Murphy USA Inc.
Form 10-Q
August 06, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission File Number 001-35914

MURPHY USA INC.

(Exact name of registrant as specified in its charter)

Delaware	46-2279221
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Peach Street	
El Dorado, Arkansas	71730-5836
(Address of principal executive offices)	(Zip Code)

(870) 875-7600

(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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of Common Stock, $0.01 par value, outstanding at June 30, 2015 was 46,767,164.

MURPHY USA INC.

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ITEM 1. FINANCIAL STATEMENTS

Murphy USA Inc.

Consolidated Balance Sheets

(Thousands of dollars)	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 121,445	$ 328,105
Accounts receivable—trade, less allowance for doubtful accounts of $4,456 in 2015 and $4,456 in 2014	174,149	140,091
Inventories, at lower of cost or market	207,558	182,914
Prepaid expenses and other current assets	25,872	14,772
Total current assets	529,024	665,882
Property, plant and equipment, at cost less accumulated depreciation and amortization of $760,916 in 2015 and $730,202 in 2014	1,299,206	1,253,124
Other assets	13,804	11,058
Total assets	$ 1,842,034	$ 1,930,064
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	$ 122	$ —
Trade accounts payable and accrued liabilities	456,763	386,999
Income taxes payable	6,024	25,600
Deferred income taxes	9,118	481
Total current liabilities	472,027	413,080
Long-term debt, including capitalized lease obligations	489,281	488,250
Deferred income taxes	109,213	118,609
Asset retirement obligations	23,241	22,245
Deferred credits and other liabilities	28,955	29,175
Total liabilities	1,122,717	1,071,359
Stockholders' Equity		
Preferred Stock, par $0.01 (authorized 20,000,000 shares, none outstanding)	—	—
Common Stock, par $0.01 (authorized 200,000,000 shares, 46,767,164 and 46,767,164 shares issued at 2015 and 2014, respectively)	468	468
Treasury stock (3,920,613 and 1,056,689 shares held at June 30, 2015 and December 31, 2014, respectively)	(235,390)	(51,073)
Additional paid in capital (APIC)	553,677	557,871
Retained earnings	400,562	351,439
Total stockholders' equity	719,317	858,705
Total liabilities and stockholders' equity	$ 1,842,034	$ 1,930,064

See notes to consolidated financial statements.

Murphy USA Inc.

Consolidated Statements of Income

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Thousands of dollars except per share amounts)	2015	2014	2015	2014
Revenues				
Petroleum product sales (a)	$ 2,858,910	$ 4,121,694	$ 5,216,989	$ 7,716,041
Merchandise sales	572,164	548,260	1,096,301	1,050,982
Ethanol sales and other	86,147	87,995	166,446	155,260
Total revenues	3,517,221	4,757,949	6,479,736	8,922,283
Costs and Operating Expenses				
Petroleum product cost of goods sold (a)	2,750,602	3,943,134	5,011,688	7,443,480
Merchandise cost of goods sold	488,540	472,909	939,093	905,371
Ethanol cost of goods sold	38,440	41,767	73,020	79,537
Station and other operating expenses	130,472	133,223	252,647	255,700
Depreciation and amortization	21,317	19,685	42,495	39,346
Selling, general and administrative	33,249	29,698	64,705	57,769
Accretion of asset retirement obligations	379	300	757	597
Total costs and operating expenses	3,462,999	4,640,716	6,384,405	8,781,800
Income from operations	54,222	117,233	95,331	140,483
Other income (expense)				
Interest income	15	13	1,888	28
Interest expense	(8,329)	(10,527)	(16,658)	(19,622)
Gain (loss) on sale of assets	(23)	—	(19)	170
Other nonoperating income (expense)	(4,854)	894	510	1,006
Total other income (expense)	(13,191)	(9,620)	(14,279)	(18,418)
Income before income taxes	41,031	107,613	81,052	122,065
Income tax expense	14,840	34,381	31,929	39,981
Income from continuing operations	26,191	73,232	49,123	82,084
Income from discontinued operations, net of taxes	—	—	—	781
Net Income	$ 26,191	$ 73,232	$ 49,123	$ 82,865
Earnings per share - basic:				
Income from continuing operations	$ 0.59	$ 1.58	$ 1.09	$ 1.76
Income from discontinued operations	—	—	—	0.02
Net Income - basic	$ 0.59	$ 1.58	$ 1.09	$ 1.78
Earnings per share - diluted:				
Income from continuing operations	$ 0.59	$ 1.57	$ 1.09	$ 1.75
Income from discontinued operations	—	—	—	0.02
Net Income - diluted	$ 0.59	$ 1.57	$ 1.09	$ 1.77
Weighted-average shares outstanding (in thousands):				
Basic	44,078	46,233	44,851	46,490

Diluted	44,409	46,527	45,218	46,708
Supplemental information:				
(a) Includes excise taxes of:	$ 483,470	$ 483,082	$ 946,444	$ 928,487

See notes to consolidated financial statements.

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Murphy USA Inc.

