MCJUNKIN RED MAN HOLDING CORP
Form 10-Q
August 15, 2011

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

(877) 294-7574

(Registrant s Telephone Number, including Area Code)

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

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 (Do not check if a smaller reporting company)	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 August 12, 2011.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

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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)

	June 30, 2011	December 31, 2010 *Note 1*
Assets		
Current assets:		
Cash	**$ 39,437**	$ 56,202
Accounts receivable, net	**708,563**	596,404
Inventories, net	**852,161**	765,367
Income taxes receivable	**29,504**	32,593
Other current assets	**13,312**	10,209
Total current assets	**1,642,977**	1,460,775
Other assets:		
Debt issuance costs, net	**28,294**	32,211
Assets held for sale	**1,790**	12,722
Other assets	**13,337**	14,212
	43,421	59,145
Fixed assets:		
Property, plant and equipment, net	**108,921**	104,725
Intangible assets:		
Goodwill	**561,783**	549,384
Other intangible assets, net	**800,197**	817,165
	1,361,980	1,366,549
	$ 3,157,299	$ 2,991,194

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CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011	December 31, 2010 *Note 1*
Liabilities and stockholders equity		
Current liabilities:		
Trade accounts payable	**$ 492,700**	$ 426,632
Accrued expenses and other liabilities	**99,093**	102,807
Deferred revenue	**5,055**	18,140
Deferred income taxes	**70,877**	70,636
Total current liabilities	**667,725**	618,215
Long-term obligations:		
Long-term debt, net	**1,462,368**	1,360,241
Deferred income taxes	**298,847**	303,083
Other liabilities	**19,376**	19,897
	1,780,591	1,683,221
Stockholders equity:		
Common stock, $0.01 par value per share; 800,000 shares authorized; issued and outstanding June 2011 168,836, issued and outstanding December 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	**1,276,161**	1,273,716
Retained (deficit)	**(562,240)**	(565,790)
Accumulated other comprehensive (loss)	**(6,626)**	(19,856)
	708,983	689,758
	$ 3,157,299	$ 2,991,194

See notes to condensed consolidated financial statements.

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McJUNKIN RED MAN HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Sales	**$ 1,168,039**	$ 926,905	**$ 2,159,852**	$ 1,785,187
Cost of sales	**995,341**	809,485	**1,840,188**	1,538,295
Gross margin	**172,698**	117,420	**319,664**	246,892
Selling, general and administrative expenses	**122,500**	110,115	**237,312**	218,203
Operating income	**50,198**	7,305	**82,352**	28,689
Other income (expense):				
Interest expense	**(34,524)**	(34,350)	**(68,024)**	(69,689)
Write off of debt issuance costs	**(9,450)**		**(9,450)**	
Change in fair value of derivative instruments	**1,624**	(1,558)	**3,492**	(5,621)
Other, net	**(695)**	1,273	**(3,035)**	913
	(43,045)	(34,635)	**(77,017)**	(74,397)
Income (Loss) before income taxes	**7,153**	(27,330)	**5,335**	(45,708)
Income tax expense (benefit)	**2,475**	(11,407)	**1,785**	(17,885)
Net income (loss)	**$ 4,678**	$ (15,923)	**$ 3,550**	$ (27,823)
Effective tax rate	**34.6%**	41.7%	**33.5%**	39.1%
Basic earnings (loss) per common share	**$ 0.03**	$ (0.09)	**$ 0.02**	$ (0.16)
Diluted earnings (loss) per common share	**$ 0.03**	$ (0.09)	**$ 0.02**	$ (0.16)
Weighted-average common shares, basic	**168,836**	168,735	**168,831**	168,745
Weighted-average common shares, diluted	**169,210**	168,735	**169,204**	168,745

See notes to condensed consolidated financial statements.

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McJUNKIN RED MAN HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

(Amounts in thousands)

	Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders
	Shares	Amount	Capital	(Deficit)	(Loss)	Equity
Balance at December 31, 2009	168,735	$ 1,687	$ 1,269,772	$ (514,216)	$ (13,345)	$ 743,898
Net (loss)				(27,823)		(27,823)
Foreign currency translation					(24,184)	(24,184)
Pension adjustment					121	121
Net comprehensive (loss)						(51,886)
Restricted stock vested during period	31	1				1
Equity-based compensation expense			2,166			2,166
Balance at June 30, 2010	168,766	$ 1,688	$ 1,271,938	$ (542,039)	$ (37,408)	$ 694,179
Balance at December 31, 2010	168,808	$ 1,688	$ 1,273,716	$ (565,790)	$ (19,856)	$ 689,758
Net income				**3,550**		**3,550**
Foreign currency translation					**13,230**	**13,230**
Pension adjustment						
Net comprehensive income						**16,780**
Restricted stock vested during period	**28**					
Equity-based compensation expense			**2,442**			**2,442**
Exercise of stock options			**3**			**3**
Balance at June 30, 2011	**168,836**	**$ 1,688**	**$ 1,276,161**	**$ (562,240)**	**$ (6,626)**	**$ 708,983**

