Risk Factors Comparison 2024-02-15 to 2023-02-16 Form: 10-K

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You should carefully consider each of the following risks in addition to all other information contained or incorporated herein. These risks relate principally to our business and the industry in which we operate or to the securities markets generally and ownership of our common stock. Our business, prospects, financial condition, results of operations or cash flows could be materially and adversely affected by any of these risks, and, as a result, the trading price of our common stock could decline. This information should be read in conjunction with Item 7, Management' s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A, Quantitative and Qualitative Disclosures about Market Risk and the consolidated financial statements and related notes included in this Form 10- K. Risks Relating to Our Business Decreased capital and other expenditures in the energy industry, which can result from decreased oil and natural gas prices, among other things, can adversely impact our customers' demand for our products and our revenue. A large portion of our revenue depends upon the level of capital and operating expenditures in the oil and natural gas industry, including capital and other expenditures in connection with exploration, drilling, production, gathering, transportation, refining and processing operations. Demand for the products we distribute is particularly sensitive to the level of exploration, development and production activity of, and the corresponding capital and other expenditures by, oil and natural gas companies. In addition, after a well is drilled, there can be a lag between when the well is drilled and when it is completed, which causes a delay in the demand for some of our products. Oil and natural gas prices have been extremely volatile since 2014. Continued volatility and weakness in oil or natural gas prices could depress levels of exploration, development and production activity and, therefore, could lead to a decrease in our customers' capital and other expenditures. The willingness of oil and gas operators to make capital and operating expenditures to explore for and produce oil and natural gas and the willingness of oilfield service companies to invest in capital and operating equipment will continue to be influenced by numerous factors over which we have no control, including: • the ability of the members of the ~~Organization of Petroleum Exporting Countries ("~~ OPEC ~~")~~ and certain non- OPEC countries, to maintain price stability through voluntary production limits, the level of production by other non- OPEC countries, such as the United States, and worldwide demand for oil and gas; • the level of production from known reserves; • the cost of exploring for and producing oil and gas; • limits on access to capital and investor demands for capital discipline; • the level of drilling activity and drilling rig day rates; • worldwide economic activity; • national government political requirements; • changes in governmental regulations; • the impact of public health crises, such as the COVID- 19 pandemic including any new virus strains that result in the return of lockdowns or other government restrictions, on worldwide demand for oil and gas; • the development of alternate energy sources; and • environmental regulations. If there is a significant reduction in demand for drilling services, in cash flows of drilling contractors, well servicing companies or production companies, or in drilling or well servicing rig utilization rates, then demand for our products will decline. Volatile oil and gas prices affect demand for our products. Demand for our products is largely determined by current and anticipated oil and natural gas prices, and the related spending and level of activity by our customers, including spending on production and the level of drilling activities. Volatility or weakness in oil or natural gas prices (or the perception that oil or natural gas prices will decrease) affects the spending pattern of our customers, and may result in the drilling of fewer new wells or lower production spending on existing wells. This, in turn, could result in lower demand for our products. Any sustained decrease in capital expenditures in the oil and natural gas industry could have a material adverse effect on us. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of other factors that are beyond our control. Any such reduction in operating budgets, reduction in activity and / or pricing pressures, would adversely affect our revenue and operating performance. Many factors affect the supply of and demand for energy and, therefore, influence oil and natural gas prices, including: • the level of domestic and worldwide oil and natural gas production and inventories; • the level of drilling activity and the availability of attractive oil and natural gas field prospects, which governmental actions may affect, such as regulatory actions or legislation, or other restrictions on drilling, including those related to environmental concerns (e. g., a temporary moratorium on deepwater drilling in the Gulf of Mexico following a rig accident or oil spill); • the discovery rate of new oil and natural gas reserves and the expected cost of developing new reserves; • the actual cost of finding and producing oil and natural gas; • depletion rates; • domestic and worldwide refinery over capacity or under capacity and utilization rates; • the availability of transportation infrastructure and refining capacity; • increases in the cost of products that the oil and gas industry uses, such as those that we provide, which may result from increases in the cost of raw materials such as steel; • shifts in end- customer preferences toward fuel efficiency and the use of natural gas; • the economic or political attractiveness of alternative fuels, such as coal, hydrocarbon, battery power, wind, solar energy and biomass- based fuels; • increases in oil and natural gas prices or historically high oil and natural gas prices, which could lower demand for oil and natural gas products; • worldwide economic activity including growth in non- Organization for Economic Co- operation and Development countries, including China and India; • increased interest rates and the cost of capital; • national government policies, including government policies that could nationalize or expropriate oil and natural gas, E & P, refining or transportation assets; • the ability of OPEC and non- OPEC countries to set and maintain production levels and prices for oil; • the level of production by non- OPEC countries; • the impact of armed hostilities, or the threat or perception of armed hostilities, including the ~~conflict~~ **conflicts** in Ukraine **and in Israel** ; • public health crises, such as the COVID- 19 pandemic that began in 2020 and emergence of any new virus strains that result in the return of lockdowns or other government restrictions; • environmental regulation; • import duties and tariffs; • technological advances; • global weather conditions and natural disasters; • currency fluctuations; and • tax policies. Oil and natural gas prices have been and are expected to remain volatile. U. S. rig count ~~increased~~ **decreased** from ~~588~~ **772** rigs on January ~~7~~ **6** , ~~2022~~ **2023** to ~~779~~ **622** rigs on December ~~30~~ **29** , ~~2022~~ **2023** . U. S. rig count averaged ~~721~~ **689** rigs in ~~2022~~ **2023** . U. S. rig count at January ~~20~~ **19** , ~~2023~~ **2024** was ~~771~~ **620** rigs. The price for West Texas Intermediate crude was $ ~~76~~ **70** . ~~87~~ **62** per barrel at January **2, 2024, $ 76. 