Consolidated Statements of Cash Flows

(unaudited)

(Thousands of dollars)	Six Months Ended June 30, 2015		2014	
Operating Activities				
Net income	$	49,123	$	82,865
Adjustments to reconcile net income to net cash provided by operating activities				
Income from discontinued operations, net of taxes		—		(781)
Depreciation and amortization		42,495		39,346
Amortization of deferred major repair costs		701		433
Deferred and noncurrent income tax credits		(9,397)		(10,938)
Accretion on discounted liabilities		757		597
Pretax (gains) losses from sale of assets		19		(170)
Net (increase) decrease in noncash operating working capital		(13,892)		18,866
Other operating activities - net		8,010		8,211
Net cash provided by continuing operations		77,816		138,429
Net cash provided by discontinued operations		—		134
Net cash provided by operating activities		77,816		138,563
Investing Activities				
Property additions		(90,967)		(53,054)
		91		279

Proceeds from sale of assets				
Expenditures for major repairs		(690)		(728)
Investing activities of discontinued operations				
Sales proceeds		—		1,097
Net cash required by investing activities		(91,566)		(52,406)
Financing Activities				
Purchase of treasury stock		(189,834)		(50,021)
Repayments of long-term debt		(46)		(70,000)
Debt issuance costs		—		(99)
Amounts related to share-based compensation		(3,030)		(541)
Net cash required by financing activities		(192,910)		(120,661)
Net increase (decrease) in cash and cash equivalents		(206,660)		(34,504)
Cash and cash equivalents at January 1		328,105		294,741
Cash and cash equivalents at June 30	$	121,445	$	260,237

See notes to consolidated financial statements.

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Murphy USA Inc.

Consolidated Statements of Changes in Equity

(unaudited)

(Thousands of dollars, except share amounts)	Common Stock Shares	Par	Treasury Stock	APIC	Retained Earnings	Total
Balance as of December 31, 2013	46,743,633	$ 467	$ —	$ 548,293	$ 107,576	$ 656,336
Net income	—	—	—	—	82,865	82,865
Purchase of treasury stock	—	—	(50,021)	—	—	(50,021)
Issuance of common stock	21,588	1	—	—	—	1
Amounts related to share-based compensation	—	—	—	(542)	—	(542)
Share-based compensation expense	—	—	—	4,849	—	4,849
Balance as of June 30, 2014	46,765,221	$ 468	$ (50,021)	$ 552,600	$ 190,441	$ 693,488

(Thousands of dollars, except share amounts)	Common Stock Shares	Par	Treasury Stock	APIC	Retained Earnings	Total
Balance as of December 31, 2014	46,767,164	$ 468	$ (51,073)	$ 557,871	$ 351,439	$ 858,705
Net income	—	—	—	—	49,123	49,123
Purchase of treasury stock	—	—	(189,834)	—	—	(189,834)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	5,517	(5,517)	—	—
Amounts related to share-based compensation	—	—	—	(3,030)	—	(3,030)
Share-based compensation expense	—	—	—	4,353	—	4,353
Balance as of June 30, 2015	46,767,164	$ 468	$ (235,390)	$ 553,677	$ 400,562	$ 719,317

See notes to consolidated financial statements.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Description of Business and Basis of Presentation

Description of business — Murphy USA Inc. (“Murphy USA” or the “Company”) markets refined products through a network of retail gasoline stations and to unbranded wholesale customers. Murphy USA’s owned retail stations are almost all located in close proximity to Walmart stores in 23 states and use the brand name Murphy USA®. Murphy USA also markets gasoline and other products at standalone stations under the Murphy Express brand. At June 30, 2015, Murphy USA had a total of 1,277 Company stations. The Company acquired a partially constructed ethanol production facility in Hereford, Texas, in late 2010. The Hereford facility is designed to produce 105 million gallons of corn-based ethanol per year, and it began operations near the end of the first quarter of 2011.

Basis of Presentation — Murphy USA was incorporated in March 2013 and, in connection with its incorporation, Murphy USA issued 100 shares of common stock, par value $0.01 per share, to Murphy Oil Corporation (“Murphy Oil” or “Parent”) for $1.00. On August 30, 2013, Murphy USA was separated from Murphy Oil through the distribution of 100% of the common stock of Murphy USA to holders of Murphy Oil stock.

In preparing the financial statements of Murphy USA in conformity with accounting principles generally accepted in the United States, management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Interim Financial Information — The interim period financial information presented in these consolidated financial statements is unaudited and includes all known accruals and adjustments, in the opinion of management, necessary for a fair presentation of the consolidated financial position of Murphy USA and its results of operations and cash flows for the periods presented. All such adjustments are of a normal and recurring nature.

These interim consolidated financial statements should be read together with our audited financial statements for the years ended December 31, 2014, 2013 and 2012, included in our Annual Report on Form 10-K (File No. 001-35914), as filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934 on February 27, 2015.

Recently Issued Accounting Standards— In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which changes the presentation of debt issuance costs to more closely align with the presentation of debt discounts or premiums. The debt issuance costs will continue to be amortized in the same

way as before but presentation will reduce net debt at each financial statement date. The new standard is effective for all fiscal years beginning after December 15, 2015 and interim periods with those fiscal years. Early adoption of this standard is permitted and the Company has elected to adopt this standard in its Quarterly Report on Form 10Q for the period ended March 31, 2015. See Note 4 for additional disclosures required by the adoption of this change in accounting principle.