See notes to condensed consolidated financial statements

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

	Six Months Ended	
	June 30, 2011	June 30, 2010
Operating activities		
Net income (loss)	**$ 3,550**	$ (27,823)
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization expense	**8,165**	8,137
Amortization of intangibles	**25,068**	27,360
Equity-based compensation expense	**2,442**	2,166
Deferred income tax (benefit) expense	**(5,325)**	3,001
Amortization of debt issuance costs	**5,373**	5,878
Write off of debt issuance costs	**9,450**	
Increase in LIFO reserve	**27,700**	36,968
Change in fair value of derivative instruments	**(3,492)**	5,621
Hedge termination		(24,797)
Provision for uncollectible accounts	**315**	(2,044)
Write down of inventory		362
Nonoperating losses and other items not using cash	**1,148**	(1,148)
Changes in operating assets and liabilities:		
Accounts receivable	**(79,305)**	(43,561)
Inventories	**(73,137)**	(902)
Income taxes	**2,834**	(7,675)
Other current assets	**(1,511)**	(22)
Accounts payable	**39,654**	27,402
Deferred revenue	**(13,101)**	(3,057)
Accrued expenses and other current liabilities	**(7,184)**	(6,771)
Net cash used in operations	**(57,356)**	(905)
Investing activities		
Purchases of property, plant and equipment	**(5,318)**	(7,269)
Proceeds from the disposition of property, plant and equipment	**612**	987
Acquisition of The South Texas Supply Company, Inc., net of cash acquired of $781		(2,938)
Acquisition of Stainless Pipe and Fittings Australia Pty. Ltd., net of cash acquired of $1,900	**(35,305)**	
Proceeds from the sale of assets held for sale	**10,594**	6,825
Other investment and notes receivable transactions	**961**	(818)
Net cash used in investing activities	**(28,456)**	(3,213)
Financing activities		
Net advances from (payments on) revolving credit facilities	**77,676**	(49,762)
Proceeds from issuance of senior secured notes		47,897
Debt issuance costs paid	**(9,131)**	(1,660)
Proceeds from exercise of stock options	**3**	

Net cash provided by (used in) financing activities	**68,548**	(3,525)
(Decrease) in cash	**(17,264)**	(7,643)
Effect of foreign exchange rate on cash	**499**	(3,742)
Cash beginning of period	**56,202**	56,244
Cash end of period	**$ 39,437**	$ 44,859
Supplemental disclosures of cash flow information:		
Cash paid (received) for income taxes	**$ 2,908**	$ (12,621)
Cash paid for interest	**62,119**	61,830

See notes to condensed consolidated financial statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: Our unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements and do not include all information and footnotes required by generally accepted accounting principles for complete annual financial statements. However, the information furnished herein reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2011. The condensed consolidated balance sheet as of December 31, 2010 has been derived from audited financial statements for the year ended December 31, 2010. These condensed consolidated financial statements should be read 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). All material intercompany balances and transactions have been eliminated 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 materially differ 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 the cost of sales. As such, our gross margin may not be comparable to others who may include these expenses as a component of cost of goods sold. Purchasing and warehousing activities costs approximated $6.3 and $6.5 million for the three months ended June 30, 2011 and 2010, and $12.5 million and $12.8 million for the six months ended June 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 such 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 insurance limits. We believe the likelihood of loss associated with our cash equivalents is remote.

We have a broad customer base doing business throughout North America, as well as internationally. During the three and six months ended June 30, 2011 and June 30, 2010, we did not have sales to any one customer that exceeded 10% of our gross sales. At June 30, 2011 and December 31, 2010, no individual customer balances 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. This estimated annual effective tax rate is applied 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) markets, through our distribution operations located throughout the world.

Recent Accounting Pronouncements: In May 2011, the FASB issued Accounting Standards Update (ASU No. 2011-04), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* an amendment to ASC Topic 820, *Fair Value Measurement*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The guidance for public entities is effective during interim or annual periods beginning after December 15, 2011 and should be applied prospectively. We do not believe that ASU No. 2011-04 will have a material impact on our consolidated financial statements.

NOTE 2 TRANSACTIONS

Stainless Pipe and Fittings Australia Pty. Ltd.

On June 9, 2011, we acquired Stainless Pipe and Fittings Australia Pty. Ltd. (MRC SPF) for $37 million, before consideration of $2 million of cash acquired. MRC SPF, a distributor of stainless steel piping products, operates in seven locations across Australia, Korea, Italy, United Kingdom, and United Arab Emirates. Because the acquisition has recently been consummated, we have not yet determined the fair values of tangible and intangibles assets acquired or liabilities assumed.

