

See notes to condensed consolidated financial statements.

Table of Contents

McJUNKIN RED MAN HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Sales	**$ 1,366,202**	$ 1,025,455	**$ 3,526,054**	$ 2,810,642
Cost of sales	**1,165,076**	888,680	**3,005,264**	2,426,975
Gross margin	**201,126**	136,775	**520,790**	383,667
Selling, general and administrative expenses	**134,685**	115,846	**376,094**	335,300
Operating income	**66,441**	20,929	**144,696**	48,367
Other income (expense):				
Interest expense	**(34,348)**	(35,018)	**(102,372)**	(104,707)
Write off of debt issuance costs			**(9,450)**	
Change in fair value of derivative instruments	**1,768**	(1,049)	**5,260**	(6,670)
Other, net	**(821)**	601	**241**	2,765
	(33,401)	(35,466)	**(106,321)**	(108,612)
Income (Loss) before income taxes	**33,040**	(14,537)	**38,375**	(60,245)
Income tax expense (benefit)	**11,167**	(4,080)	**12,952**	(21,965)
Net income (loss)	**$ 21,873**	$ (10,457)	**$ 25,423**	$ (38,280)
Effective tax rate	**33.8%**	28.1%	**33.8%**	36.5%
Basic earnings (loss) per common share	**$ 0.13**	$ (0.07)	**$ 0.15**	$ (0.23)
Diluted earnings (loss) per common share	**$ 0.13**	$ (0.07)	**$ 0.15**	$ (0.23)
Weighted-average common shares, basic	**168,836**	168,766	**168,833**	168,762
Weighted-average common shares, diluted	**169,314**	168,766	**169,239**	168,762

See notes to condensed consolidated financial statements.

McJUNKIN RED MAN HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

(Amounts in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive (Loss)	Total Stockholders Equity
Balance at December 31, 2009	168,735	$ 1,687	$ 1,269,772	$ (514,216)	$ (13,345)	$ 743,898
Net (loss)				(38,280)		(38,280)
Foreign currency translation					(5,932)	(5,932)
Pension adjustment					41	41
Net comprehensive (loss)						(44,171)
Restricted stock vested during period	31	1				1
Equity-based compensation expense			2,368			2,368
Balance at September 30, 2010	168,766	$ 1,688	$ 1,272,140	$ (552,496)	$ (19,236)	$ 702,096
Balance at December 31, 2010	168,808	$ 1,688	$ 1,273,716	$ (565,790)	$ (19,856)	$ 689,758
Net income				**25,423**		**25,423**
Foreign currency translation					**(2,449)**	**(2,449)**
Pension adjustment						
Net comprehensive income						**22,974**
Restricted stock vested during period	**28**					
Equity-based compensation expense			**6,264**			**6,264**
Exercise of stock options			**3**			**3**
Balance at September 30, 2011	**168,836**	**$ 1,688**	**$ 1,279,983**	**$ (540,367)**	**$ (22,305)**	**$ 718,999**

See notes to condensed consolidated financial statements

Table of Contents

McJUNKIN RED MAN HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Nine Months Ended	
	September 30, 2011	September 30, 2010
Operating activities		
Net income (loss)	**$ 25,423**	$ (38,280)
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization expense	**12,819**	12,253
Amortization of intangibles	**37,799**	40,970
Equity-based compensation expense	**6,264**	2,368
Deferred income tax (benefit) expense	**(14,099)**	4,385
Amortization of debt issuance costs	**8,057**	8,849
Write off of debt issuance costs	**9,450**	
Increase in LIFO reserve	**46,000**	56,750
Change in fair value of derivative instruments	**(5,260)**	6,670
Hedge termination		(25,038)
Provision for uncollectible accounts	**733**	(1,760)
Write down of inventory		362
Nonoperating losses and other items not using cash	**3,663**	1,533
Changes in operating assets and liabilities:		
Accounts receivable	**(223,475)**	(93,168)
Inventories	**(112,100)**	14,273
Income taxes	**16,911**	(12,050)
Other current assets	**83**	1,852
Accounts payable	**78,624**	29,180
Deferred revenue	**(13,975)**	(8,029)
Accrued expenses and other current liabilities	**28,135**	26,893
Net cash (used in) provided by operations	**(94,948)**	28,013
Investing activities		
Purchases of property, plant and equipment	**(10,068)**	(11,608)
Proceeds from the disposition of property, plant and equipment	**1,511**	1,765
Acquisitions, net of cash acquired of $1,900 and $781 for 2011 and 2010, respectively	**(39,865)**	(11,939)
Proceeds from the sale of assets held for sale	**10,594**	4,048
Other investment and notes receivable transactions	**(246)**	(164)
Net cash used in investing activities	**(38,074)**	(17,898)
Financing activities		
Net advances from (payments on) revolving credit facilities	**125,708**	(56,141)
Proceeds from issuance of senior secured notes		47,897
Debt issuance costs paid	**(9,690)**	(3,858)
Proceeds from exercise of stock options	**3**	