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," which states if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance is effective for fiscal years, including interim periods within those years, beginning after December 15, 2015. Companies may adopt the new guidance either prospectively for all arrangements entered into (or materially modified) after the effective date, or retrospectively. Early adoption is permitted. The Company is still evaluating the impact this standard will have on its cloud computing arrangements but no material changes are expected as a result of adoption of this standard.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Related Party Transactions

Transition Services Agreement

In conjunction with the separation, we entered into a Transition Services Agreement (“Agreement”) with Murphy Oil on August 30, 2013. This Agreement sets forth the terms on which Murphy Oil provides to us, and we provide to Murphy Oil, on a temporary basis, certain services or functions that the companies have historically shared. Transition services include administrative, payroll, human resources, information technology and network transition services, tax, treasury and other support and corporate services. The Agreement provides for the provision of specified transition services generally for a period of up to eighteen months, with a possible extension of six months, on a cost basis. Certain areas of the Agreement have been extended for the six month period. We record the fee Murphy Oil charges us for these services as a component of general and administrative expenses.

Note 3 – Discontinued Operations

In November 2013, the Company announced that it had entered into negotiations to sell its Hankinson, North Dakota ethanol production facility as part of management’s strategic plan to exit non-core businesses. On December 19, 2013, the Company sold its wholly-owned subsidiary Hankinson Renewable Energy, LLC which owned and operated an ethanol manufacturing facility in Hankinson, North Dakota, and its related assets for $170,000,000 plus working capital adjustments of approximately $3,118,000. During January 2014, the final adjustments to working capital were made and the Company received an additional $1.1 million in sales proceeds which has been included in discontinued operations for the first quarter of 2014. The Company has accounted for all operations related to Hankinson Renewable, LLC as discontinued operations for all periods presented. The after-tax gain from disposal of the subsidiary (including associated inventories) was $52,542,000 in 2013 with an additional $781,000 in 2014 related to the final working capital adjustment.

The results of operations associated with the Hankinson discontinued operations for the 2014 period are presented in the following table.

(Thousands of dollars)	Six Months Ended

	June 30, 2014
Revenues	$ —
Income from operations before income taxes	—
Gain on sale before income taxes	1,202
Total income from discontinued operations before taxes	1,202
Provision for income taxes	421
Income from discontinued operations	$ 781

Note 4 – Change in Accounting Principle

During the first quarter of 2015, the Company elected to early adopt the provisions of ASU 2015-03 “Simplifying the Presentation of Debt Issuance Costs”. In accordance with provisions of the FASB ASU topic on “Accounting Changes and Error Corrections” all prior periods presented have been retrospectively adjusted to apply the change in accounting principle. For a summary of the adjustments, see below:

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars)	Previous Accounting Method June 30, 2015	Effect of Change In Accounting Principle	As Reported June 30, 2015
Other assets	$ 17,642	(3,838)	13,804
Long-term debt	$ 493,119	(3,838)	489,281

	As Originally Reported December 31, 2014	Effect of Change In Accounting Principle	As Currently Reported December 31, 2014
Other assets	$ 15,251	(4,193)	11,058
Long-term debt	$ 492,443	(4,193)	488,250

Note 5 — Inventories

Inventories consisted of the following:

(Thousands of dollars)	June 30, 2015	December 31, 2014
Finished products - FIFO basis	$ 291,986	$ 205,213
Less LIFO reserve - finished products	(195,891)	(144,283)
Finished products - LIFO basis	96,095	60,930
Store merchandise for resale	98,814	98,712
Corn based products	7,373	17,873
Materials and supplies	5,276	5,399
Total inventories	$ 207,558	$ 182,914

At June 30, 2015 and December 31, 2014, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by $195,891,000 and $144,283,000, respectively. Corn based products consisted primarily of corn and wet distillers' grains with solubles (WDGS), and were all valued on a first-in, first-out (FIFO) basis.

In the first quarter of 2014, the Company recognized a benefit of $17,781,000 related to a LIFO decrement that existed at that date that was not expected to be restored at year-end.

Note 6 — Long-Term Debt

Long-term debt consisted of the following:

(Thousands of dollars)	June 30, 2015	December 31, 2014
6% senior notes due 2023 (net of unamortized discount of $7,125 at June 2015 and $7,557 at December 2014)	$ 492,875	$ 492,443
Less unamortized debt issuance costs	(3,838)	(4,193)
Total notes payable, net	489,037	488,250
Capitalized lease obligations, vehicles, due through 2018	366	—
Less current maturities	(122)	—
Total long-term debt	$ 489,281	$ 488,250

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Senior Notes

On August 14, 2013, Murphy Oil USA, Inc., our primary operating subsidiary, issued 6.00% Senior Notes due 2023 (the “Senior Notes”) in an aggregate principal amount of $500 million. The Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the Senior Notes contains restrictive covenants that limit, among other things, the ability of Murphy USA, Murphy Oil USA, Inc. and the restricted subsidiaries to incur additional indebtedness or liens, dispose of assets, make certain restricted payments or investments, enter into transactions with affiliates or merge with or into other entities.

The Senior Notes and the guarantees rank equally with all of our and the guarantors’ existing and future senior unsecured indebtedness and effectively junior to our and the guarantors’ existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets securing such indebtedness. The Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

We used the net proceeds of the Senior Notes, together with borrowings under the credit facilities, to finance a cash dividend of $650 million from Murphy Oil USA, Inc. to Murphy Oil paid in connection with the separation.

On June 17, 2014, we closed an exchange offer for our Senior Notes to make them eligible for public resale, as required by a registration rights agreement entered into in connection with the issuance of the Senior Notes. All of the Senior Notes were tendered for exchange.