NOTE 3 INVENTORIES

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

	June 30, 2011	December 31, 2010
Finished goods inventory at average cost:		
Energy carbon steel tubular products	**$ 467,056**	$ 396,611
Valves, fittings, flanges and all other products	**528,246**	481,137
	995,302	877,748
Less: Excess of average cost over LIFO cost (LIFO reserve)	**(129,119)**	(101,419)
Other inventory reserves	**(14,022)**	(10,962)
	$ 852,161	$ 765,367

During 2011 and 2010, our inventory quantities were reduced, resulting 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). The effect of this LIFO decrement decreased cost of sales by approximately $6.7 million and $0.2 million during the three months ended June 30, 2011 and 2010. The effect of this LIFO decrement decreased cost of sales by approximately $6.9 million and $0.4 million during the six months ended June 30, 2011 and 2010.

NOTE 4 LONG-TERM DEBT

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

	June 30, 2011	December 31, 2010
9.50% senior secured notes due 2016, net of discount	**$ 1,029,790**	$ 1,027,938
North American asset based credit facility	**343,957**	
Asset based revolving credit facility		286,398
Midfield revolving credit facility		1,297
Midfield term loan facility		14,415

MRC Transmark revolving credit facility	**58,832**	23,214
MRC Transmark factoring facility	**8,040**	6,979
MRC SPF facility	**19,990**	
Other	**1,759**	
	1,462,368	1,360,241
Less current portion		
	$ 1,462,368	$ 1,360,241

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At June 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	$ 1,053,615	$ 828,704	$ 343,957	$ 4,809	$ 479,938
MRC Transmark revolving credit facility	98,578	98,578	58,832	19,727	20,019
MRC SPF facility	28,132	20,520	19,990		530
	$ 1,180,325	$ 947,802	$ 422,779	$ 24,536	$ 500,487
				Cash on hand:	39,437
				Liquidity at June 30, 2011:	$ 539,924

We were in compliance with the covenants contained in our indenture and each of our credit facilities as of and for the three and six months ended June 30, 2011.

North American ABL Credit Facility: On June 14, 2011, MRC and certain of its North American subsidiaries entered into an asset based revolving credit facility (North American ABL). The North American ABL consists of a U.S. tranche which provides for borrowings of up to $900 million, and a Canadian tranche which provides for borrowings of up to CDN $150 million (USD $154 million). Up to $80 million of the U.S. tranche may be used for letters of credit and up to $75 million may be used for swingline loans. Up to CDN $20 million (USD $20 million) of the Canadian tranche may be used for letters of credit and up to CDN $25 million (USD $26 million) may be used for swingline loans. The North American ABL matures on June 14, 2016.

Availability under the U.S. and Canadian tranches is subject to a borrowing base. The borrowing bases for the U.S. and Canadian tranches, which are calculated separately, are each equal to 85% of the book value of eligible accounts receivable; plus the lesser of (i) 70% of the net book value of eligible inventory and (ii) net orderly liquidation value of eligible inventory multiplied by the advance rate of 85%; minus certain reserves.

Obligations under the U.S. tranche are guaranteed by the U.S. Borrowers. Obligations under the Canadian tranche are guaranteed by the U.S. Borrowers and the Canadian Borrowers. Obligations under the U.S. tranche are secured, subject to certain exceptions, by a first-priority security interest in the accounts receivable and inventory of the U.S. Borrowers. Obligations under the Canadian tranche are secured, subject to certain exceptions, by a first-priority security interest in the accounts receivable and inventory of the U.S. Borrowers and the Canadian Borrowers and pledges of indebtedness owing to the Canadian Borrowers and the capital stock of their wholly-owned subsidiaries. The security interest in accounts receivable and inventory of the U.S. Borrowers ranks prior to the security interest in this collateral which secures the Company s existing senior secured notes due 2016.

Borrowings under the U.S. tranche bear interest at a rate per annum equal to, at our option, either the adjusted LIBOR rate plus an applicable margin or a U.S. base rate plus an applicable margin. Borrowings under the Canadian tranche bear interest at a rate per annum equal to, at our option, either the adjusted Canadian BA Rate plus an applicable margin, a Canadian base rate plus an applicable margin or a Canadian prime rate plus an applicable margin. The applicable margin is initially 2.00% for LIBOR and Canadian BA Rate borrowings and 1.00% for U.S. base rate, Canadian base rate and Canadian prime rate borrowings, in each case

subject to a 0.25% step-up or step-down based on a consolidated fixed charge coverage ratio as of the end of the most recent fiscal quarter. The applicable margin for U.S. base rate, Canadian base rate and Canadian prime rate borrowings is 100 basis points lower than the applicable margin for LIBOR and Canadian BA Rate borrowings. In addition to paying interest on outstanding principal under the North American ABL, we are required to pay a commitment fee in respect of unutilized commitments which is equal to 0.375% per annum.