87 per barrel on January** 3, 2023 ~~,~~ **and** $ 75. 99 per barrel on January ~~3~~ **4** , 2022 ~~and $ 47~~ . ~~47 per barrel on~~ **Even though the prices as of the beginning of** January ~~4~~ **for the last three years have been relatively stable** , ~~2021.~~ **prices have historically been very volatile, and** ~~This~~ **this historical** ~~type of~~ volatility has ~~historically~~ caused oil and natural gas companies to change their strategies and expenditure levels from year to year. We have experienced in the past, and we will likely experience in the future, significant fluctuations in operating results based on these changes. General economic and geopolitical conditions may adversely affect our business. U. S. and global general economic conditions affect many aspects of our business, including demand for the products we distribute and the pricing and availability of supplies. General economic conditions and predictions regarding future economic conditions also affect our forecasts. A decrease in demand for the products we distribute or other adverse effects resulting from an economic downturn may cause us to fail to achieve our anticipated financial results. General economic factors beyond our control that affect our business and customers include public health crises, interest rates, recession, inflation, deflation, customer credit availability, consumer credit availability, consumer debt levels, performance of housing markets, energy costs, tariffs, tax rates and policy, unemployment rates, commencement or escalation of war or hostilities, the threat or possibility of war, terrorism or other global or national unrest, political or financial instability, and other matters that influence our customers' spending. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency or increase in magnitude. In addition, worldwide economic conditions could have an adverse effect on our business, prospects, operating results, financial condition and cash flows. We are currently operating in a period of economic uncertainty and capital markets disruption, which has been significantly impacted by geopolitical instability due to **, among** ~~the~~ **other things,** ongoing military ~~conflict~~ **conflicts** ~~between Russia and~~ **, such as those in** Ukraine **and in Israel** . Our business may be materially adversely affected by any negative impact on the global economy and capital markets resulting from ~~the~~ **military** ~~conflict~~ **conflicts** ~~in Ukraine~~ or ~~any~~ other geopolitical tensions. The extent and duration of ~~the~~ military ~~action~~ **conflicts** , sanctions, trade controls and resulting market disruptions are impossible to predict, but could be substantial **. If our product costs became subject to significant future inflationary pressures, then we may not be able to fully offset these higher costs through price increases. Inflationary pressures and supply chain disruptions could result in further increases to our operating and capital costs that are not fixed. Additionally, these economic variables could lead to a renegotiation of contracts and / or supply agreements, among others. These economic variables are beyond our control and may adversely impact our business, financial condition, results of operations and future cash flows** . We may be unable to compete successfully with other companies in our industry. We sell products in very competitive markets. In some cases, we compete with large companies with substantial resources. In other cases, we compete with smaller regional companies that may increasingly be willing to provide similar products at lower prices. Certain of these competitors may have greater financial, technical and marketing resources than us, and may be in a better competitive position. The following competitive actions can each adversely affect our revenues and earnings: • price changes; • vendors with better terms; • consolidation in the industry; • investments in technology and fulfillment; and • improvements in availability and delivery. We could experience a material adverse effect to the extent that our competitors are successful in reducing our customers' purchases of products from us. Competition could also cause us to lower our prices, which could reduce our margins and profitability. Furthermore, consolidation in our industry could heighten the impacts of the competition on our business and results of operations discussed above, particularly if consolidation results in competitors with stronger financial and strategic resources, and could also result in increases to the prices we are required to pay for acquisitions we may make in the future. In addition, certain foreign jurisdictions and government- owned petroleum companies located in some of the countries in which we operate have adopted policies or regulations which may give local nationals in these countries competitive advantages. Competition in our industry could lead to lower revenues and earnings. Demand for **our sales of** the products we distribute could decrease if the manufacturers of those products were to **instead** sell a substantial amount of goods directly to ~~end users~~ **our customers** in the sectors we serve. Historically, users of pipes, valves and fittings and related products have purchased certain amounts of these products through distributors and not directly from manufacturers. If customers were to purchase the products that we sell directly from manufacturers, or if manufacturers sought to increase their efforts to sell directly to end **-** users, we could experience a significant decrease in profitability. These or other developments that remove us from, or limit our role in, the distribution chain, may harm our competitive position in the marketplace and reduce our sales and earnings and adversely affect our business. We may need additional capital in the future, and it may not be available on acceptable terms, or at all. We may require more capital in the future to: • fund our operations (including, but not limited to, working capital requirements such as inventory); • finance investments in equipment and infrastructure needed to maintain and expand our distribution capabilities; • enhance and expand the range of products we offer; and • respond to potential strategic opportunities, such as investments, acquisitions and international expansion. We can give no assurance that additional financing will be available on terms favorable to us, or at all. The terms of available financing may place limits on our financial and operating flexibility. If adequate funds are not available on acceptable terms, we may be forced to reduce our operations or delay, limit or abandon expansion opportunities. Moreover, even if we are able to continue our operations, the failure to obtain additional financing could reduce our competitiveness. We do not have long- term contracts or agreements with many of our customers. The contracts