Credit Facilities

On August 30, 2013, we entered into a credit agreement in connection with the separation from Murphy Oil. The credit agreement provides for a committed $450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and provided for a $150 million term facility. It also provides for a $200 million uncommitted incremental facility. On August 30, 2013, Murphy Oil USA, Inc. borrowed $150 million under the term facility, the proceeds of which were used, together with the net proceeds of the offering of the Senior Notes, to finance a $650 million cash dividend from Murphy Oil USA, Inc. to Murphy Oil. The term facility was repaid in full in May 2014. On September 2, 2014, we amended the credit agreement to extend the maturity date to September

2, 2019 and amend the terms of various covenants.

The borrowing base is expected, at any time of determination, to be an amount (net of reserves) equal to the sum of:

- 100% of eligible cash at such time, plus
- 90% of eligible credit card receivables at such time, plus
- 90% of eligible investment grade accounts, plus
- 85% of eligible other accounts, plus
- 80% of eligible product supply/wholesale refined products inventory at such time, plus
- 75% of eligible retail refined products inventory at such time, plus

the lesser of (i) 70% of the average cost of eligible retail merchandise inventory at such time and (ii) 85% of the net orderly liquidation value of eligible retail merchandise inventory at such time.

The ABL facility includes a $75 million sublimit on swingline loans and a $200 million sublimit for the issuance of letters of credit. Swingline loans and letters of credit issued under the ABL facility reduce availability under the ABL facility.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest payable on the credit facilities is based on either:

- the London interbank offered rate, adjusted for statutory reserve requirements (the "Adjusted LIBO Rate"); or

- the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum,

plus, (A) in the case of Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 2.75% to 3.00% per annum depending on a secured debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 1.75% to 2.00% per annum depending on a secured debt to EBITDA ratio.

The interest rate period with respect to the Adjusted LIBO Rate interest rate option can be set at one, two, three, or six months as selected by us in accordance with the terms of the credit agreement.

We were obligated to make quarterly principal payments on the outstanding principal amount of the term facility beginning on the first anniversary of the effective date of the credit agreement in amounts equal to 10% of the term loans made on such effective date, with the remaining balance payable on the scheduled maturity date of the term facility. Borrowings under the credit facilities are prepayable at our option without premium or penalty. We were also required to prepay the term facility with the net cash proceeds of certain asset sales or casualty events, subject to certain exceptions. The credit agreement also includes certain customary mandatory prepayment provisions with respect to the ABL facility.

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a fixed charge coverage ratio of a minimum of 1.0 to 1.0 when availability for at least three consecutive business days is less

than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) $70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount). As of June 30, 2015, our fixed charge coverage ratio was 0.82; however, we had no debt outstanding under the facility at that date so the fixed charge coverage ratio currently has no impact on our operations or liquidity.

After giving effect to the applicable restrictions on certain payments, which could include dividends under the credit agreement (which restrictions are only applicable when availability under the credit agreement does not exceed the greater of 25% of the lesser of the revolving commitments and the borrowing base and $100 million (and if availability under the credit agreement does not exceed the greater of 40% of the lesser of the revolving commitments and the borrowing base and $150 million, then our fixed charge coverage ratio must be at least 1.0 to 1.0) and the indenture, and subject to compliance with applicable law. As of December 31, 2014, the Company had approximately $107.5 million of its net income and retained earnings free of such restrictions.

All obligations under the credit agreement are guaranteed by Murphy USA and the subsidiary guarantors party thereto, and all obligations under the credit agreement, including the guarantees of those obligations, are secured by certain assets of Murphy USA, Murphy Oil USA, Inc. and the guarantors party thereto.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at June 30, 2015 and December 31, 2014 related to the estimated costs to dismantle and abandon certain of its retail gasoline stations. The Company has not recorded an ARO for certain of its marketing assets because sufficient information is presently not available to estimate a range of potential settlement dates for the obligation. These assets are consistently being upgraded and are expected to be operational into the foreseeable future. In these cases, the obligation will be initially recognized in the period in which sufficient information exists to estimate the obligation.

A reconciliation of the beginning and ending aggregate carrying amount of the ARO is shown in the following table.

(Thousands of dollars)	June 30, 2015	December 31, 2014
Balance at beginning of period	$ 22,245	$ 17,130
Accretion expense	757	1,200
Liabilities incurred	239	3,915
Balance at end of period	$ 23,241	$ 22,245

The estimation of future ARO is based on a number of assumptions requiring professional judgment. The Company cannot predict the type of revisions to these assumptions that may be required in future periods due to the lack of availability of additional information.

Note 8— Income Taxes

The effective tax rate is calculated as the amount of income tax expense divided by income before income tax expense. For the three month and six month periods ended June 30, 2015 and 2014, the Company’s effective tax rates were as follows:

	2015	2014

Three months ended June 30	36.2%	31.9%
Six months ended June 30	39.4%	32.8%

The effective tax rate for the three months ended June 30, 2015 was higher than the U.S. Federal tax rate of 35% primarily due to U.S. state tax expense which was partially offset by certain state refunds received. The effective tax rate for the six months ended June 30, 2015 was higher than the U.S. Federal tax rate of 35% due primarily to U.S. state tax expense. The effective tax rate for the three months and six months ended June 30, 2014 was below the U.S. Federal tax rate of 35% primarily due to a tax benefit recorded in the period that lowered the effective state tax rate. This adjustment to a lower state tax rate generated a benefit of $6.8 million that was recorded during the second quarter of 2014.

