Distributors: The vital link in the chain?

Gerald Merfish, CEO, Merfish Pipe Holdings
Merfish Pipe Holdings, LLC is majority owned by JP Morgan Chase One Equity Partners with minority ownership interests held by Dolty Cheramie and Gerald Merfish.

Merfish Pipe Holdings, LLC currently owns:

Merfish Pipe & Supply

&

Pipe Exchange
Murfish Pipe & Supply

“Since 1920”

Master Distributor of Carbon Steel Pipe, Weld Fittings and Flanges
Some Old and Some New
One Equity Partners – Private Equity Arm of JP Morgan/Chase
Third generation active family ownership
Proudly serving 36 states

Nathan & Hannah Merfish’s Work Shop
1926
In 1912, Nathan Merfish, leaving behind his wife, Hannah, and daughter, Rose, immigrated to the USA from Russia/Poland to seek religious freedom and opportunity in the USA. Nathan’s training was as a tailor and he worked for dry goods merchants in Galveston and later in Houston. In 1919, Nathan sent for Hannah and Rose to come to the USA.

In 1920, the family purchased property in Houston which became both their home and storefront to N. Merfish Supply Co. Initially the business functioned as a second hand and damaged goods merchant, but later, as the availability of secondary products became more restricted, the business grew into a wholesale plumbing supply company. In 1922 Abe Merfish was born and the business continued on as a family affair. All family members worked to make ends meet, and although education was always stressed in the family, because of the financial situation, Abe left school at the age of 15 and devoted himself full-time to the family business. In 1949 Abe married Beau (Ida) Kotin. Beau joined Abe, Nathan and Hannah in the family business.

Gerald and Rochelle, Beau and Abe’s children, spent many summers and vacations working to contribute to the family’s success. Rochelle formally joined the family business in 1975 and Gerald in 1978. Each of them obtained their Masters in Business Administration from the University of Texas at Austin. Run by third generation family and standing proudly beside the original values on which the company was formed, Merfish Pipe & Supply grew to be the leading Master Distributor of Carbon Steel, Pipe, Fittings, Flanges.

In 1949 the company was incorporated as N. Merfish Plumbing Supply Co. In 1953 the company continued to evolve into one of the largest wholesale plumbing supply businesses in Texas. In 1953 the company was incorporated as N. Merfish Plumbing Supply Co.

In 1953, the company was incorporated as N. Merfish Plumbing Supply Co. In 1957, Merfish Pipe & Supply is designated as a Master Distributor for Wheatland Products.

In 2012, to facilitate growth, Merfish Pipe & Supply is acquired by One Equity Partners, a division of JP Morgan Chase.

In the 3rd quarter of 2012, Merfish Pipe & Supply acquires BBL Co, known now as Merfish Pipe & Supply NE
Present Facility – Relocated 2005

Approximately 230,000 square feet of warehouse space and 20,000 square feet of office space

1211 Kress • Houston, TX
Within 1.5 miles of the Port of Houston
10.5 acre, fully paved site
Pipe received directly from the port and stored inside 17 high speed overhead cranes
Merfish Pipe & Supply NE, LLC

"Since 1920"
Core Merfish Business Principles

- Integrity & Honesty are more important than anything else
- It is okay to lose an order but **never** lose a customer
- Treat Customers, Vendors & Employees as You would want to be treated. Let each know they are important to you & your success.
- Do not go to your customer’s customer—honor the long established distribution patterns
- Guard & protect your reputation by being honest even when it is costly
- Listen closely to your Customer and fulfill their needs
- Stability is important—Create a stable company so employees feel secure & customers can count on you.
- Be environmentally responsible—we only have one environment!
- Be Philanthropic—each of us has the responsibility to share our success with those less fortunate.
Market & Sourcing

Merfish serves as a Master Distributor of Carbon Steel Pipe Products to over 36 States in the USA.