Net cash provided by (used in) financing activities	**116,021**	(12,102)
(Decrease) in cash	**(17,001)**	(1,987)
Effect of foreign exchange rate on cash	**2,246**	274
Cash beginning of period	**56,202**	56,244
Cash end of period	**$ 41,447**	$ 54,531
Supplemental disclosures of cash flow information:		
Cash paid (received) for income taxes	**$ 8,639**	$ (13,534)
Cash paid for interest	**67,035**	69,094

See notes to condensed consolidated financial statements.

5

Table of Contents

McJUNKIN RED MAN HOLDING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2011. We have derived our condensed consolidated balance sheet as of December 31, 2010 from the audited financial statements for the year ended December 31, 2010. You should read these condensed consolidated financial statements in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010.

The condensed consolidated financial statements include the accounts of McJunkin Red Man Holding Corporation and its wholly owned and majority owned subsidiaries (collectively referred to as the Company or by such terms as we, our or us). We have eliminated all material intercompany balances and transactions in consolidation.

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

Cost of Sales: Cost of sales includes the cost of inventory sold and related items, such as vendor rebates, inventory allowances and shipping and handling costs associated with outbound freight.

Certain purchasing costs and warehousing activities (including receiving, inspection and stocking costs), as well as general warehousing expenses, are included in selling, general and administrative expenses and not in cost of sales. As such, our gross margin may not be comparable to others that may include these expenses as a component of cost of sales. Purchasing and warehousing activities costs approximated $7.4 million and $7.5 million for the three months ended September 30, 2011 and 2010, and $19.9 million and $20.3 million for the nine months ended September 30, 2011 and 2010.

Concentration of Credit Risk: Most of our business activity is with customers in the energy and industrial sectors. In the normal course of business, we grant credit to these customers in the form of trade accounts receivable. These receivables could potentially subject us to concentrations of credit risk; however, we seek to minimize this risk by monitoring extensions of trade credit. We generally do not require collateral on trade receivables.

We maintain the majority of our cash and cash equivalents with several reputable financial institutions. These financial institutions are located in many different geographical regions. Deposits held with banks may exceed deposit or account insurance limits. We believe the likelihood of loss associated with our cash and cash equivalents is remote.

We have a broad customer base doing business throughout North America, as well as internationally. During the three and nine months ended September 30, 2011 and 2010, we did not have sales to any one customer that exceeded 10% of our gross sales. At September 30, 2011 and December 31, 2010, no individual customer balance exceeded 10% of our gross accounts receivable. Accordingly, no significant concentration of customer credit risk is considered to exist.

Income Taxes: We estimate the tax that will be provided for the fiscal year stated as a percentage of income before taxes. We apply this estimated annual effective tax rate to the year-to-date income before taxes at the end of each quarter to compute the year-to-date tax. The tax effects of significant, unusual or infrequently occurring items are recognized as discrete items in the interim period in which the events occur. This quarterly determination of the annual effective tax rate is based upon a number of significant estimates and judgments, including estimating the annual income before taxes in each tax jurisdiction in which we operate.

Segment Reporting: We have two operating segments, one consisting of our North American operations, including the United States and Canada, and one consisting of our International operations, including Europe, Asia and Australasia. These segments represent our business of providing pipe, valves, fittings and related products and services to the energy and industrial sectors, across each of the upstream (exploration, production and extraction of underground oil and natural gas), midstream (gathering and transmission of oil and natural gas, natural gas utilities and the storage and distribution of oil and natural gas) and downstream (crude oil refining, petrochemical processing and general industrials) sectors, through our distribution operations located throughout the world.