The Company was included in Murphy Oil's tax returns for the periods prior to the separation in multiple jurisdictions that remain subject to audit by taxing authorities. These audits often take years to complete and settle. As of June 30, 2015, the earliest year remaining open for Federal audit and/or settlement is 2011 and for the states it ranges from 2008-2011. Although the Company believes that recorded liabilities for unsettled issues are adequate, additional gains or losses could occur in future periods from resolution of outstanding unsettled matters.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 — Incentive Plans

2013 Long-Term Incentive Plan

Effective August 30, 2013, certain of our employees participate in the Murphy USA 2013 Long-Term Incentive Plan which was subsequently amended and restated effective as of February 12, 2014 (the "MUSA 2013 Plan"). The MUSA 2013 Plan authorizes the Executive Compensation Committee of our Board of Directors ("the Committee") to grant non-qualified or incentive stock options, stock appreciation rights, stock awards (including restricted stock and restricted stock unit awards), cash awards, and performance awards to our employees. No more than 5.5 million shares of MUSA common stock may be delivered under the MUSA 2013 Plan and no more than 1 million shares of common stock may be awarded to any one employee, subject to adjustment for changes in capitalization. The maximum cash amount payable pursuant to any "performance-based" award to any participant in any calendar year is $5 million.

On February 10, 2015, the Committee granted nonqualified stock options for 72,350 shares at an exercise price of $70.57 per share under the terms of the MUSA 2013 Plan. The Black-Scholes valuation for these awards is $20.18 per option. The Committee also awarded time-based restricted stock units and performance-based restricted stock units (performance units) to certain employees on the same date. There were 20,200 time-based restricted units granted at a grant date fair value of $70.57 along with 40,400 performance units. Half of the performance units vest based on a 3-year return on average capital employed (ROACE) calculation and the other half vest based on a 3-year total shareholder return (TSR) calculation that compares MUSA to a group of 16 peer companies. The portion of the awards that vest based on TSR qualify as a market condition and must be valued using a Monte Carlo valuation model. For the TSR portion of the awards, the fair value was determined to be $100.33 per unit. For the ROACE portion of the awards, the valuation will be based on the grant date fair value of $70.57 per unit and the number of awards will be periodically assessed to determine the probability of vesting.

On February 11, 2015, the Committee also granted 35,250 time-based restricted stock units granted to certain employees with a grant date fair value of $70.57 per unit.

2013 Stock Plan for Non-employee Directors

Effective August 8, 2013, Murphy USA adopted the 2013 Murphy USA Stock Plan for Non-employee Directors (the "Directors Plan"). The directors for Murphy USA are compensated with a mixture of cash payments and equity-based awards. Awards under the Directors Plan may be in the form of restricted stock, restricted stock units, stock options,

or a combination thereof. An aggregate of 500,000 shares of common stock shall be available for issuance of grants under the Directors Plan.

During the first quarter of 2015, the Company issued 12,924 restricted stock units to its non-employee directors at a weighted average grant date fair value of $71.51 per share. These shares vest in three years from the grant date.

For the six months ended June 30, 2015 and 2014, share based compensation was $4.4 million and $4.8 million, respectively. The income tax benefit realized for the tax deductions from options exercised for the six months ended June 30, 2015 was $3.4 million.

Note 10— Financial Instruments and Risk Management

DERIVATIVE INSTRUMENTS — The Company makes limited use of derivative instruments to manage certain risks related to commodity prices. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Company's senior management. The Company does not hold any derivatives for speculative purposes and it does not use derivatives with leveraged or complex features. Derivative instruments are traded primarily with creditworthy major financial institutions or over national exchanges such as the New York Mercantile Exchange ("NYMEX").

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To qualify for hedge accounting, the changes in the market value of a derivative instrument must historically have been, and would be expected to continue to be, highly effective at offsetting changes in the prices of the hedged item. To the extent that the change in fair value of a derivative instrument has less than perfect correlation with the change in the fair value of the hedged item, a portion of the change in fair value of the derivative instrument is considered ineffective and would normally be recorded in earnings during the affected period.

The Company is subject to commodity price risk related to corn that it will purchase in the future for feedstock and WDGS that it will sell in the future at its remaining ethanol production facility. At June 30, 2015 and 2014, the Company had open physical delivery commitment contracts for purchase of approximately 6.6 million and 4.9 million bushels of corn, respectively, for processing at its ethanol plant. At June 30, 2015 and 2014, the Company had open physical delivery commitment contracts for sale of approximately 0.6 million and 0.8 million equivalent bushels, respectively, of WDGS. To manage the price risk associated with certain of these physical delivery commitments which have fixed prices, at June 30, 2015 and 2014, the Company had outstanding derivative contracts with a net short volume of 2.5 million and 2.3 million bushels, respectively, that mature at future prices in effect on the expected date of delivery under the physical delivery commitment contracts. Additionally, at June 30, 2015 and 2014, the Company had outstanding derivative contracts with net short volumes of 1.5 million and 1.7 million bushels of corn, respectively, to buy back when certain corn inventories are expected to be processed. The impact of marking to market these commodity derivative contracts decreased income before taxes by $1.1 million and increased income before taxes by $0.9 million for the six months ended June 30, 2015 and 2014, respectively.

At June 30, 2015 and December 31, 2014, the fair value of derivative instruments not designated as hedging instruments are presented in the following table.