and agreements that we do have generally do not commit our customers to any minimum purchase volume. The loss of a significant customer may have a material adverse effect on us. Given the nature of our business, and consistent with industry practice, we do not have long- term contracts with many of our customers. In addition, our contracts generally do not commit our customers to any minimum purchase volume. Therefore, a significant number of our customers may terminate their relationships with us or reduce their purchasing volume at any time. Furthermore, the long- term customer contracts that we do have are generally terminable without cause on short notice. The products that we may sell to any particular customer depend in large part on the size of that customer' s capital expenditure budget in a particular year and on the results of competitive bids for major projects. Consequently, a customer that accounts for a significant portion of our sales in one fiscal year may represent an immaterial portion of our sales in subsequent fiscal years. The loss of a significant customer, or a substantial decrease in a significant customer' s orders, may have an adverse effect on our sales and revenue. In addition, we are subject to customer audit clauses in many of our multi- year contracts. If we are not able to provide the proper documentation or support for invoices per the contract terms, we may be subject to negotiated settlements with our major customers. Changes in our customer and product mix could cause our product margin to fluctuate **or affect our competitive position** . From time to time, we may experience changes in our customer mix or in our product mix. Changes in our customer mix may result from **business acquisitions,** geographic expansion, daily selling activities within current geographic markets and targeted selling activities to new customer segments. Changes in our product mix may result from **business acquisitions,** marketing activities to existing customers and needs communicated to us from existing and prospective customers. If customers begin to require more lower- margin products from us, our business, results of operations and financial condition may suffer. Customer credit risks could result in losses. The concentration of our customers in the energy industry may impact our overall exposure to credit risk as customers may be similarly affected by prolonged changes in economic and industry conditions. Further, laws in some jurisdictions in which we operate could make collection difficult or time consuming. We perform ongoing credit evaluations of our customers and do not generally require collateral in support of our trade receivables. While we maintain reserves for expected credit losses, we cannot assure these reserves will be sufficient to meet write- offs of uncollectible receivables or that our losses from such receivables will be consistent with our expectations. We may be unable to successfully execute or effectively integrate acquisitions. One of our key operating strategies is to selectively pursue acquisitions, including large scale acquisitions, to continue to grow and increase profitability. However, acquisitions, particularly of a significant scale, involve numerous risks and uncertainties, including intense competition for suitable acquisition targets, the potential unavailability of financial resources necessary to consummate acquisitions in the future, increased leverage due to additional debt financing that may be required to complete an acquisition, dilution of our stockholders' net current book value per share if we issue additional equity securities to finance an acquisition, difficulties in identifying suitable acquisition targets or in completing any transactions identified on sufficiently favorable terms, assumption of undisclosed or unknown liabilities and the need to obtain regulatory or other governmental approvals that may be necessary to complete acquisitions. In addition, any future acquisitions may entail significant transaction costs and risks associated with entry into new markets. Even when acquisitions are completed, integration of acquired entities can involve significant difficulties, such as: • failure to achieve cost savings or other financial or operating objectives with respect to an acquisition; • complications and issues resulting from the integration / conversion of ERP systems; • strain on the operational and managerial controls and procedures of our business, and the need to modify systems or to add management resources; • difficulties in the integration and retention of customers or personnel and the integration and effective deployment of operations or technologies; • amortization of acquired assets, which would reduce future reported earnings; • possible adverse short- term effects on our cash flows or operating results; • diversion of management' s attention from the ongoing operations of our business; • integrating personnel with different organizational cultures; • coordinating sales and marketing functions; • failure to obtain and retain key personnel of an acquired business; and • assumption of known or unknown material liabilities or regulatory non- compliance issues. Failure to manage these acquisition risks could have an adverse effect on us. We are a holding company and depend upon our subsidiaries for our cash flow. We are a holding company. Our subsidiaries conduct all of our operations and own substantially all of our assets. Consequently, our cash flow and our ability to meet our obligations or to make other distributions in the future will depend upon the cash flow of our subsidiaries and our subsidiaries' payment of funds to us in the form of dividends, tax sharing payments or otherwise. The ability of our subsidiaries to make any payments to us will depend on their earnings, the terms of their current and future indebtedness, tax considerations and legal and contractual restrictions on the ability to make distributions. Our subsidiaries are separate and distinct legal entities. Any right that we have to receive any assets of or distributions from any of our subsidiaries upon the bankruptcy, dissolution, liquidation or reorganization, or to realize proceeds from the sale of their assets, will be junior to the claims of that subsidiary' s creditors, including trade creditors and holders of debt that the subsidiary issued. If we lose any of our key personnel, we may be unable to effectively manage our business or continue our growth. Our future performance depends to a significant degree upon the continued contributions of our management team and our ability to attract, hire, train and retain qualified managerial, sales and marketing personnel. In particular, we rely on our sales and marketing teams to create innovative ways to generate demand for the products we distribute. The loss or unavailability to us of any member of our management team or a key sales or marketing employee could have a material adverse effect on us to the extent we are unable to timely find adequate replacements. We face competition for these professionals from our competitors, our customers and other companies operating in our industry. We may be unsuccessful in attracting, hiring, training and retaining qualified personnel. Interruptions in the proper functioning of our