The North American ABL contains customary covenants which require us to maintain a consolidated fixed charge coverage ratio (defined as the ratio of adjusted EBITDA to the sum of cash interest, principal payments on indebtedness, unfinanced capital expenditures and accrued income taxes) of at least 1.0 to 1.0 when excess availability is less than or equal to the greater of 10% of the total commitments under the North American ABL and $75 million. The North American ABL also contains customary restrictive covenants (in each case, subject to exclusions) that limit the ability of the Borrowers and their restricted subsidiaries to: create any liens; incur any additional indebtedness; engage in consolidations, mergers or sales of assets; dispose of any subsidiary interests; make certain restricted payments; make investments; alter the terms of documents related to certain subordinated indebtedness; enter into transactions with affiliates; and prepay certain subordinated indebtedness. The facility also contains other customary restrictive covenants. The covenants are subject to various baskets and materiality thresholds, with various restrictions on the repayment of subordinated indebtedness, restricted payments and investments not being applicable when the Borrowers excess availability exceeds a certain threshold. The restriction on incurring unsecured indebtedness is not applicable when the Borrowers and their restricted subsidiaries total debt to adjusted EBITDA ratio is less than or equal to 5.5:1.0 and the restriction on incurring secured indebtedness is not applicable when the debt to adjusted EBITDA ratio of the Borrowers and their restricted subsidiaries is less than or equal to 5.0:1.0.

The North American ABL contains certain customary representations and warranties, affirmative covenants and events of default, including, among other things, payment defaults, breach of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain events of bankruptcy, certain events under ERISA, judgment defaults, actual or asserted failure of any material guaranty or security document supporting the facility to be in force and effect, and change of control. If such an event of default occurs, the Agent under the facility shall be entitled to take various actions, including the acceleration of amounts due under the facility, the termination of all revolver commitments and all other actions permitted to be taken by a secured creditor.

In connection with the closing of the North American ABL, the existing $900 million asset based revolving credit facility, the CDN $80 million Midfield Revolving Credit Facility, and the CDN $15 million Midfield Term Loan Facility were terminated. Associated deferred financing costs of $9.5 million were written off and expensed concurrent with the termination of these lines.

SPF Credit Facility: In conjunction with our acquisition of MRC SPF on June 9, 2011, MRC SPF entered into a credit facility consisting of Australian Dollar (AUD) sub-facilities which provide for aggregate borrowings of AUD $20.5 million (USD $21.7 million) and one British Pound (GBP) facility which provides for aggregate borrowing of £4.0 million (USD $6.4 million). In addition, the facility provides bank guarantee lines totaling AUD $6.4 million (USD $6.8 million). The facility is secured by substantially all of the assets of MRC SPF and its wholly owned subsidiaries.

This facility contains customary restrictive covenants which require MRC SPF to maintain an interest coverage ratio of 2.5x in 2011, beginning September 30, 2011, and 3.5x thereafter; a tangible net worth of at least AUD $20 million (USD $21 million) in 2011 and AUD $25 million (USD $26 million) thereafter; a current ratio of not less than 1.3x to be measured quarterly beginning September 30, 2011; and a borrowing base ratio of no more than 80% of inventory value less retention of title. Capital expenditure funding, asset transfers and cash flow assistance to non-borrowing MRC SPF entities must be no more than 110% of the approved budget to be measured quarterly. From the date of acquisition no new intercompany loans may be made to members of MRC SPF with certain exceptions and no distribution of dividends may occur for the first six months following the acquisition of MRC SPF.

MRC Transmark Overdraft Facility: On June 30, 2011, MRC Transmark entered into an overdraft facility associated with an existing revolving credit facility. This facility consists of two components, a Collective Sterling Net Overdraft Facility and a Multi Currency Overdraft Facility. These facilities provide for aggregate borrowings of 10.0 million (USD $14 million). The interest rate on the Collective Sterling Net Overdraft Facility is based on the

Bank of England Base Rate plus 2.00% per annum and the lending rate on the Multi Currency Overdraft Facility is based on the lending rate of HSBC as established on the HSBC website plus 2.00% per annum. The facility is secured by substantially all of the assets of MRC Transmark and its wholly owned subsidiaries.

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

	June 30, 2011	December 31, 2010
9.50% senior secured notes due 2016, net of discount	**9.88%**	9.88%
North American ABL	**2.93%**	
Asset-based revolving credit facility		3.34%
Midfield revolving credit facility		5.00%
Midfield term loan facility		5.86%
MRC Transmark revolving credit facility	**5.14%**	2.61%
MRC Transmark factoring facility	**1.98%**	1.46%
MRC SPF facility	**8.44%**	
	7.99%	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 derivative 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 $19.2 million in the aggregate. All of our derivative instruments are freestanding and, accordingly, changes in their fair market value are recorded in earnings.