	June 30, 2015				December 31, 2014			
(Thousands of dollars)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity derivative contracts	Accounts Receivable	$ 1,593	Accounts Payable	$ 2,649	Accounts Receivable	$ 74	Accounts Payable	$ 2,204

For the three month periods ended June 30, 2015 and 2014, the gains and losses recognized in the consolidated Statements of Income for derivative instruments not designated as hedging instruments are presented in the following table.

(Thousands of dollars) Type of Derivative Contract	Statement of Income Location	Gain (Loss) Three Months Ended June 30, 2015	 2014	 Six Months Ended June 30, 2015	 2014
Commodity	Fuel and ethanol costs of goods sold	$ (482)	$ 2,084	$ 1,714	$ 619

The Company offsets certain assets and liabilities related to derivative contracts when the legal right of offset exists. Derivative assets and liabilities which have offsetting positions at June 30, 2015 and December 31, 2014 are presented in the following tables:

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(Thousands of dollars)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
At June 30, 2015			
Commodity derivatives	$ 4,330	$ (2,737)	$ 1,593
At December 31, 2014			
Commodity derivatives	$ 93	$ (19)	$ 74

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet
At June 30, 2015			
Commodity derivatives	$ 5,386	$ (2,737)	$ 2,649
At December 31, 2014			
Commodity derivatives	$ 2,223	$ (19)	$ 2,204

All commodity derivatives above are corn-based contracts associated with the Company's Hereford plant. Net derivative assets are included in Accounts Receivable presented in the table on the prior page and are included in Accounts Receivable on the Consolidated Balance Sheets; likewise, net derivative liabilities in the above table are included in Accounts Payable in the table above and are included in Accounts Payable and Accrued Liabilities on the Consolidated Balance Sheets. These contracts permit net settlement and the Company generally avails itself of this right to settle net. At June 30, 2015 and December 31, 2014, cash deposits of $2.2 million and $2.8 million related to commodity derivative contracts were reported in Prepaid Expenses and Other Current Assets in the Consolidated Balance Sheets, respectively. These cash deposits have not been used to increase the reported net assets or reduce the reported net liabilities on the corn-based derivative contracts at June 30, 2015 or December 31, 2014, respectively.

Note 11 – Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average of common shares outstanding during the period. Diluted earnings per common share adjusts basic earnings per common share for the effects of stock options and restricted stock in the periods where such items are dilutive.

During May 2014, the Company executed a share repurchase program that was approved by the Board of Directors for approximately $50 million worth of common stock of the Company. At the completion of this plan, the Company had acquired 1,040,636 shares of common stock for an average price of $48.07 per share including brokerage fees. The Company is currently executing the previously announced share repurchase program of $250 million that is expected to be completed by the end of 2015. As of June 30, 2015, 2,999,616 shares have been acquired under the $250 million repurchase authorization.

The following table provides a reconciliation of basic and diluted earnings per share computations for the three and six months ended June 30, 2015 and 2014 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Earnings per common share:				
Net income attributable to common stockholders	$ 26,191	$ 73,232	$ 49,123	$ 82,865
Weighted average common shares outstanding (in thousands)	44,078	46,233	44,851	46,490
Total earnings per share	$ 0.59	$ 1.58	$ 1.09	$ 1.78

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Earnings per common share - assuming dilution:				
Net income attributable to common stockholders	$ 26,191	$ 73,232	$ 49,123	$ 82,865
Weighted average common shares outstanding (in thousands)	44,078	46,233	44,851	46,490
Common equivalent shares:				
Dilutive options	331	294	367	218
Weighted average common shares outstanding - assuming dilution (in thousands)	44,409	46,527	45,218	46,708
Earnings per share - assuming dilution	$ 0.59	$ 1.57	$ 1.09	$ 1.77

Note 12 — Other Financial Information

ETHANOL SALES AND OTHER – Ethanol sales and other revenue in the Consolidated Income Statements include the following items:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Thousands of dollars)	2015	2014	2015	2014
Sales of ethanol and related plant products	$ 49,190	$ 64,088	$ 90,938	$ 112,876
Renewable Identification Numbers (RINs) sales	36,248	23,261	73,847	40,854
Other	709	646	1,661	1,530
Total ethanol sales and other revenue	$ 86,147	$ 87,995	$ 166,446	$ 155,260

CASH FLOW DISCLOSURES — Cash income taxes paid, net of refunds, were $59,098,000 and $71,469,000 for the six month periods ended June 30, 2015 and 2014, respectively. Interest paid was $15,869,000 and $17,070,000 for the six month periods ended June 30, 2015 and 2014, respectively.

	Six Months Ended June 30,	
(Thousands of dollars)	2015	2014
Accounts receivable	$ (34,058)	$ (63,984)
Inventories	(24,671)	13,019
Prepaid expenses	(11,099)	(1,063)
Accounts payable and accrued liabilities	66,909	91,480
Income taxes payable	(19,575)	(22,103)
Current deferred income tax liabilities	8,602	1,517

Net decrease (increase) in noncash operating working capital	$ (13,892)	$ 18,866

Note 13 — Assets and Liabilities Measured at Fair Value

The Company carries certain assets and liabilities at fair value in its Consolidated Balance Sheets. The fair value hierarchy is based on the quality of inputs used to measure fair value, with Level 1 being the highest quality and Level 3 being the lowest quality. Level 1 inputs are quoted prices in active markets for

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identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs which reflect assumptions about pricing by market participants.