Merfish only sources from mills that they have personally inspected or are qualified with an American Petroleum Institute (API) quality system--sources include:

- **Domestic Mills:**
  - Wheatland Tube (Designated Wheatland Master Distributor)
  - Texas Tubular
  - ExLTube
  - US Steel
  - PT Alliance (Seamless)

- **Global Mill Locations:**
  - Turkey, Oman, India, Romania, UAE, Malaysia, Korea, Ukraine, Russia, China, Taiwan, Poland, Belarus, South Africa, Philippines, Mexico,
Products - Pipe

Carbon Steel Pipe
Sizes
- Welded – 1/8” through 36”
- Seamless – 1/4” through 24”

Specifications
- Welded – ASTM A53 GR A & B, API5L GR B & X -42

Total Inventory exceeds 25,000 tons
Carbon Steel Pipe
Finish – Bare, Black (Lacquered), Galvanized, X-Tru Coat, Scotch-Kote, TGF-3

Wall Thickness
Welded – S/10 through XH
Seamless – Standard through XXH

End Finish – Plain End, Beveled End, Grooved End, Threaded and Coupled

Origin – Domestic and Import

Length – 21 ft., 42 ft.
Order Pipe and Your Fittings and Flanges Ride For Free!!!!

All On The Same Truck.
Products – Fittings & Flanges

- Import Carbon Steel Weld Fittings
  (ASTM A234 B)
  - Standard and XH Walls
  - Sizes: 1/2” through 36”

- Import Forged Carbon Steel Flanges
  (ASTM A105)
  - 150# and 300#
  - Sizes: 1/2” through 36”
An Inventory to Fill your Needs
We are constantly growing our relationships to better serve our customers
About Merfish Pipe & Supply

- **Claim Handling**—the goal of MPS is that customer claims are handled with the same care & speed of a customer’s purchase order—Gerald Merfish & Robert Setzekorn handle claims—it is that important!

- **Regular Delivery Routes (Milk Runs)** – established regular delivery route runs:
  - West Texas/New Mexico
  - Southern Louisiana
  - Denver, Colorado
  - Central Texas-Hill Country
  - Western Pennsylvania
  - New Jersey/ Lower New York/Connecticut
  - Ark-La-Tex (NE Corner of Texas)
  - Northern Louisiana
  - North Texas-Southern Oklahoma
  - Mass./New Hamp./Vermont
  - Maryland/Delaware
  - Upstate New York

- Every single piece of product (Pipe/Fitting/Flange) has a Mill Test Report/Certificate
Mustang Trucking Company

- Company Owned Fleet
  - 8 Long Haul Tractors (Sleeper Cab)
  - 2 Local Tractors (Day Cab)
  - 30 Flatbed Trailers
  - Exclusively Used to Facilitate Merfish Pipe’s Operations
Pipe Services

Special Services
- Pipe Coating to Your Specifications
- Pipe Cutting
- Pipe Threading
- Pipe Pickling/Oil
- Pipe Grooving - Cut or Roll
- Flange Facing – Up to 12 Inches
We Always Strive To Improve by listening to Our Customers

Ask us about **MEL** (Merfish Express Load)

Take advantage of MEL with average load times of less than 15 minutes.
WELCOME TO PIPE EXCHANGE

You need line pipe now? We’ll get it there for you now. Since 1983, that’s how Pipe Exchange has been serving the oil patch. Coated line pipe, in stock, on the ground, ready to ship. We don’t claim to be everything to everybody. But we do claim to be the best at what we do. Give us a call. We’d be glad to help you.

Take a few minutes to explore our web site. You’ll learn all about us. What we carry, who we represent, and meet our friendly, well experienced staff. If there is something still not answered by our web site, send us an email. We’ll respond right back to you. Thanks for taking the time to visit us. We hope we’ll be hearing from you soon.

SIZE: 2”-20”
WALL: LIGHT, STANDARD, XH
GRADES: B/X42/A53B
X42/X52/A53B
B/X42/A53B/A106B
PSL-1 and PSL-2
COATINGS: Fusion Bond Epoxy
Coal Tar Enamel
Abrasion Resistant Overcoats

IN STOCK,
READY FOR
NEXT DAY DELIVERY...