We did not have any derivatives designated as hedging instruments at June 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):

	June 30, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts (1)	**$ 256**	**$**	$	$ 209
Interest rate contracts (1)		**6,000**		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 $0.5 billion at June 30, 2011 and December 31, 2010. The total notional amount of our forward foreign exchange contracts was approximately $27 million and $8 million at June 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		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts	**$ 200**	$ 768	**$ 477**	$ 954
Interest rate contracts	**1,424**	(2,326)	**3,015**	(6,575)

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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):

	June 30, 2011	December 31, 2010
Currency translation adjustments	**$ (5,473)**	$ (18,703)
Pension-related adjustments	**(1,153)**	(1,153)
Accumulated other comprehensive loss	**$ (6,626)**	$ (19,856)

Earnings per Share

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Net income (loss)	**$ 4,678**	$ (15,923)	**$ 3,550**	$ (27,823)
Average basic shares outstanding	**168,836**	168,735	**168,831**	168,745
Effect of dilutive securities	**374**		**373**	
Average diluted shares outstanding	**169,210**	168,735	**169,204**	168,745
Net income (loss) per share:				
Basic	**$ 0.03**	$ (0.09)	**$ 0.02**	$ (0.16)
Diluted	**$ 0.03**	$ (0.09)	**$ 0.02**	$ (0.16)

Stock options and restricted stock are disregarded in this calculation if they are determined to be antidilutive. For the three and six months ended June 30, 2011 and June 30, 2010, our anti-dilutive stock options totaled approximately 2.9 million and 4.1 million. For the three and six months ended June 30, 2010, our anti-dilutive restricted stock totaled approximately 0.2 million.

NOTE 6 EMPLOYEE BENEFIT PLANS

Restricted Stock and Stock Option Plans

Under the terms of the 2007 Stock Option Plan, options may not be granted at prices less than their fair market value on the date of the grant, nor for a term exceeding ten years. 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. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options.

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

	Options	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
			(years)	*(thousands)*
Outstanding at December 31, 2009	3,976,887	$ 9.66		
Granted	166,829	11.09		
Exercised				
Forfeited	(61,009)	$ 4.81		
Expired				
Outstanding at June 30, 2010	4,082,707	$ 9.75	8.2	$ 8,497
Outstanding at December 31, 2010	3,937,122	$ 9.95		
Granted	**266,312**	**7.51**		
Exercised	**(635)**	**4.81**		
Forfeited	**(143,456)**	**9.69**		
Expired	**(5,084)**	**4.81**		
Outstanding at June 30, 2011	**4,054,259**	**$ 9.81**	**7.4**	**$ 2,927**

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Stock Options			*(years)*	*(thousands)*
At June 30, 2011:				
Options exercisable	973,111	$ 8.43	6.5	$ 1,343
Options outstanding and vested	973,111	$ 8.43	6.5	$ 1,343
Options outstanding, vested and expected to vest	3,908,769	$ 9.84	7.3	$ 2,787

Under the terms of the 2007 Restricted Stock Plan, restricted stock may be granted at the direction of our Board of Directors and vesting generally occurs in one-fourth increments on the second, third, fourth and fifth anniversaries of the date specified in the employees respective restricted stock agreements, subject to accelerated vesting under certain circumstances set forth in the restricted stock agreements. We expense the fair value of the restricted stock grants on a straight-line basis over the vesting period.

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

	Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2009	227,885	$ 5.57
Vested	(30,191)	4.71
Forfeited	(6,193)	4.71
Outstanding at June 30, 2010	191,501	$ 5.73
Outstanding at December 31, 2010	**155,465**	**$ 5.97**
Vested	**(28,584)**	**4.71**
Forfeited	**(4,765)**	**4.71**
Outstanding at June 30, 2011	**122,116**	**$ 6.32**

Restricted Common Units: Certain of our key employees received restricted common units of our parent company, PVF Holdings LLC, that vest over a three-to-five-year requisite service period. At June 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 made by PVF Holdings LLC 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 being 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		Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Equity-based compensation expense:				
Stock options	**$ 683**	$ 752	**$ 1,705**	$ 1,536
Restricted stock	**62**	70	**170**	147
Restricted common units		2		(337)
Profit units	**214**	368	**567**	820
Total equity-based compensation expense	**$ 959**	$ 1,192	**$ 2,442**	$ 2,166

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

	June 30, 2011	June 30, 2010

Unrecognized equity-based compensation expense:		
Stock options	**$ 7,924**	$ 8,713
Restricted stock	**418**	801
Profit units	**1,160**	3,354
Total unrecognized equity-based compensation expense	**$ 9,502**	$ 12,868

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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) markets through our distribution operations located throughout the world.