The Company carries certain assets and liabilities at fair value in its Consolidated Balance Sheets. The fair value measurements for these assets and liabilities at June 30, 2015 and December 31, 2014 are presented in the following table.

	Fair Value Measurements at Reporting Date Using			
(Thousands of dollars)	Fair Value June 30, 2015	Quoted Prices In Active Markets for Identical Assets/(Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Commodity derivative contracts	$ 1,593	—	$ 1,593	—
Liabilities				
Commodity derivative contracts	$ (2,649)	—	$ (2,649)	—

	Fair Value Measurements at Reporting Date Using			
(Thousands of dollars)	Fair Value December 31, 2014	Quoted Prices In Active Markets for Identical Assets/(Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Commodity derivative contracts	$ 74	—	$ 74	—
Liabilities				
Commodity derivative contracts	$ (2,204)	—	$ (2,204)	—

At the balance sheet date the fair value of commodity derivatives contracts for corn was determined based on market quotes for No. 2 yellow corn. The change in fair value of commodity derivatives is recorded in Fuel and ethanol cost of goods sold. The carrying value of the Company’s Cash and cash equivalents, Accounts receivable-trade and Trade accounts payable approximates fair value due to their short-term nature.

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at June 30, 2015 and December 31, 2014. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The table excludes Cash and cash equivalents, Accounts receivable-trade, Trade accounts payable and accrued liabilities, all of which had fair values approximating carrying amounts. The fair value of Current and Long-term debt was estimated based on rates offered to the Company at that time for debt of the same maturities. The Company has off-balance sheet exposures relating to certain financial guarantees and letters of credit. The fair value of these, which represents fees associated with obtaining the instruments, was nominal.

	At June 30, 2015		At December 31, 2014	
(Thousands of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Current and long-term debt	$ (489,403)	$ (510,860)	$ (488,250)	$ (510,344)

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Note 14 — Contingencies

The Company's operations and earnings have been and may be affected by various forms of governmental action. Examples of such governmental action include, but are by no means limited to: tax increases and retroactive tax claims; import and export controls; price controls; allocation of supplies of crude oil and petroleum products and other goods; laws and regulations intended for the promotion of safety and the protection and/or remediation of the environment; governmental support for other forms of energy; and laws and regulations affecting the Company's relationships with employees, suppliers, customers, stockholders and others. Because governmental actions are often motivated by political considerations, may be taken without full consideration of their consequences, and may be taken in response to actions of other governments, it is not practical to attempt to predict the likelihood of such actions, the form the actions may take or the effect such actions may have on the Company.

ENVIRONMENTAL MATTERS AND LEGAL MATTERS — Murphy USA is subject to numerous federal, state and local laws and regulations dealing with the environment. Violation of such environmental laws, regulations and permits can result in the imposition of significant civil and criminal penalties, injunctions and other sanctions. A discharge of hazardous substances into the environment could, to the extent such event is not insured, subject the Company to substantial expense, including both the cost to comply with applicable regulations and claims by neighboring landowners and other third parties for any personal injury, property damage and other losses that might result.

The Company currently owns or leases, and has in the past owned or leased, properties at which hazardous substances have been or are being handled. Although the Company believes it has used operating and disposal practices that were standard in the industry at the time, hazardous substances may have been disposed of or released on or under the properties owned or leased by the Company or on or under other locations where they have been taken for disposal. In addition, many of these properties have been operated by third parties whose management of hazardous substances was not under the Company's control. Under existing laws the Company could be required to remediate contaminated property (including contaminated groundwater) or to perform remedial actions to prevent future contamination. Certain of these contaminated properties are in various stages of negotiation, investigation, and/or cleanup, and the Company is investigating the extent of any related liability and the availability of applicable defenses. With the sale of the U.S. refineries in 2011, Murphy Oil retained certain liabilities related to environmental matters. Murphy Oil also obtained insurance covering certain levels of environmental exposures. The Company believes costs related to these sites will not have a material adverse effect on Murphy USA's net income, financial condition or liquidity in a future period.

Certain environmental expenditures are likely to be recovered by the Company from other sources, primarily environmental funds maintained by certain states. Since no assurance can be given that future recoveries from other sources will occur, the Company has not recorded a benefit for likely recoveries at June 30, 2015, however certain jurisdictions provide reimbursement for these expenses which have been considered in recording the net exposure.

The U.S. Environmental Protection Agency (EPA) currently considers the Company a Potentially Responsible Party (PRP) at one Superfund site. The potential total cost to all parties to perform necessary remedial work at this site may be substantial. However, based on current negotiations and available information, the Company believes that it is a de minimis party as to ultimate responsibility at the Superfund site. Accordingly, the Company has not recorded a liability for remedial costs at the Superfund site at June 30, 2015. The Company could be required to bear a pro rata share of costs attributable to nonparticipating PRPs or could be assigned additional responsibility for remediation at this site or other Superfund sites. The Company believes that its share of the ultimate costs to clean-up this site will be immaterial and will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

Based on information currently available to the Company, the amount of future remediation costs to be incurred to address known contamination sites is not expected to have a material adverse effect on the Company’s future net income, cash flows or liquidity. However, there is the possibility that additional environmental expenditures could be required to address contamination, including as a result of

discovering additional contamination or the imposition of new or revised requirements applicable to known contamination.