WHAT SETS US APART:
“The industry coats pipe to fill an order, Pipe Exchange fills orders with our coated pipe.”

FRIENDS IN THE
OIL PATCH

13831 Northwest Freeway, Suite 525 • Houston, Texas 77040
Phone: 713.934.9480 • Fax: 713.934.9490 • Email: sales@pipeexch.com

Home | History | Products | Meet the Staff | Pipe Chart | Friends in the Oil Patch | Employment | Contact Us

Copyright © 2006, Pipe Exchange. All rights reserved.
Pipe Exchange was founded in 1983 to supply the midstream energy gathering industry.

- Ownership History—Coating company ownership 1983--1998; Then owned by Mitsui Company; purchased by Dolty Cheramie with Merfish family in April 2004; Sold along with Merfish Pipe & Supply to One Equity Partners in Dec. 2012
- Focus—Supply the Midstream gathering industry with coated API Line Pipe.
- In 2011 & 2012, Pipe Exchange was US Steel’s largest Line Pipe / Standard Pipe Distributor.
- Committed to customer service—Immediate inquiry acknowledgement (within one hour) and rapid quote reply.
Over 25,000 tons of API certified Line Pipe

Sizes: 2.375” thru 24”
Walls- Sch 40 and Lighter- Some Sch 80 Walls
Grade:
  • API 5 L Grade B/x42
  • API 5 L Grade x52
  • PSL Levels 1 & 2
Lengths-DRL & longer

Coatings Available:
  • Mill Lacquer/Bare
  • Fusion Bond Epoxy (FBE) is normal stock
  • ARO-coating used for rocky soil conditions and road crossings
  • Polyethylene Extruded Coatings
  • Tar Glass Felt (TGF)
  • Cement Coatings
  • Interior Coatings-Epoxy, Cement, etc
Tier One – Authorized Distributor for:
1 – Houston Coaters
2 – A&A Coating, Lone Star, Texas
3 – Commercial Resins, Sidney, Nebraska
4 – Dura-Bond, McKeesport, Pennsylvania
5 – ShawCor, Vinyard, Utah
Line Pipe Supply Programs

[Logos of Line Pipe Supply Programs]
Thank you for your time.

Contact Pipe Exchange at (713) 934-9480 or sales@pipexch.com
The objective of Merfish Pipe Holdings is to grow, both organically and through acquisition, doubling our size in the next 3 to 5 years. The BOD of MPH views the pipe distribution industry as a three legged stool—OCTG, API Line Pipe and Standard Pipe. We also believe that size is very important in the pipe distribution industry. This growth will be accomplished by:

- Opening/Acquiring an OCTG distributor
- Extending the geographical presence of Merfish Pipe & Supply beyond the two current locations of Houston & Philadelphia
- Extending our Pipe Exchange brand to the large company Midstream line pipe consumers
A Distributor’s Perspective
AMM Meeting
March 4, 2013
What Happened to 2013?

In the 4th quarter of 2012, a reasonable steel pipe distributor thought 2013 would see:

• Steel pipe consumption grow by about 5% to 20,400,000 tons—in fact even mid year 2013 this was till anticipated
• The Rig Count would increase as the USA became more energy independent and the growth of the Shale play continued
• Our Gross Domestic Product would grow by over 3% bringing with it an improved climate for the consumption of steel
• The price of steel pipe would be fairly steady but more likely increase by 2% or so
• Economies around the world would begin to grow and support stable to higher steel prices
• An Anti-Dumping trade suit would be filed by the domestic industry on OCTG and be successful—this would benefit the existing and many new pipe mills planned to be built in the USA.
Here is what actually occurred!

World steel capacity growth of a total of 31.8% over the last 4 Years (Jan. 2010- Dec. 2013)!

China’s share of World steel production increased from 36.7% to 48.5% over the last 6 years!