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Sales:				
North America	**$ 1,093.0**	$ 861.5	**$ 2,025.5**	$ 1,642.2
International	**75.0**	65.4	**134.4**	143.0
Consolidated	**$ 1,168.0**	$ 926.9	**$ 2,159.9**	$ 1,785.2
Depreciation and amortization:				
North America	**$ 3.6**	$ 3.6	**$ 7.1**	$ 7.1
International	**0.6**	0.5	**1.1**	1.0
Consolidated	**$ 4.2**	$ 4.1	**$ 8.2**	$ 8.1
Amortization of intangibles:				
North America	**$ 11.3**	$ 11.1	**$ 22.3**	$ 22.1
International	**1.4**	2.5	**2.8**	5.3
Consolidated	**$ 12.7**	$ 13.6	**$ 25.1**	$ 27.4
Operating income:				
North America	**$ 46.1**	$ 1.9	**$ 76.7**	$ 15.9
International	**4.1**	5.4	**5.7**	12.8
Consolidated	**$ 50.2**	$ 7.3	**$ 82.4**	$ 28.7
Interest expense	**$ 34.5**	$ 34.3	**$ 68.0**	$ 69.7
Other expense	**8.5**	0.3	**9.1**	4.7
Income (loss) before income taxes	**$ 7.2**	$ (27.3)	**$ 5.3**	$ (45.7)

	June 30, 2011	December 31, 2010

Goodwill:		
North America	**$ 509.3**	$ 509.5
International	**52.5**	39.9
Consolidated goodwill	**$ 561.8**	$ 549.4
Total assets:		
North America	**$ 2,810.1**	$ 2,748.7
International	**347.2**	242.5
Consolidated total assets	**$ 3,157.3**	$ 2,991.2

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Sales:				
United States	**81%**	83%	**80%**	80%
Canada	**13%**	10%	**14%**	12%
International	**6%**	7%	**6%**	8%
	100%	100%	**100%**	100%

	June 30, 2011	December 31, 2010
Assets:		
United States	**80%**	83%
Canada	**9%**	9%
International	**11%**	8%
	100%	100%

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

	Three Months Ended		Six Months Ended	
Type	**June 30, 2011**	June 30, 2010	**June 30, 2011**	June 30, 2010
Energy carbon steel tubular products	**39%**	37%	**37%**	35%
Valves, fittings, flanges and other products	**61%**	63%	**63%**	65%
	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: Derivatives are reported at fair value utilizing Level 2 inputs. We obtain dealer quotations to value our interest rate swap agreements. These quotations rely on observable market inputs such as yield curves and other market based factors.

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.

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

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	Total	Level 1	Level 2	Level 3
June 30, 2011				
Assets:				
Forward foreign exchange contracts	**$ 256**		**$ 256**	
Liabilities:				
Interest rate swap agreements	**6,000**		**6,000**	
December 31, 2010				
Assets:				
Liabilities:				
Forward foreign exchange contracts	209		209	
Interest rate swap agreements	8,975		8,975	

The following table presents the carrying value and estimated fair value of our financial instruments that are carried at adjusted historical cost (in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Cash	**$ 39,437**	**$ 39,437**	$ 56,202	$ 56,202
Accounts receivable, net	**708,563**	**708,563**	596,404	596,404
Trade accounts payable	**492,700**	**492,700**	426,632	426,632
Accrued expenses and other liabilities	**99,093**	**99,093**	102,807	102,807
Long-term debt	**1,462,368**	**1,476,805**	1,360,241	1,292,826

The carrying values of our financial instruments, including cash and cash equivalents, accounts receivable, trade accounts payable and accrued expenses and other liabilities, approximate fair value because of the short maturity of these financial instruments.

We estimated the fair value of the senior secured notes using dealer quotations as of June 30, 2011 and December 31, 2010.

The carrying value of our North American ABL approximates fair value as a result of having just been entered into on June 14, 2011. The carrying values of the remaining portions of our long-term debt approximate their fair values.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Litigation

We are involved in various legal proceedings and claims, both as a plaintiff and a defendant, which arise in the ordinary course of business.

These legal proceedings include claims where we are named as a defendant in lawsuits brought against a large number of entities by individuals seeking damages for injuries allegedly caused by certain products containing asbestos. As of June 30, 2011, we are a defendant in lawsuits involving approximately 958 such claims. Each claim involves allegations of exposure to asbestos-containing materials by a single individual or an individual, his or her spouse and/or family members. The complaints typically name many other defendants. In a majority of these lawsuits, little or no information is known regarding the nature of the plaintiffs alleged injuries or their connection with the products distributed by us. Through June 30, 2011, lawsuits involving over 11,786 claims have been brought against us with the majority being settled, dismissed or otherwise resolved. In total, since the first asbestos claim brought against us through June 30, 2011, approximately $1.6 million has been paid to asbestos claimants in connection with settlements of claims against us without regard to insurance recoveries.