information systems could disrupt operations and cause increases in costs or decreases in revenues. The proper functioning of our information systems is critical to the successful operation of our business. We depend on our information management systems to process orders, track credit risk, manage inventory and monitor accounts receivable collections. Our information systems also allow us to efficiently purchase products from our vendors and ship products to our customers on a timely basis, maintain cost- effective operations and provide superior service to our customers. However, our information systems could be vulnerable to natural disasters, power losses, telecommunication failures, security breaches and other problems. If critical information systems fail or are otherwise unavailable, our ability to procure products to sell, process and ship customer orders, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay accounts payable and expenses could be adversely affected. Our ability to integrate our systems with our customers' systems would also be significantly affected. If our information systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to manage inventories or process transactions, which could result in lost sales, inability to process purchase orders and / or a potential loss of customer loyalty, which could adversely affect our results of operations. We maintain information systems controls designed to protect against, among other things, unauthorized program changes and unauthorized access to data on our information systems. If our information systems controls do not function properly, we face increased risks of unexpected errors and unreliable financial data or theft of proprietary Company information. The loss of third- party transportation providers upon whom we depend, or conditions negatively affecting the transportation industry, could increase our costs or cause a disruption in our operations. We depend upon third- party transportation providers for delivery of products to our customers. Strikes, slowdowns, transportation disruptions or other conditions in the transportation industry, including, but not limited to, shortages of truck drivers, disruptions in rail service, increases in fuel prices and adverse weather conditions, could increase our costs and disrupt our operations and our ability to service our customers on a timely basis. We cannot predict to what extent increases or anticipated increases in fuel prices may impact our costs or cause a disruption in our operations going forward. Adverse weather events or natural disasters could negatively affect local economies and disrupt operations. Certain areas in which we operate are susceptible to adverse weather conditions or natural disasters, such as hurricanes, tornadoes, floods and earthquakes. These events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Additionally, we may experience communication disruptions with our customers, vendors and employees. These events can cause physical damage to our locations and require us to close locations. Additionally, our sales orders and shipments can experience a temporary decline immediately following these events. We cannot predict whether or to what extent damage caused by these events will affect our operations or the economies in regions where we operate. These adverse events could result in disruption of our purchasing or distribution capabilities, interruption of our business that exceeds our insurance coverage, our inability to collect from customers and increased operating costs. Our business or results of operations may be adversely affected by these and other negative effects of these events. The occurrence of cyber incidents, or a deficiency in our cybersecurity, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information or damage to our Company' s image, all of which could negatively impact our financial results. A cyber incident is any adverse event that threatens the confidentiality, integrity, or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. **In addition, the rapid evolution and increased adoption of artificial intelligence technologies may intensify our cybersecurity risks.** Our four primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our Company' s image, financial loss and private data exposure. We have implemented solutions, processes, and procedures to help mitigate this risk, but these measures, as well as our organization' s increased awareness of our risk of a cyber incident, do not guarantee that our financial results will not be negatively impacted by such an incident. Our security measures may be undermined due to the **rapid evolution and increased adoption of artificial intelligence and machine learning technologies,** actions of outside parties, employee error, internal or external malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data systems and misappropriate business and personal information. Our systems are subject to repeated attempts by third parties to access information or to disrupt our systems. Such disruptions or misappropriations and the resulting repercussions, including reputational damage and legal claims or proceedings, may adversely affect our results of operations, cash flows and financial condition, and the trading price of our common stock. Privacy concerns relating to our personal and business information being potentially breached could damage our reputation and deter current and potential users or customers from using our products and services. We have security measures and controls to protect personal and business information and continue to make investments to secure access to our information technology network. These measures may be undermined, however, due to the actions of outside parties, employee error, internal or external malfeasance, or otherwise, and, as a result **,** an unauthorized party may obtain access to our data systems and misappropriate business and personal information. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques, timely discover or counter them, or implement adequate preventative measures. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and potentially have an adverse effect on our business and results of operations. We have goodwill recorded on our balance sheet. If our goodwill becomes impaired, we may be required to recognize charges that would reduce our income. As of December 31, ~~2022~~ **2023** , we had $ ~~116~~ **139** million of goodwill recorded on our balance sheet. Under generally accepted accounting principles in the U. S., goodwill is not amortized, but must be reviewed for possible impairment annually, or more often in certain circumstances where events indicate that the asset values are not recoverable. These reviews could result in an earnings charge for impairment, which would reduce our net income even though there would be no impact on our underlying cash flow. Over the last ~~three~~ **four** years, the COVID- 19 pandemic has adversely affected our business, and the emergence of any new virus strains that result in the return of broad- based lockdowns, vaccine mandates or other government interventions, could further adversely affect our operations and financial condition. Over the last ~~three~~ **four** years, the COVID- 19 pandemic has adversely affected the global