There remains substantial excess steel making capacity in the World.  
Total World capacity in 2013—1,607 million metric tons

<table>
<thead>
<tr>
<th>Country- Cap.-%</th>
<th>Country-cap.-%</th>
<th>Country--Cap--%</th>
</tr>
</thead>
<tbody>
<tr>
<td>China    779 48.5%</td>
<td>USA         87  5.4%</td>
<td>Korea       66  4.1%</td>
</tr>
<tr>
<td>Europe   166 10.3%</td>
<td>India       81  5.0%</td>
<td>Turkey      35  2.2%</td>
</tr>
<tr>
<td>Japan    111  6.9%</td>
<td>Russia      69  4.3%</td>
<td>Brazil      34  2.1%</td>
</tr>
</tbody>
</table>

Hot Rolled Steel from China is throttled by large USA AD duties so it does not enter the USA but it does impact other markets and down stream products.

Low inventory carrying costs encourage speculation and over buying!
Here is what actually occurred!

Result is that the slow world wide economic recovery coupled with excess steel supply means lower prices for welded steel pipe raw materials (Hot Rolled Coil) throughout 2012 & 2013 (USD/metric ton):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>$816</td>
<td>$743</td>
<td>-8.9%</td>
<td>Price vs. USA</td>
</tr>
<tr>
<td>Europe</td>
<td>$662</td>
<td>$610</td>
<td>-7.9%</td>
<td>-$133</td>
</tr>
<tr>
<td>World</td>
<td>$643</td>
<td>$564</td>
<td>-12.3%</td>
<td>-$179</td>
</tr>
<tr>
<td>China</td>
<td>$560</td>
<td>$475</td>
<td>-15.2%</td>
<td>-$268</td>
</tr>
</tbody>
</table>

The Import of Steel & Steel Products into the USA are critical to our economy because the USA does not produce adequate steel to meet consumption: Consumption—2013E—Total – Approx 105,000,000 tons
In 2007, when consumption was similar to 2012/13 OCTG was 4mm tons while in 2012/13 OCTG was 7mm tons, meaning that the other Pipe/Tube Products in 20012/13 were much lower than 2007— where is the economic recovery?
**All Pipe & Tube -- US Shipments 2013 (net tons) by usage**

<table>
<thead>
<tr>
<th>Category</th>
<th>Shipments (net tons)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCTG</td>
<td>7,023,871</td>
<td>36%</td>
</tr>
<tr>
<td>API Line Pipe</td>
<td>4,359,392</td>
<td>23%</td>
</tr>
<tr>
<td>Mechanical Tube</td>
<td>2,846,229</td>
<td>15%</td>
</tr>
<tr>
<td>Structural Tube and Piling</td>
<td>2,796,880</td>
<td>14%</td>
</tr>
<tr>
<td>Standard Pipe</td>
<td>1,985,908</td>
<td>10%</td>
</tr>
<tr>
<td>Pressure Tube</td>
<td>192,475</td>
<td>1%</td>
</tr>
<tr>
<td>Stainless Pipe &amp; Tube</td>
<td>144,976</td>
<td>1%</td>
</tr>
</tbody>
</table>
All Pipe & Tube--US Shipments (net tons) -- by Type-- 2013

4,897,687 = 28%

12,885,611 = 72%
All Pipe & Tube -- US Shipments by Origin--2013

- Domestic: 60%
- Import: 40%
Change in Tons
2012 to 2013
All US Pipe & Tube

- Domestic Welded: 345,785
- Domestic Seamless: 10,236
- Import Welded: (474,828)
- Import Seamless: (404,158)
What actually occurred!

Import carbon steel pipe tons imported in 2012 were substantially higher than in 2011:

<table>
<thead>
<tr>
<th>Type</th>
<th>2011 tons</th>
<th>2012 tons</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCTG</td>
<td>2,908,492</td>
<td>3,619,672</td>
<td>+24.5%</td>
</tr>
<tr>
<td>API Line Pipe</td>
<td>1,974,243</td>
<td>2,774,447</td>
<td>+40.5%</td>
</tr>
<tr>
<td>Standard Pipe</td>
<td>708,832</td>
<td>793,518</td>
<td>+11.9%</td>
</tr>
</tbody>
</table>

Result was an excess of inventory at the end of 2012 that **haunted** all pipe distributors throughout 2013. Further evidenced is the large decrease in import tons in 2013 as compared to 2012 shown below & on the next slide.

