

Murphy USA Inc.
Form 10-Q
November 03, 2016

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2016

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 (I.R.S. Employer
incorporation or organization) 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.

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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 September 30, 2016 was 38,599,541.

MURPHY USA INC.

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ITEM 1. FINANCIAL STATEMENTS

Murphy USA Inc.

Consolidated Balance Sheets

(Thousands of dollars)	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$206,692	\$ 102,335
Accounts receivable—trade, less allowance for doubtful accounts of \$1,988 in 2016 and \$1,963 in 2015	139,692	136,253
Inventories, at lower of cost or market	152,542	155,906
Prepaid expenses and other current assets	29,153	41,173
Total current assets	528,079	435,667
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$756,305 in 2016 and \$724,486 in 2015	1,488,261	1,369,318
Restricted cash	—	68,571
Other assets	40,489	12,685
Total assets	\$2,056,829	\$ 1,886,241
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$40,471	\$ 222
Trade accounts payable and accrued liabilities	376,897	390,341
Deferred income taxes	—	1,729
Total current liabilities	417,368	392,292
Long-term debt, including capitalized lease obligations	638,911	490,160
Deferred income taxes	200,601	161,236
Asset retirement obligations	25,637	24,345
Deferred credits and other liabilities	15,125	25,918
Total liabilities	1,297,642	1,093,951
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 2016 and 2015, respectively)	468	468
Treasury stock (8,167,623 and 5,088,434 shares held at September 30, 2016 and December 31, 2015, respectively)	(497,111)	(294,139)
Additional paid in capital (APIC)	550,376	558,182
Retained earnings	705,454	527,779
Total stockholders' equity	759,187	792,290
Total liabilities and stockholders' equity	\$2,056,829	\$ 1,886,241
See notes to consolidated financial statements.		

Murphy USA Inc.

Consolidated Statements of Income
(unaudited)

(Thousands of dollars except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Revenues				
Petroleum product sales (a)	\$2,394,951	\$2,770,169	\$6,654,970	\$7,987,158
Merchandise sales	598,968	591,584	1,750,162	1,687,885
Other operating revenues	48,819	20,754	133,630	96,214
Total revenues	3,042,738	3,382,507	8,538,762	9,771,257
Costs and Operating Expenses				
Petroleum product cost of goods sold (a)	2,275,487	2,594,273	6,301,552	7,605,961
Merchandise cost of goods sold	503,266	505,200	1,475,869	1,444,293
Station and other operating expenses	127,991	121,551	369,910	358,463
Depreciation and amortization	25,576	21,695	72,747	64,013
Selling, general and administrative	30,726	33,016	94,549	96,995
Accretion of asset retirement obligations	411	380	1,236	1,137
Total costs and operating expenses	2,963,457	3,276,115	8,315,863	9,570,862
Income from operations	79,281	106,392	222,899	200,395
Other income (expense)				
Interest income	144	20	474	1,908
Interest expense	(10,182)	(8,382)	(29,780)	(25,040)
Gain (loss) on sale of assets	(335)	(4,072)	88,640	(4,091)
Other nonoperating income (expense)	2,848	106	2,966	616
Total other income (expense)	(7,525)	(12,328)	62,300	(26,607)
Income before income taxes	71,756	94,064	285,199	173,788
Income tax expense	26,265	34,043	107,524	65,430
Income from continuing operations	45,491	60,021	177,675	108,358
Income (loss) from discontinued operations, net of taxes	—	510	—	1,296
Net Income	\$45,491	\$60,531	\$177,675	\$109,654
Earnings per share - basic:				
Income from continuing operations	\$1.17	\$1.41	\$4.47	\$2.46
Income (loss) from discontinued operations	—	0.01	—	0.03
Net Income - basic	\$1.17	\$1.42	\$4.47	\$2.49
Earnings per share - diluted:				
Income from continuing operations	\$1.16	\$1.40	\$4.44	\$2.44
Income (loss) from discontinued operations	—	0.01	—	0.03
Net Income - diluted	\$1.16	\$1.41	\$4.44	\$2.47
Weighted-average shares outstanding (in thousands):				
Basic	38,896	42,437	39,719	44,038
Diluted	39,174	42,760	39,989	44,389
Supplemental information:				
(a) Includes excise taxes of:	\$505,814	\$513,427	\$1,466,347	\$1,459,871

See notes to consolidated financial statements.