economy, disrupted global supply chains and created significant volatility in the financial markets. The emergence of any new virus strains that result in the return of broad- based lockdowns, vaccine mandates or other government interventions or restrictions, could further adversely affect the global economy, global supply chains, financial markets and our business. The extent to which the COVID- 19 pandemic adversely affects our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted. Risks Relating to Our Supply Chain and International Trade Policies We may experience unexpected supply shortages. We distribute products from a wide variety of manufacturers and suppliers. Nevertheless, in the future we may have difficulty obtaining the products we need from suppliers and manufacturers as a result of unexpected demand or production difficulties that might extend lead times. Also, products may not be available to us in quantities sufficient to meet our customer demand. Our inability to obtain products from suppliers and manufacturers in sufficient quantities, or at all, could adversely affect our product offerings and our business. We may experience cost increases from suppliers, which we may be unable to pass on to our customers. In the future, we may face supply cost increases due to, among other things, unexpected increases in demand for supplies, decreases in production of supplies or increases in the cost of raw materials or transportation, or trade wars. Any inability to pass supply price increases on to our customers could have a material adverse effect on us. In addition, if supply costs increase, our customers may elect to purchase smaller amounts of products or may purchase products from other distributors. While we may be able to work with our customers to reduce the effects of unforeseen price increases because of our relationships with them, we may not be able to reduce the effects of the cost increases. In addition, to the extent that competition leads to reduced purchases of products from us or a reduction of our prices, and these reductions occur concurrently with increases in the prices for selected commodities which we use in our operations, the adverse effects described above would likely be exacerbated and could result in a prolonged downturn in profitability. We do not have contracts with most of our suppliers. The loss of a significant supplier would require us to rely more heavily on our other existing suppliers or to develop relationships with new suppliers. Such a loss may have an adverse effect on our product offerings and our business. Given the nature of our business, and consistent with industry practice, we do not have contracts with most of our suppliers. We generally make our purchases through purchase orders. Therefore, most of our suppliers have the ability to terminate their relationships with us at any time. Although we believe there are numerous manufacturers with the capacity to supply the products we distribute, the loss of one or more of our major suppliers could have an adverse effect on our product offerings and our business. Such a loss would require us to rely more heavily on our other existing suppliers or develop relationships with new suppliers, which may cause us to pay higher prices for products due to, among other things, a loss of volume discount benefits currently obtained from our major suppliers. Changes in our credit profile may affect our relationship with our suppliers, which could have a material adverse effect on our liquidity. Changes in our credit profile may affect the way our suppliers view our ability to make payments and may induce them to shorten the payment terms of their invoices. Given the large dollar amounts and volume of our purchases from suppliers, a change in payment terms may have a material adverse effect on our liquidity and our ability to make payments to our suppliers and, consequently, may have a material adverse effect on us. Price reductions by suppliers of products that we sell could cause the value of our inventory to decline. Also, these price reductions could cause our customers to demand lower sales prices for these products, possibly decreasing our margins and profitability on sales to the extent that we purchased our inventory of these products at the higher prices prior to supplier price reductions. The value of our inventory could decline as a result of manufacturer price reductions with respect to products that we sell. There is no assurance that a substantial decline in product prices would not result in a write- down of our inventory value. Such a write- down could have an adverse effect on our financial condition. Also, decreases in the market prices of products that we sell could cause customers to demand lower sales prices from us. These price reductions could reduce our margins and profitability on sales with respect to the lower- priced products. Reductions in our margins and profitability on sales could have a material adverse effect on us. A substantial decrease in the price of steel could significantly lower our product margin or cash flow. We distribute many products manufactured from steel. As a result, the price and supply of steel can affect our business and, in particular, our pipe product category. When steel prices are lower, the prices that we charge customers for products may decline, which affects our product margin and cash flow. At times pricing and availability of steel can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, sales levels, competition, consolidation of steel producers, fluctuations in and the costs of raw materials necessary to produce steel, steel manufacturers’ plant utilization levels and capacities, import duties and tariffs and currency exchange rates. Increases in manufacturing capacity for steel- related products could put pressure on the prices we receive for such products. When steel prices decline, customer demands for lower prices and our competitors’ responses to those demands could result in lower sales prices and, consequently, lower product margin and cash flow. If steel prices rise, we may be unable to pass along the cost increases to our customers. We maintain inventories of steel products to accommodate the lead time requirements of our customers. Accordingly, we purchase steel products in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon historic buying practices, contracts with customers and market conditions. Our commitments to purchase steel products are generally at prevailing market prices in effect at the time we place our orders. If steel prices increase between the time we order steel products and the time of delivery of the products to us, our suppliers may impose surcharges that require us to pay for increases in steel prices during the period. Demand for the products we distribute, the actions of our competitors and other factors will influence whether we will be able to pass on steel cost increases and surcharges to our customers, and we may be unsuccessful in doing so. If existing tariffs and duties on imports of line pipe or certain of the other products that we sell are lifted, the U. S. market could see an increased supply of less expensive products, which could adversely affect our business and results of operations. U. S. law currently imposes tariffs and duties on