Recent Accounting Pronouncements: In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU No. 2011-08), *Testing for Goodwill Impairment,* an amendment to ASC Topic 350, *Intangibles Goodwill and Other*. Under this amendment, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The guidance for public entities is effective during interim or annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We do not believe that ASU No. 2011-08 will have a material impact on our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update (ASU No. 2011-05), *Presentation of Comprehensive Income,* an amendment to ASC Topic 220, *Comprehensive Income*. Under this amendment, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholder s equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The guidance for public entities is effective for fiscal years or interim periods beginning after December 15, 2011 with early adoption permitted. The amendments in this update should be applied retrospectively. We do not expect the guidance to impact its consolidated financial statements, as it only requires a change in the format of presentation.

NOTE 2 TRANSACTIONS

On June 9, 2011, we acquired Stainless Pipe and Fittings Australia Pty. Ltd. (MRC SPF) MRC SPF, a distributor of stainless steel piping products, operates in seven locations across Australia, Korea, Italy, United Kingdom and the United Arab Emirates. Because we recently consummated the acquisition, we have not yet completed the determination of the fair values of certain tangible and intangible assets acquired or liabilities assumed.

On July 22, 2011, we acquired certain assets and operations of the distribution business of the Valve Systems and Controls (VSC) business unit of Curtiss-Wright Flow Control Corporation. VSC is based in Houston, Texas with a sales office in Baton Rouge, Louisiana. VSC specializes in valve automation for upstream projects and maintenance, repairs and operation in the downstream sector. The impact of this acquisition was not significant to our consolidated financial statements.

NOTE 3 INVENTORIES

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

	September 30, 2011	December 31, 2010
Finished goods inventory at average cost:		
Energy carbon steel tubular products	$ 491,499	$ 396,611
Valves, fittings, flanges and all other products	533,833	481,137
	1,025,332	877,748
Less: Excess of average cost over LIFO cost (LIFO reserve)	(147,419)	(101,419)
Other inventory reserves	(15,743)	(10,962)

	$	**862,170**	$	765,367

7

Table of Contents

We utilize the last in, first out (LIFO) inventory costing methodology. An actual valuation of inventory under the LIFO method can be made only at the end of each year, based on the inventory levels and the costs at that time. Accordingly, interim LIFO calculations are based upon management s estimates of expected year-end inventory levels and costs subject to the final year-end inventory valuation. For the three and nine months ended September 30, 2011 and 2010, expected liquidations of projected year-end inventory resulted in a liquidation of a LIFO inventory layer that was carried at a cost prevailing from a prior year, as compared with current costs in the current year (a LIFO decrement). During the three months ended September 30, 2011 and 2010, changes to estimates of year-end inventory balances increased cost of sales by approximately $6.2 million and $3.2 million. The effect of this LIFO decrement decreased cost of sales by approximately $0.7 million for the nine months ended September 30, 2011 and increased cost of sales by $2.8 million during the nine months ended September 30, 2010.

NOTE 4 LONG-TERM DEBT

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

	September 30, 2011	December 31, 2010
9.50% senior secured notes due 2016, net of discount	**$ 1,030,716**	$ 1,027,938
North American asset based revolving credit facility	**416,583**	
Asset based revolving credit facility		286,398
Midfield revolving credit facility		1,297
Midfield term loan facility		14,415
MRC Transmark revolving credit facility	**50,851**	23,214
MRC Transmark factoring facility	**7,027**	6,979
Other	**414**	
	1,505,591	1,360,241
Less current portion		
	$ 1,505,591	$ 1,360,241

At September 30, 2011, availability under our revolving credit facilities was as follows (in thousands):

	Commitment Amount	**Eligible Collateral (up to Commitment Amount)**	**Amount Outstanding**	**Letters of Credit**	**Availability**
North American asset based revolving credit facility	$ 1,045,260	$ 938,933	$ 416,583	$ 5,354	$ 516,996
MRC Transmark revolving credit facility	92,466	92,466	50,851	16,228	25,387
	$ 1,137,726	$ 1,031,399	$ 467,434	$ 21,582	$ 542,383
Cash on hand:					41,447
Liquidity at September 30, 2011:					$ 583,830

We were in compliance with the covenants contained in the indenture governing our senior secured notes and each of our credit facilities as of and for the three and nine months ended September 30, 2011.