<table>
<thead>
<tr>
<th>Type</th>
<th>2012 tons</th>
<th>2013 tons</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCTG</td>
<td>3,619,672</td>
<td>3,338,503</td>
<td>- 7.8%</td>
</tr>
<tr>
<td>API Line Pipe</td>
<td>2,774,447</td>
<td>2,348,962</td>
<td>-15.4%</td>
</tr>
<tr>
<td>Standard Pipe</td>
<td>793,518</td>
<td>762,479</td>
<td>- 4.0%</td>
</tr>
</tbody>
</table>

As a result of the excess import pipe inventory and the declining HR prices, pipe prices declined by 10% to 15% in 2013—
Further in 2011 the difference between Korean API 5 L x42 and x52 was as much as $90 to $100/ton—within one year it had fallen to $40/ton—and HR in Asia is the lowest cost in the World making Korean pipe manufacturers low cost producers—so was this change a result of Chinese HR availability or increased HR availability in Korea—in last 6 years Korean steel production has increased by 35%.

API Line Pipe supply for 16” and smaller in USA is dominated by Imports, while for sizes larger than 16” domestic sourcing dominates (2013 Data):

<table>
<thead>
<tr>
<th></th>
<th>Domestic 16&quot; + smaller</th>
<th>Import 16&quot; + smaller</th>
<th>Domestic Over 16&quot;</th>
<th>Import Over 16&quot;</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>729,107</td>
<td>1,405,198</td>
<td>1,281,023</td>
<td>943,766</td>
<td>4,359,094</td>
</tr>
<tr>
<td></td>
<td><strong>16.7%</strong></td>
<td><strong>32.2%</strong></td>
<td>29.4%</td>
<td>21.7%</td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Caveat: Some of the API Line Pipe is used in Standard Pipe applications.
The segment with the largest percentage decline & impacted the most from 2012 to 2013 was the under 16” API Line Pipe market that was **down by 560,305 Tons or 20.8%!** The only market that prospered in 2013 was the over 16” domestic market, which is used for transmission.
Why were API Line Pipe shipments the most impacted in 2013? --The driver for API Line Pipe consumption is Nat. Gas/NGL Drilling and well hook ups.

Huge shift in Energy Exploration To Oil vs. Gas/NGL

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Rig Count</th>
<th>Gas focused</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>685</td>
<td>337</td>
</tr>
<tr>
<td>1999</td>
<td>488</td>
<td>362</td>
</tr>
<tr>
<td>2002</td>
<td>738</td>
<td>591</td>
</tr>
<tr>
<td>2009</td>
<td>876</td>
<td>685</td>
</tr>
<tr>
<td>2014</td>
<td>1764</td>
<td>337</td>
</tr>
</tbody>
</table>
Domestic Steel Pipe Trends

ERW Mills

• Domestic Hot Roll mills increased prices by approx $100 per ton in late 2013/early 2014 (only now beginning to slide back from these lofty heights), while World HR prices did not change—large gap of HR costs for domestic vs. import of $179 per metric ton.

• Domestic pipe mills have struggled to increase prices as much as their HR costs have increased. How long can they hold the market share they captured in 2013? An increase of 356,000 tons in a flat overall market.
Economic Heat Map—the numbers are not as important as the colors.
Pipe Market Expectations for 2014

We believe that the oversupply of Standard Pipe and API Line Pipe has been substantially absorbed and that supply-demand is in much greater balance—therefore our expectations are:

• A more orderly API Line Pipe & Standard Pipe Market in 2014
• Pricing of import to reflect small increases while domestic pipe pricing will be more volatile as the HR steel mills try to take advantage of short term supply-demand imbalances that are occurring more regularly in the late fourth quarter and first quarter annually.
• Pipe Consumption to increase slowly
• Impacting API Line Pipe will be the expansion of the use of Nat. Gas for transportation and the beginning of LNG exports, which hopefully results in an increase in Gas exploration.
• The major unknown is “What is the new regular economy?”