imports of certain pipe and steel products that we sell. If these tariffs and duties are lifted or reduced, our U. S. customers may decide to purchase these less expensive imported products rather than the higher- cost products in our existing inventory, which could materially and adversely affect our business and results of operations. The increased supply of these less expensive imported products could also drive down prices on our domestic or other alternate products that compete with the imported products, which could adversely affect our margins, decrease the value of our inventory and result in a longer holding period for some of our inventory. Changes in trade policies, including the imposition or elimination of additional tariffs and duties, could negatively impact our business, financial condition and results of operations. The U. S. government has continued to impose Section 232 tariffs, Section 301 tariffs and various dumping duties on steel and aluminum and a broad range of other products imported into the U. S. Changes in tariffs and duties affect our material input costs. These tariffs and duties are subject to change. If these tariffs or duties were removed or adjusted down, it could drive down the costs of certain products and affect our inventory value which could affect our margin negatively. In addition, there could be additional trade actions or rate increases imposed by the U. S. and these could also result in additional retaliatory actions by the U. S.' trade partners. Given that we procure significant materials that we resell directly or indirectly from outside of the U. S., potential changes in U. S. trade policy could increase the cost or limit the availability of such raw materials, which could hurt our competitive position and adversely impact our business, financial condition and results of operations. In addition, we sell a significant proportion of our products to customers outside of the U. S. Retaliatory actions by other countries could result in increases in the price of our products, which could limit demand for such products, hurt our global competitive position and have a material adverse effect on our business, financial condition and results of operations. While tariffs and other retaliatory trade measures imposed by other countries on U. S. goods have not yet had a significant impact on our business or results of operations, we cannot predict further developments, and such existing or future tariffs could have a material adverse effect on our results of operations, financial position and cash flows. Risks Relating to Legal and Regulatory Matters We are subject to strict environmental, health and safety laws and regulations that may lead to significant liabilities and have a material adverse effect on our business, financial condition and results of operations. We are subject to a variety of federal, state, local, foreign and provincial environmental, health and safety laws, regulations and permitting requirements, including those governing the discharge of pollutants or hazardous substances into the air, soil or water, the generation, handling, use, management, storage and disposal of, or exposure to, hazardous substances and wastes (including greenhouse gas (" GHG") emissions), the responsibility to investigate and clean up contamination and occupational health and safety. Regulations and courts may impose fines and penalties for non- compliance with applicable environmental, health and safety requirements and the failure to have or to comply with the terms and conditions of required permits. Our failure to comply with applicable environmental, health and safety requirements could result in fines, penalties, enforcement actions, third- party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders requiring corrective measures, including the installation of pollution control equipment or remedial actions. Certain laws and regulations, such as the Comprehensive Environmental Response, Compensation, and Liability Act (also known as " CERCLA " or the " U. S. federal Superfund law ") or its state and foreign equivalents, may impose the obligation to investigate and remediate contamination at a facility on current and former owners or operators or on persons who may have sent waste to that facility for disposal. These laws and regulations may impose liability without regard to fault or to the legality of the activities giving rise to the contamination. Moreover, we may incur liabilities in connection with environmental conditions currently unknown to us relating to our existing, prior or future owned or leased sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired. We believe that indemnities contained in certain of our acquisition agreements may cover certain environmental conditions existing at the time of the acquisition, subject to certain terms, limitations and conditions. However, if these indemnification provisions terminate or if the indemnifying parties do not fulfill their indemnification obligations, we may be subject to liability with respect to the environmental matters that those indemnification provisions address. In addition, environmental, health and safety laws and regulations applicable to our business and the business of our customers, including laws regulating the energy industry, and the interpretation or enforcement of these laws and regulations, are constantly evolving. It is impossible to predict accurately the effect that changes in these laws and regulations, or their interpretation or enforcement, may have on us. Existing or future laws, regulations, court orders or other public- or private- sector initiatives to limit greenhouse gas emissions or relating to climate change may reduce demand for our products and services **and the physical effects of climate change could damage our assets or facilities, adversely impacting our business, results of operations, and financial condition** . Continuing political and social attention to the issue of climate change has resulted in both existing and proposed international agreements and national, regional, and local legislation and regulatory measures to limit GHG emissions. The implementation of these agreements, including the Paris Agreement, the Europe Climate Law, and other existing or future regulatory mandates, may adversely affect the demand for our products and services, impose taxes on us or our customers, require us or our customers to reduce GHG emissions from our technologies or operations, or accelerate the obsolescence of our products or services. There is also increased focus by our customers, investors and other stakeholders on climate change, sustainability, and energy transition matters. Actions to address these concerns or negative perceptions of our industry or fossil fuel products and their relationship to the environment have led to initiatives to conserve energy and promote the use of alternative energy sources, which may reduce the demand for and production of oil and gas in areas of the world where our customers operate, and thus reduce future demand for our products and services **. We and our suppliers also may be subject to physical risks associated with climate change, such as increased severity and frequency of extreme weather events and more frequent short- term business disruptions as a result of