In September 2011, we repaid and terminated the credit facility assumed in conjunction with the acquisition of MRC SPF utilizing proceeds of approximately $22 million from our North American ABL credit facility.

Interest on Borrowings**:** Our weighted-average effective interest rates on borrowings outstanding at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
9.50% senior secured notes due 2016, net of discount	**9.88%**	9.88%
North American asset based revolving credit facility	**2.53%**	
Asset-based revolving credit facility		3.34%
Midfield revolving credit facility		5.00%
Midfield term loan facility		5.86%
MRC Transmark revolving credit facility	**5.79%**	2.61%
MRC Transmark factoring facility	**1.98%**	1.46%
	7.67%	8.29%

Interest Rate Swaps and Forward Foreign Exchange Contracts: We use derivative financial instruments to help manage our exposure to interest rate risk and fluctuations in foreign currencies.

Effective March 31, 2009, we entered into a freestanding $500 million interest rate swap to pay interest at a fixed rate of approximately 1.77% and receive 1-month LIBOR variable interest rate payments monthly through March 31, 2012. We have several additional interest rate swap derivatives, with notional amounts approximating $19 million in the aggregate. All of our derivative instruments are freestanding and, accordingly, we record changes in their fair market value in earnings.

We have not designated any derivatives as hedging instruments at September 30, 2011 or December 31, 2010. The table below provides data about the fair value of our derivative instruments that are recorded in our condensed consolidated balance sheets (in thousands):

	September 30, 2011		December 31, 2010	
	Assets	**Liabilities**	Assets	Liabilities
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts (1)	**$ 1**	**$**	$	$ 209
Interest rate contracts (1)		**3,956**		8,975

(1) Included in Accrued expenses and other current liabilities in our condensed consolidated balance sheets. The total notional amount of our interest rate swaps was approximately $519 million at September 30, 2011 and December 31, 2010. The total notional amount of our forward foreign exchange contracts was approximately $48 million and $8 million at September 30, 2011 and December 31, 2010.

The table below provides data about the amount of gains and (losses) recognized in our condensed consolidated statements of operations on our derivative instruments (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts	**$ (255)**	$ (44)	**$ 223**	$ 857
Interest rate contracts	**2,023**	(1,005)	**5,037**	(7,527)

Table of Contents

NOTE 5 STOCKHOLDERS EQUITY

Accumulated Other Comprehensive Loss

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

	September 30, 2011	December 31, 2010
Currency translation adjustments	**$ (21,152)**	$ (18,703)
Pension-related adjustments	**(1,153)**	(1,153)
Accumulated other comprehensive loss	**$ (22,305)**	$ (19,856)

Earnings per Share

Earnings per share are calculated as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income (loss)	**$ 21,873**	$ (10,457)	**$ 25,423**	$ (38,280)
Average basic shares outstanding	**168,836**	168,766	**168,833**	168,762
Effect of dilutive securities	**478**		**406**	
Average diluted shares outstanding	**169,314**	168,766	**169,239**	168,762
Net income (loss) per share:				
Basic	**$ 0.13**	$ (0.07)	**$ 0.15**	$ (0.23)
Diluted	**$ 0.13**	$ (0.07)	**$ 0.15**	$ (0.23)

Stock options and shares of restricted stock are disregarded in this calculation if they are determined to be anti-dilutive. For the three and nine months ended September 30, 2011 and September 30, 2010, our anti-dilutive stock options totaled approximately 3.1 million and 4.0 million. For the three and nine months ended September 30, 2010, our shares of anti-dilutive restricted stock totaled approximately 0.2 million.

NOTE 6 EMPLOYEE BENEFIT PLANS

Restricted Stock and Stock Option Plans

Under the terms of our 2007 Stock Option Plan, we may not grant options at prices less than their fair market value on the date of the grant, nor for a term exceeding ten years. Vesting generally occurs in one-third increments on the third, fourth and fifth anniversaries of the date specified in the employees respective option agreements, subject to accelerated vesting under certain circumstances set forth in the option agreements. We expense the fair value of the stock option grants on a straight-line basis over the vesting period. We use a Black-Scholes option-pricing model to estimate the fair value of the stock options.