In the case Freeny v. Murphy Oil Corporation and Murphy Oil USA, Inc. the plaintiffs alleged that the Company had infringed on their electronic pricing system patents. The Company claimed that its pricing system can be differentiated from the plaintiffs' patents and that the plaintiffs' patents were invalid. Murphy Oil USA, Inc. agreed to defend and indemnify Murphy Oil Corporation in this matter as required by the terms of the Separation Agreement. Trial was held in June 2015. At trial, and before any judgment was entered for any party, a settlement was reached between the parties and the case was dismissed. The settlement agreement resulted in the Company paying an immaterial amount to the plaintiffs for a license to use their patents for past and future periods. As a result, a portion of the settlement amount was capitalized as a patent asset and will be amortized over the remaining life of the patents.

Other than as noted above, Murphy USA is engaged in a number of other legal proceedings, all of which the Company considers routine and incidental to its business. Based on information currently available to the Company, the ultimate resolution of those other legal matters is not expected to have a material adverse effect on the Company's net income, financial condition or liquidity in a future period.

INSURANCE — The Company maintains insurance coverage at levels that are customary and consistent with industry standards for companies of similar size. Murphy USA maintains statutory workers compensation insurance with a deductible of $1.0 million per occurrence and other insurance programs for general and auto liability. As of June 30, 2015, there were a number of outstanding claims that are of a routine nature. The estimated incurred but unpaid liabilities relating to these claims are included in Trade account payables and accrued liabilities on the Consolidated Balance Sheets. While the ultimate outcome of these claims cannot presently be determined, management believes that the accrued liability of $17.9 million will be sufficient to cover the related liability for all insurance claims and that the ultimate disposition of these claims will have no material effect on the Company's financial position and results of operations.

The Company has obtained insurance coverage as appropriate for the business in which it is engaged, but may incur losses that are not covered by insurance or reserves, in whole or in part, and such losses could adversely affect our results of operations and financial position.

TAX MATTERS — Murphy USA is subject to extensive tax liabilities imposed by multiple jurisdictions, including income taxes, indirect taxes (excise/duty, sales/use and gross receipts taxes), payroll taxes, franchise taxes, withholding taxes and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and

regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities because of these audits may subject us to interest and penalties.

OTHER MATTERS — In the normal course of its business, the Company is required under certain contracts with various governmental authorities and others to provide financial guarantees or letters of credit that may be drawn upon if the Company fails to perform under those contracts. At June 30, 2015, the Company had contingent liabilities of $17.8 million on outstanding letters of credit. The Company has not accrued a liability in its balance sheet related to these financial guarantees and letters of credit because it is believed that the likelihood of having these drawn is remote.

Note 15 — Business Segment

The Company has one operating segment which is Marketing. This segment includes the bulk of the Company's operating assets including retail marketing and product supply and wholesale operations. The ethanol assets that remained after the disposition of Hankinson in 2013 were recast into the category with the prior Corporate assets and renamed "Corporate and other assets". In addition, due to the sale of the

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Murphy USA Inc.

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Hankinson entity, the Company also shows discontinued operations for the June 2014 year-to-date period for the prior Hankinson activity. Segment information is as follows:

		Three Months Ended			
		June 30, 2015		June 30, 2014	
(Thousands of dollars)	Total Assets at June 30,	External Revenues	Income (Loss)	External Revenues	Income (Loss)
Marketing	$ 1,656,430	$ 3,467,985	$ 33,467	$ 4,693,858	$ 71,660
Corporate and other assets	185,604	49,236	(7,276)	64,091	1,572
Total operating segment	1,842,034	3,517,221	26,191	4,757,949	73,232
Discontinued operations	—	—	—	—	—
Total	$ 1,842,034	$ 3,517,221	$ 26,191	$ 4,757,949	$ 73,232

	Six Months Ended			
	June 30, 2015		June 30, 2014	
(Thousands of dollars)	External Revenues	Income (Loss)	External Revenues	Income (Loss)
Marketing	$ 6,388,489	$ 58,223	$ 8,809,295	$ 85,421
Corporate and other assets	91,247	(9,100)	112,988	(3,337)
Total operating segment	6,479,736	49,123	8,922,283	82,084
Discontinued operations	—	—	—	781
Total	$ 6,479,736	$ 49,123	$ 8,922,283	$ 82,865

Note 16 – Guarantor Subsidiaries

Certain of the Company’s 100% owned, domestic subsidiaries (the “Guarantor Subsidiaries”) fully and unconditionally guarantee, on a joint and several basis, certain of the outstanding indebtedness of the Company, including the 6.00% senior notes due 2023. The following consolidating and combining schedules present financial information on a

consolidated basis in conformity with the SEC's Regulation S-X Rule 3-10(d):

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CONSOLIDATING BALANCE SHEET

(unaudited)

(Thousands of dollars)	June 30, 2015					
Assets	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets						
Cash and cash equivalents	$ —	$ 120,469	$ —	$ 976	$ —	$ 121,445
Accounts receivable—trade, less allowance for doubtful accounts of $4,456 in 2015	—	170,928	—	3,221	—	174,149
Inventories, at lower of cost or market	—	193,405	—	14,153	—	207,558
Prepaid expenses and other current assets	—	25,269	—	2,302	(1,699)	25,872
Total current assets	—	510,071	—	20,652	(1,699)	529,024
Property, plant and equipment, at cost less accumulated depreciation and amortization of $760,916 in 2015	—	1,291,269	—			