severe weather such as flooding, storms, droughts, fires, snowstorms and other climatic events, which could impair our ability to effectively deliver products and services to our customers or to keep our operating costs aligned with expectations or cause destruction to our assets or facilities. While we carry insurance coverage standard within our industry to protect us against many of these risks, the potential physical effects of climate change are uncertain, and we may not carry adequate coverage to protect all of our assets or facilities from climate- related events. If any of these risks were realized, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products and services, damage our relationships with our customers and reduce our market share, all of which could adversely affect our results of operations and financial condition** . We may not have adequate insurance for potential liabilities, including liabilities arising from litigation. In the ordinary course of business, we have, and in the future may, become the subject of various claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, the products we distribute, employees and other matters, including potential claims by individuals alleging exposure to hazardous materials as a result of the products we distribute or our operations. Some of these claims may relate to the activities of businesses that we have acquired, even though these activities may have occurred prior to our acquisition of the businesses. The products we distribute are sold primarily for use in the energy industry, which is subject to inherent risks that could result in death, personal injury, property damage, pollution, release of hazardous substances or loss of production. In addition, defects in the products we distribute could result in death, personal injury, property damage, pollution, release of hazardous substances or damage to equipment and facilities. Actual or claimed defects in the products we distribute may give rise to claims against us for losses and expose us to claims for damages. We maintain insurance to cover certain of our potential losses, and we are subject to various self- retentions, deductibles and caps under our insurance. We face the following risks with respect to our insurance coverage: • we may not be able to continue to obtain insurance on commercially reasonable terms; • we may incur losses from interruption of our business that exceed our insurance coverage; • we may be faced with types of liabilities that will not be covered by our insurance; • our insurance carriers may not be able to meet their obligations under the policies; or • the dollar amount of any liabilities may exceed our policy limits. Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on us. Finally, even in cases where we maintain insurance coverage, our insurers may raise various objections and exceptions to coverage that could make uncertain the timing and amount of any possible insurance recovery. Due to our position as a distributor, we are subject to personal injury, product liability and environmental claims involving allegedly defective products. Our customers use certain products we distribute in potentially hazardous applications that can result in personal injury, product liability and environmental claims. A catastrophic occurrence at a location where end - users use the products we distribute may result in us being named as a defendant in lawsuits asserting potentially large claims, even though we did not manufacture the products. Applicable law may render us liable for damages without regard to negligence or fault. In particular, certain environmental laws provide for joint and several and strict liability for remediation of spills and releases of hazardous substances. Certain of these risks are reduced by the fact that we are a distributor of products that third- party manufacturers produce, and, thus, in certain circumstances, we may have third- party warranty or other claims against the manufacturer of products alleged to have been defective. However, there is no assurance that these claims could fully protect us or that the manufacturer would be able financially to provide protection. There is no assurance that our insurance coverage will be adequate to cover the underlying claims. Our insurance does not provide coverage for all liabilities (including liability for certain events involving pollution or other environmental claims). We face risks associated with conducting business in markets outside of the U. S. and Canada. We currently conduct business in countries outside of the U. S. and Canada. We could be materially and adversely affected by economic, legal, political and regulatory developments in the countries in which we do business in the future or in which we expand our business, particularly those countries which have historically experienced a high degree of political or economic instability. Examples of risks inherent in conducting business in markets outside of the U. S. and Canada include: • changes in the political and economic conditions in the countries in which we operate, including civil uprisings and terrorist acts; • unexpected changes in regulatory requirements; • changes in tariffs; • the adoption of foreign or domestic laws limiting exports to or imports from certain foreign countries; • fluctuations in currency exchange rates and the value of the U. S. dollar; • restrictions on repatriation of earnings; • expropriation of property without fair compensation; • governmental actions that result in the deprivation of contract or proprietary rights; and • the acceptance of business practices which are not consistent with or are antithetical to prevailing business practices we are accustomed to in North America including export compliance and anti-bribery practices and governmental sanctions. If we begin doing business in a foreign country in which we do not presently operate, we may also face difficulties in operations and diversion of management time in connection with establishing our business there. We are subject to U. S. and other anti- corruption laws, trade controls, economic sanctions, and similar laws and regulations, including those in the jurisdictions where we operate. Our failure to comply with these laws and regulations could subject us to civil, criminal and administrative penalties and harm our reputation. Doing business on a worldwide basis requires us to comply with the laws and regulations of the U. S. government and various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners and investment decisions. In particular, our operations are subject to U. S. and foreign anti- corruption and trade control laws and regulations, such as the Foreign Corrupt Practices Act (" FCPA "), export controls and economic sanctions programs, including those administered by the U. S. Treasury Department' s Office of Foreign Assets Control (" OFAC "). As a result of doing business in foreign countries and with foreign partners, we are exposed to a heightened risk of violating anti- corruption and trade control laws and sanctions regulations. The FCPA prohibits us from providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. It also requires us to keep books and records that accurately and fairly reflect the Company' s transactions. As part of our business, we may