A summary of the status of stock option grants under our stock option plan for the nine months ended September 30, 2011 and September 30, 2010 is as follows:

	Options	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding at December 31, 2009	3,976,887	$ 9.66		
Granted	166,829	11.09		
Exercised				
Forfeited	(159,091)	4.81		
Expired	(6,355)	4.81		
Outstanding at September 30, 2010	3,978,270	$ 9.88	7.9	$ 7,983
Outstanding at December 31, 2010	3,937,122	$ 9.95		
Granted	**4,176,302**	**8.23**		
Exercised	**(635)**	**4.81**		
Forfeited	**(3,925,865)**	**9.87**		
Expired	**(18,005)**	**4.81**		
Outstanding at September 30, 2011	**4,168,919**	**$ 8.32**	**7.2**	**$ 2,869**

Additional information regarding stock options outstanding at September 30, 2011 is provided in the following table:

Stock Options	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
At September 30, 2011:				
Options exercisable	1,408,963	$ 7.60	6.5	$ 1,308
Options outstanding and vested	1,408,963	$ 7.60	6.5	$ 1,308
Options outstanding, vested and expected to vest	4,008,301	$ 8.30	7.2	$ 2,769

In August 2011, we modified the exercise price of approximately 1.8 million stock option grants from $12.48 to $7.51. The effect of the modifications were evaluated and accounted for in accordance with Generally Accepted Accounting Principles, ASC 718 Compensation Stock Compensation, which resulted in additional compensation expense of $2.5 million incurred in the third quarter and an incremental $2.4 million of compensation expense which will be recognized over the remaining vesting period of the modified options. The exercise price of these stock options, along with 0.2 million additional stock options, were subsequently modified from $7.51 to $9.05 with no impact on compensation expense.

Under the terms of our 2007 Restricted Stock Plan, we may grant shares of restricted stock at the discretion of our Board of Directors and vesting generally has occurred in one-fourth increments on the second, third, fourth and fifth anniversaries of the date specified in each employee s restricted stock agreement, subject to accelerated vesting under certain circumstances set forth in the restricted stock agreements. We expense the fair value of the restricted stock grants on a straight-line basis over the vesting period.

Table of Contents

The following table summarizes restricted stock activity under the restricted stock plan during the nine months ended September 30, 2011 and September 30, 2010:

	Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2009	227,885	$ 5.57
Vested	(30,191)	4.71
Forfeited	(18,898)	4.71
Outstanding at September 30, 2010	178,796	$ 5.81
Outstanding at December 31, 2010	**155,465**	**$ 5.97**
Granted	**180,000**	**7.51**
Vested	**(28,584)**	**4.71**
Forfeited	**(4,765)**	**4.71**
Outstanding at September 30, 2011	**302,116**	**$ 7.02**

Restricted Common Units: Certain of our key employees received restricted common units of our parent company, PVF Holdings LLC, that vested over a three to five year requisite service period. At September 30, 2011, all of the restricted common units were either vested or forfeited. Prior to full vesting or forfeiture, the expense was being recognized on a straight-line basis over the vesting period.

Profits Units: Certain of our key employees received profits units in PVF Holdings LLC that vest over a five-year requisite service period. The holders of these units are entitled to their pro rata share of any distributions that PVF Holdings LLC makes once common unit holders have received a return of all capital contributed to PVF Holdings LLC (for purposes of the limited liability company agreement of PVF Holdings LLC). Expense is recognized on a straight-line basis over the vesting period.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Equity-based compensation expense:				
Stock options	**$ 3,366**	$ 206	**$ 5,071**	$ 1,742
Restricted stock	**107**	56	**277**	203
Restricted common units	**(1)**		**(1)**	(337)
Profits units	**350**	(60)	**917**	760
Total equity-based compensation expense	**$ 3,822**	$ 202	**$ 6,264**	$ 2,368