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On July 30, 2010, an action was brought against the Company in Delaware Chancery Court by a former shareholder of our predecessor, McJunkin Corporation, on his own behalf and as trustee for a trust, alleging the Company has not fully complied with a contractual obligation to divest of certain noncore assets contained in the December 2006 merger agreement and seeking damages and equitable relief. We have also received written notice from other former shareholders who similarly claim the Company has not fully complied with that contractual obligation. We believe that this action, and the related claim of other shareholders, is without merit and we intend to vigorously defend ourselves against the allegations. On September 28, 2010, we filed a motion to dismiss the action in its entirety. On February 11, 2011, the Court granted our motion to dismiss the claims for equitable relief with prejudice, but denied the motion to dismiss the contractual claims. We submitted our response to the remaining claims in March 2011.

In the summer of 2010, our customer NiSource, Inc. notified McJunkin Red Man Corporation that certain polyethylene pipe manufactured by PolyPipe, Inc. may be defective. Because this matter is in the early stages, we are unable to determine the amount of liability, if any, that may result from the ultimate resolution this matter.

There is a possibility that resolution of certain legal contingencies for which there are no liabilities recorded could result in a loss. Management is not able to estimate the amount of such loss, if any. However, in our opinion, after consultation with counsel, the ultimate resolution of all pending matters is not expected to have a material effect on our financial position or liquidity, although it is possible that such resolutions could have a material adverse impact on our results of operations in the period of resolution.

Customer Contracts

We have contracts and agreements with many of our customers that dictate certain terms of our sales arrangements (pricing, deliverables, etc.). While we make every effort to abide by the terms of these contracts, certain provisions are complex and often subject to varying interpretations. Under the terms of these contracts, our customers have the right to audit our adherence to the contract terms. Historically, any settlements that have resulted from these customer audits have been immaterial to our consolidated financial statements.

Purchase Commitments

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

Warranty Claims

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

NOTE 10 GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS

In December 2009 and February 2010, McJunkin Red Man Corporation (presented as Issuer in the following tables), a 100% owned subsidiary of McJunkin Red Man Holding Corporation (presented as Parent in the following tables), issued senior secured notes due December 15, 2016. The senior secured notes are fully and unconditionally, and jointly and severally, guaranteed on a senior basis by McJunkin Red Man Holding Corporation and substantially all existing and future 100% owned domestic restricted subsidiaries of McJunkin Red Man Corporation (collectively, the Guarantors). All other subsidiaries of McJunkin Red Man Corporation, whether direct or indirect, do not guarantee the senior secured notes (the Non-Guarantors).

The following condensed consolidating financial statements present the results of operations, financial position and cash flows of (1) the Parent, (2) the Issuer, (3) the Guarantors, (4) the Non-Guarantors, and (5) eliminations to arrive at the information for McJunkin Red Man Holding Corporation on a consolidated basis. Separate financial statements and other disclosures concerning the Guarantors are not presented because management does not believe such information is material to investors. Therefore, each of the Guarantors is combined in the presentation below.

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Condensed Consolidated Balance Sheets (in millions)

	June 30, 2011					
	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Cash	$ 0.1	$ 4.6	$	$ 34.7	$	$ 39.4
Accounts receivable, net	0.7	493.6		214.3		708.6
Inventory, net		657.3		194.9		852.2
Income taxes receivable	0.2	46.5		4.5	(21.7)	29.5
Other current assets		3.2	1.9	8.2		13.3
Total current assets	1.0	1,205.2	1.9	456.6	(21.7)	1,643.0
Investment in subsidiaries	706.3	408.0			(1,114.3)	
Intercompany receivable	7.8	93.6	364.1		(465.5)	
Other assets		34.6		8.8		43.4
Fixed assets, net		45.3	19.6	44.0		108.9
Goodwill		509.3		52.5		561.8
Other intangible assets, net		727.3		72.9		800.2
	$ 715.1	$ 3,023.3	$ 385.6	$ 634.8	$ (1,601.5)	$ 3,157.3
Trade accounts payable	$	$ 353.5	$ 1.3	$ 137.9	$	$ 492.7
Accrued expenses	0.1	58.5	9.7	30.8		99.1
Income taxes payable			21.7		(21.7)	
Deferred revenue		4.2		0.8		5.0
Deferred income taxes		70.9				70.9
Total current liabilities	0.1	487.1	32.7	169.5	(21.7)	667.7
Long-term debt, net		1,350.2		112.2		1,462.4
Intercompany payable		187.5		278.0	(465.5)	
Other liabilities	6.0	292.2	2.3	17.7		318.2
Shareholders equity	709.0	706.3	350.6	57.4	(1,114.3)	709.0
	$ 715.1	$ 3,023.3	$ 385.6	$ 634.8	$ (1,601.5)	$ 3,157.3