deal with state- owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. In addition, the United Kingdom Bribery Act (the " Bribery Act ") extends beyond bribery of foreign public officials and also apply to transactions with individuals that a government does not employ. The provisions of the Bribery Act are also more onerous than the FCPA in a number of other respects, including jurisdiction, non- exemption of facilitation payments and penalties. Some of the international locations in which we operate lack a developed legal system and have higher than normal levels of corruption. Our continued expansion outside the U. S., including in developing countries, and our development of new partnerships and joint venture relationships worldwide, could increase the risk of FCPA, OFAC or Bribery Act violations in the future. Economic sanctions programs restrict our business dealings with certain sanctioned countries, persons and entities. In addition, because we act as a distributor, we face the risk that our customers might further distribute our products to a sanctioned person or entity, or an ultimate end- user in a sanctioned country, which might subject us to an investigation concerning compliance with the OFAC or other sanctions regulations. Violations of anti- corruption and trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have established policies and procedures designed to assist our compliance with applicable U. S. and international anti- corruption and trade control laws and regulations, including the FCPA, the Bribery Act and trade controls and sanctions programs administered by the OFAC, and have trained our employees to comply with these laws and regulations. However, there can be no assurance that all of our employees, consultants, agents or other associated persons will not take actions in violation of our policies and these laws and regulations, and that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our local, strategic or joint venture partners take inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could have a material adverse effect on our reputation, business, financial condition and results of operations. In addition, various state and municipal governments, universities and other investors maintain prohibitions or restrictions on investments in companies that do business with sanctioned countries, persons and entities, which could adversely affect the market for our common stock and other securities. Compliance with and changes in laws and regulations in the countries in which we operate could have a significant financial impact and effect how and where we conduct our operations. We have operations in the U. S. and in other countries that can be impacted by expected and unexpected changes in the business and legal environments in the countries in which we operate. Compliance with and changes in laws, regulations, and other legal and business issues could impact our ability to manage our costs and to meet our earnings goals. Compliance related matters could also limit our ability to do business in certain countries. Changes that could have a significant cost to us include new legislation, new regulations, or a differing interpretation of existing laws and regulations, changes in tax law or tax rates, the unfavorable resolution of tax assessments or audits by various taxing authorities, the expansion of currency exchange controls, export controls or additional restrictions on doing business in countries subject to sanctions in which we operate or intend to operate. Risks Relating to Our Common Stock The market price of our shares may fluctuate widely. The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including: • our competitors' significant acquisitions or dispositions; • the failure of our operating results to meet the estimates of securities analysts or the expectations of our stockholders; • changes in earnings estimates by securities analysts or our ability to meet our earnings guidance; • the operating and stock price performance of other comparable companies; • overall market fluctuations and general economic conditions; and • the other factors described in these " Risk Factors " and elsewhere in this Form 10- K. Stock markets in general have also experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could negatively affect the trading price of our common stock. Your percentage ownership in us may be diluted in the future. As with any publicly traded company, your percentage ownership in us may be diluted in the future because of equity issuances for acquisitions, capital market transactions or otherwise, including, without limitation, equity awards that we expect will be granted to our directors, officers and employees. We cannot assure you that we will pay dividends on our common stock. We do not currently pay dividends on our common stock. We currently intend to retain our future earnings to support the growth and development of our business. The payment of future cash dividends, if any, will be at the discretion of our Board of Directors and will depend upon, among other things, our financial condition, results of operations, capital requirements and development expenditures, future business prospects and any restrictions imposed by future debt instruments. Certain provisions in our corporate documents and Delaware law may prevent or delay an acquisition of our company, even if that change may be considered beneficial by some of our stockholders. The existence of some provisions of our certificate of incorporation and bylaws and Delaware law could discourage, delay or prevent a change in control of us that a stockholder may consider favorable. These include provisions: • providing our Board of Directors with the right to issue preferred stock without stockholder approval; • prohibiting stockholders from taking action by written consent; • restricting the ability of our stockholders to call a special meeting; • providing that the number of directors will be filled by the Board of Directors and vacancies on the Board of Directors, including those resulting from an enlargement of the Board of Directors, will be filled by the Board of Directors; • requiring cause and an affirmative vote of at least 80 percent of the voting power of the then- outstanding voting stock to remove directors; • requiring the affirmative vote of at least 80 percent of the voting power of the then- outstanding voting stock to amend certain provisions of our certificate of incorporation and bylaws; and • establishing advance notice requirements for nominations of candidates for election to our Board of Directors or for stockholder proposals. In addition, we are subject to Section 203 of the Delaware General Corporation Law (the " DGCL ") which may have an anti- takeover effect with respect to transactions not approved in advance by our Board of Directors, including discouraging takeover attempts that could have resulted in a premium over the market price for shares of our common stock. We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board of Directors and by providing our Board of Directors with more time to assess any acquisition proposal. These provisions are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board of Directors determines is not in the best interests of our company and our stockholders.