What is also unknown is the impact of the new domestic pipe mills in light of the OCTG preliminary trade results?
On Feb. 18, 2014, the Department of Commerce announced the following preliminary Anti-Dumping rates for OCTG:

- **India**--Jindal Saw (55.37%); Guven Fuels (0%); All Others (55.37%) – Also plus preliminary CVD rate of 3.51%
- **Korea**--Hyundai/Hysco (0%); Nexteel Co. (0%); All Others (0%)
- **Philippines**--HLD Clark (8.9%)
- **Saudi Arabia**--JESCO (2.92%)
- **Taiwan**--Tension Steel (2.65%); Chung Hung (0%); All Others (2.65%)
- **Thailand**--WSP Pipe (118.32%)
- **Turkey**--Borusan (0%); Yucel Boru (4.87%); All Others (4.87%)
- **Ukraine**--Interpipe (5.31%)
- **Vietnam**--Hot Rolling Pipe (111.47%); SEAH Steel VINA (9.58%); All Others (111.47%)

All Pending OCTG pipe mill ownership transactions will be terminated!!
Steel Pipe Mfg. is like a “Feeding Trough”—OCTG is the filet mignon; Line Pipe is the NY Strip; Standard pipe is the Ground Beef and Structural/HSS is Tofu—everyone loves filet mignon but can they afford it?

<table>
<thead>
<tr>
<th>Mill</th>
<th>Status</th>
<th>Location</th>
<th>Type</th>
<th>Capacity</th>
<th>Product</th>
<th>Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alita - USA</td>
<td>Announced -- constr. not started</td>
<td>Buffalo, NY</td>
<td>ERW</td>
<td>150,000</td>
<td>OCTG</td>
<td>2015</td>
</tr>
<tr>
<td>Axis Pipe (Prolamsa)</td>
<td>Construction started</td>
<td>Bryan, TX</td>
<td>ERW</td>
<td>300,000</td>
<td>OCTG/LP/Struct.</td>
<td>2014</td>
</tr>
<tr>
<td>Benteler</td>
<td>Construction started</td>
<td>Cado, LA</td>
<td>Seamless</td>
<td>300,000</td>
<td>OCTG</td>
<td>2015</td>
</tr>
<tr>
<td>Borusan Mannesmann</td>
<td>Construction started</td>
<td>Baytown, TX</td>
<td>ERW</td>
<td>250,000</td>
<td>OCTG</td>
<td>2014</td>
</tr>
<tr>
<td>CSI</td>
<td>Construction started</td>
<td>Fontana, CA</td>
<td>ERW</td>
<td>300,000</td>
<td>LP</td>
<td>2014</td>
</tr>
<tr>
<td>Energetex</td>
<td>Announced -- constr. not started</td>
<td>Warren, OH</td>
<td>ERW</td>
<td>192,000</td>
<td>OCTG</td>
<td>2015</td>
</tr>
<tr>
<td>Evraz</td>
<td>Announced -- constr. not started</td>
<td>Portland, OR</td>
<td>ERW</td>
<td>200,000</td>
<td>OCTG</td>
<td>2015</td>
</tr>
<tr>
<td>OMK</td>
<td>In start up phase</td>
<td>Houston, TX</td>
<td>ERW</td>
<td>200,000</td>
<td>OCTG</td>
<td>2013</td>
</tr>
<tr>
<td>PTC</td>
<td>Construction started</td>
<td>Hopkinsville, KY</td>
<td>Seamless</td>
<td>250,000</td>
<td>OCTG</td>
<td>2014</td>
</tr>
<tr>
<td>Tejas</td>
<td>Announced -- constr. not started</td>
<td>Nebraska</td>
<td>ERW</td>
<td>150,000</td>
<td>OCTG</td>
<td>2015</td>
</tr>
<tr>
<td>Tejas</td>
<td>Construction started</td>
<td>New Carlisle, IN</td>
<td>ERW</td>
<td>80,000</td>
<td>OCTG</td>
<td>2014</td>
</tr>
<tr>
<td>Tenaris - USA</td>
<td>Construction started</td>
<td>Bay City, TX</td>
<td>Seamless</td>
<td>400,000</td>
<td>OCTG/LP</td>
<td>2016</td>
</tr>
<tr>
<td>TPCO</td>
<td></td>
<td>Gregory, TX</td>
<td>Seamless</td>
<td>600,000</td>
<td>OCTG</td>
<td>2014</td>
</tr>
<tr>
<td>Vallourec Star</td>
<td>Running</td>
<td>Youngstown, OH</td>
<td>Seamless</td>
<td>500,000</td>
<td>OCTG</td>
<td>2013</td>
</tr>
<tr>
<td>Welded Tube--Canada</td>
<td>Construction started</td>
<td>Lackawanna, NY</td>
<td>ERW</td>
<td>350,000</td>
<td>OCTG</td>
<td>2014</td>
</tr>
</tbody>
</table>