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	December 31, 2010					
	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Cash	$ 1.1	$ 4.4	$	$ 50.7	$	$ 56.2
Accounts receivable, net	0.7	447.1		148.6		596.4
Inventory, net		625.4		140.0		765.4
Income taxes receivable	1.0	89.8		1.9	(60.1)	32.6
Other current assets		2.7	2.1	5.4		10.2
Total current assets	2.8	1,169.4	2.1	346.6	(60.1)	1,460.8
Investment in subsidiaries	686.6	478.3			(1,164.9)	
Intercompany receivable	6.5		480.2		(486.7)	
Other assets		138.0	0.1	9.7	(88.7)	59.1
Fixed assets, net		46.3	19.9	38.5		104.7
Goodwill		509.5		39.9		549.4
Other intangible assets, net		747.3		69.9		817.2
	$ 695.9	$ 3,088.8	$ 502.3	$ 504.6	$ (1,800.4)	$ 2,991.2
Trade accounts payable	$	$ 306.5	$ 1.1	$ 119.0	$	$ 426.6
Accrued expenses	0.1	67.2	11.1	24.4		102.8
Income taxes payable			60.1		(60.1)	
Deferred revenue		17.4		0.7		18.1
Deferred income taxes		73.2	(0.6)	(2.0)		70.6
Total current liabilities	0.1	464.3	71.7	142.1	(60.1)	618.1
Long-term debt, net		1,314.3		134.6	(88.7)	1,360.2
Intercompany payable		327.6		159.1	(486.7)	
Other liabilities	6.1	296.0	3.4	17.7		323.2
Shareholders equity	689.7	686.6	427.2	51.1	(1,164.9)	689.7
	$ 695.9	$ 3,088.8	$ 502.3	$ 504.6	$ (1,800.4)	$ 2,991.2

Condensed Consolidated Statements of Operations (in millions)

	Three Months Ended June 30, 2011					
	Parent	**Issuer**	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Total**
Sales	**$**	**$ 943.9**	**$**	**$ 224.1**	**$**	**$ 1,168.0**
Cost of sales		**816.0**	**1.9**	**177.4**		**995.3**

Gross margin		**127.9**	**(1.9)**	**46.7**		**172.7**
Operating expenses	**0.1**	**66.8**	**17.9**	**37.7**		**122.5**
Operating (loss) income	**(0.1)**	**61.1**	**(19.8)**	**9.0**		**50.2**
Other (expense) income	**(0.2)**	**(69.9)**	**35.7**	**(8.6)**		**(43.0)**
(Loss) income before taxes	**(0.3)**	**(8.8)**	**15.9**	**0.4**		**7.2**
Equity in earnings of subsidiary	**4.8**	**8.9**			**(13.7)**	
Income tax (benefit)	**(0.1)**	**(4.8)**	**5.9**	**1.5**		**2.5**
Net income (loss)	**$ 4.6**	**$ 4.9**	**$ 10.0**	**$ (1.1)**	**$ (13.7)**	**$ 4.7**

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	Three Months Ended June 30, 2010					
	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Sales	$	$ 768.1	$	$ 158.8	$	$ 926.9
Cost of sales		682.5	0.9	126.1		809.5
Gross margin		85.6	(0.9)	32.7		117.4
Operating expenses		61.6	19.8	28.7		110.1
Operating (loss) income		24.0	(20.7)	4.0		7.3
Other (expense) income	(0.2)	(310.7)	284.8	(8.5)		(34.6)
(Loss) income before taxes	(0.2)	(286.7)	264.1	(4.5)		(27.3)
Equity in earnings of subsidiary	(15.8)	163.3			(147.5)	
Income tax (benefit)	(0.1)	(107.6)	98.3	(2.0)		(11.4)
Net income (loss)	$ (15.9)	$ (15.8)	$ 165.8	$ (2.5)	$ (147.5)	$ (15.9)

	Six Months Ended June 30, 2011					
	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Sales	**$**	**$ 1,715.4**	**$**	**$ 444.5**	**$**	**$ 2,159.9**
Cost of sales		**1,484.1**	**1.9**	**354.2**		**1,840.2**
Gross margin		**231.3**	**(1.9)**	**90.3**		**319.7**
Operating expenses	**0.1**	**126.8**	**39.3**	**71.1**		**237.3**
Operating (loss) income	**(0.1)**	**104.5**	**(41.2)**	**19.2**		**82.4**
Other (expense) income	**(0.4)**	**(164.3)**	**104.6**	**(16.9)**		**(77.0)**
(Loss) income before taxes	**(0.5)**	**(59.8)**	**63.4**	**2.3**		**5.4**
Equity in earnings of subsidiary	**3.9**	**38.9**			**(42.8)**	
Income tax (benefit)	**(0.2)**	**(24.7)**	**23.5**	**3.2**		**1.8**