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

	September 30, 2011	September 30, 2010
Unrecognized equity-based compensation expense:		
Stock options	**$ 10,360**	$ 7,735
Restricted stock	**1,664**	691
Profits units	**811**	2,560
Total unrecognized equity-based compensation expense	**$ 12,835**	$ 10,986

Table of Contents

NOTE 7 SEGMENT, GEOGRAPHIC AND PRODUCT LINE INFORMATION

We operate as two business segments, North America and International. Our North American segment consists of our operations in the United States and Canada. Our International segment consists of our operations outside of North America, principally Europe, Asia and Australasia. These segments represent our business of selling pipe, valves and fittings to the energy and industrial sectors, across each of the upstream (exploration, production and extraction of underground oil and natural gas), midstream (gathering and transmission of oil and natural gas, natural gas utilities and the storage and distribution of oil and gas) and downstream (crude oil refining, petrochemical processing and general industrials) sectors, through our distribution operations located throughout the world.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Sales:				
North America	**$ 1,261.9**	$ 971.8	**$ 3,287.4**	$ 2,613.9
International	**104.3**	53.7	**238.7**	196.7
Consolidated	**$ 1,366.2**	$ 1,025.5	**$ 3,526.1**	$ 2,810.6
Depreciation and amortization:				
North America	**$ 3.8**	$ 3.8	**$ 10.8**	$ 10.9
International	**0.9**	0.3	**2.0**	1.3
Consolidated	**$ 4.7**	$ 4.1	**$ 12.8**	$ 12.2
Amortization of intangibles:				
North America	**$ 11.1**	$ 11.0	**$ 33.4**	$ 33.1
International	**1.6**	2.6	**4.4**	7.9
Consolidated	**$ 12.7**	$ 13.6	**$ 37.8**	$ 41.0
Operating income:				
North America	**$ 63.0**	$ 22.6	**$ 135.6**	$ 37.2
International	**3.4**	(1.7)	**9.1**	11.2
Consolidated	**66.4**	20.9	**144.7**	48.4
Interest expense	**(34.3)**	(35.0)	**(102.4)**	(104.7)
Other income (expense)	**0.9**	(0.4)	**(4.0)**	(4.0)
Income (loss) before income taxes	**$ 33.0**	$ (14.5)	**$ 38.3**	$ (60.3)

	September 30, 2011	December 31, 2010
Goodwill:		
North America	**$ 512.0**	$ 509.5
International	**53.9**	39.9
Consolidated goodwill	**$ 565.9**	$ 549.4
Total assets:		
North America	**$ 2,958.3**	$ 2,748.7
International	**309.1**	242.5
Consolidated total assets	**$ 3,267.4**	$ 2,991.2

Table of Contents

The percentages of our sales and assets relating to certain geographic areas are listed below:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Sales:				
United States	**80%**	84%	**80%**	81%
Canada	**12%**	11%	**13%**	12%
International	**8%**	5%	**7%**	7%
	100%	100%	**100%**	100%

	September 30, 2011	December 31, 2010
Fixed Assets:		
United States	**61%**	63%
Canada	**25%**	28%
International	**14%**	9%
	100%	100%

The percentages of our net sales by product line are as follows:

	Three Months Ended		Nine Months Ended	
Type	**September 30, 2011**	September 30, 2010	**September 30, 2011**	September 30, 2010
Carbon Steel Fittings & Flanges and Stainless Steel & Alloy Pipe and Fittings	**26%**	24%	**25%**	24%
Valves and Specialty Products	**23%**	24%	**24%**	26%
Line Pipe	**22%**	19%	**21%**	17%
Oil Country Tubular Goods (OCTG)	**17%**	20%	**17%**	19%
Other	**12%**	13%	**13%**	14%
	100%	100%	**100%**	100%

NOTE 8 FAIR VALUE MEASUREMENTS

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

Derivatives: We report derivatives at fair value utilizing Level 2 inputs. We obtain dealer quotations to value our interest rate swap agreements. These quotations rely on observable market inputs such as yield curves and other market based factors.

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

Table of Contents

The following table presents assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, and the basis for that measurement (in thousands):

	Total	Level 1	Level 2	Level 3
September 30, 2011				
Assets:				
Forward foreign exchange contracts	**$ 1**		**$ 1**	
Liabilities:				
Interest rate swap agreements	**3,956**			