**TOTAL** | **4,222,000**
Issues Regarding the New Pipe Mills

- How long will it take each of the mills to gain market acceptance?
- How will they market their products?
- What part of the current market sourcing will they displace?
- The mill owners have made large investments that need to be fed, expenses continue during the time it takes to gain traction and achieve operating efficiencies.
- How patient will they be? How desperate will they become?
- Will they go direct to users? Some of the current Energy Tubular manufacturers already go direct with OCTG & Line Pipe so why wouldn’t the new mills try and do the same?
- What happens to the production they displace?
AMM asked me to offer my opinion on how the industry will be impacted by the recent OCTG distribution acquisition by the Japanese—it is estimated that 70 to 75% of domestic mill distribution is now owned or controlled by the Japanese.

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% owned</td>
<td>Sumitomo: Premier Pipe</td>
</tr>
<tr>
<td></td>
<td>Mitsui: Champions</td>
</tr>
<tr>
<td></td>
<td>Marubeni-Itouchu: Sooner Pipe &amp; Supply</td>
</tr>
<tr>
<td></td>
<td>Pipeco</td>
</tr>
<tr>
<td></td>
<td>Cinco</td>
</tr>
<tr>
<td>Majority</td>
<td>Borland-Leverich</td>
</tr>
<tr>
<td>Minority ~49%</td>
<td>Pyramid</td>
</tr>
<tr>
<td></td>
<td>Petro Amigos</td>
</tr>
</tbody>
</table>

MC Tubular (Mitsubishi): JD Rush-49% ownership of Houston office, 0% of Bakersfield plus have a JV on a non-upset tubing connection.

I cannot offer an opinion on the long term strategy other than these companies were fairly purchased and the buyers are very sophisticated. I am confident that they will serve their customers well.
What a Business we Distributors are in!

- We have to be mind readers so we can stock what our customer needs before they need it!
- We take the financial risk associated with keeping a capital intensive product in stock!
- We can reduce the financial risk by buying from domestic mills but if we do that we often generate lower margins—if we use import sourcing we increase our financial risk!
- We are asked to ship pipe on a 24 x 7 basis, often disturbing our employees personal time to fulfill this service.
- We arrange transportation and sometimes unloading for our customers
- We pay for the transportation and unloading costs for our customers and then invoice them with often longer payment terms
- We extend credit terms to our customer well beyond what our suppliers give us
- If a claim arises we are the first to respond and handle the claim with no administrative cost reimbursement
- If there is a design change, size/wall/grade, we supply the new pipe and get stuck with the original pipe
- If there are small quantities of pipe left over out of a run/heat, say a few hundred feet, we get stuck with that and often have to discount it to eventually sell it off.
- Competition makes us sell at low margins, so low that if a customer fails to pay us it takes a really long time to generate enough profits to recoup the value of the bad accounts receivable
- And if I fire a customer there are three other distributors waiting in line for their business!

Bottom Line – Distributors are under-appreciated and under-paid!
THE END

Hope it was informative!