Murphy USA Inc.
 Consolidated Statements of Cash Flows
 (unaudited)

(Thousands of dollars)	Nine Months Ended	
	September 30, 2016	2015
Operating Activities		
Net income	\$ 177,675	\$ 109,654
Adjustments to reconcile net income to net cash provided by operating activities		
(Income) loss from discontinued operations, net of taxes	—	(1,296)
Depreciation and amortization	72,747	64,013
Deferred and noncurrent income tax charges (credits)	37,636	(11,939)
Accretion of asset retirement obligations	1,236	1,137
Pretax (gains) losses from sale of assets	(88,640)	4,091
Net (increase) decrease in noncash operating working capital	5,382	(33,194)
Other operating activities - net	3,792	5,428
Net cash provided by continuing operations	209,828	137,894
Net cash provided by discontinued operations	—	10,948
Net cash provided by operating activities	209,828	148,842
Investing Activities		
Property additions	(198,911)	(151,521)
Proceeds from sale of assets	85,001	725
Changes in restricted cash	68,571	—
Other investing activities - net	(28,888)	(2,889)
Investing activities of discontinued		

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operations				
Other	—		(4,945)
Net cash required by investing activities	(74,227)	(158,630)
Financing Activities				
Purchase of treasury stock	(212,328)	(248,695)
Borrowings of debt	200,000		—	
Repayments of debt	(10,281)	(89)
Debt issuance costs	(3,240)	(58)
Amounts related to share-based compensation	(5,395)	(3,036)
Net cash required by financing activities	(31,244)	(251,878)
Net increase (decrease) in cash and cash equivalents	104,357		(261,666)
Cash and cash equivalents at January 1	102,335		328,105	
Cash and cash equivalents at September 30	206,692		66,439	
Less: Cash and cash equivalents held for sale	—		1,137	
Cash and cash equivalents of continuing operations at September 30	\$ 206,692		\$ 65,302	

See notes to consolidated financial statements.

Murphy USA Inc.
Consolidated Statements of Changes in Equity
(unaudited)

(Thousands of dollars, except share amounts)	Common Stock					Total
	Shares	Par	Treasury Stock	APIC	Retained Earnings	
Balance as of December 31, 2014	46,767,164	\$468	\$(51,073)	\$557,871	\$351,439	\$858,705
Net income	—	—	—	—	109,654	109,654
Purchase of treasury stock	—	—	(248,695)	—	—	(248,695)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	5,562	(5,562)	—	—
Amounts related to share-based compensation	—	—	—	(3,035)	—	(3,035)
Share-based compensation expense	—	—	—	6,811	—	6,811
Balance as of September 30, 2015	46,767,164	\$468	\$(294,206)	\$556,085	\$461,093	\$723,440
(Thousands of dollars, except share amounts)	Common Stock					Total
	Shares	Par	Treasury Stock	APIC	Retained Earnings	
Balance as of December 31, 2015	46,767,164	\$468	\$(294,139)	\$558,182	\$527,779	\$792,290
Net income	—	—	—	—	177,675	177,675
Purchase of treasury stock	—	—	(212,328)	—	—	(212,328)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	9,356	(9,356)	—	—
Amounts related to share-based compensation	—	—	—	(5,395)	—	(5,395)
Share-based compensation expense	—	—	—	6,945	—	6,945
Balance as of September 30, 2016	46,767,164	\$468	\$(497,111)	\$550,376	\$705,454	\$759,187

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 25 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 September 30, 2016, Murphy USA had a total of 1,364 Company stations.

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”) 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, 2015, 2014 and 2013, 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 26, 2016.

Recently Issued Accounting Standards— In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which amended existing accounting guidance related to the presentation of deferred tax liabilities and assets. The amended guidance requires that all deferred tax liabilities and assets be classified as noncurrent on the balance sheet. This guidance is effective for reporting periods beginning after December 15, 2016; however, early adoption is permitted at the beginning of a fiscal year. The Company adopted ASU No. 2015-17 during the quarter ended March 31, 2016 and has applied this guidance prospectively to its deferred tax liabilities and assets. For the period ended December 31, 2015, current deferred tax liabilities of \$1.7 million remain classified as current in the accompanying balance sheet.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" (“ASU 2016-02”). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. Lessor accounting will remain similar to lessor accounting under previous GAAP, while aligning with the FASB’s new revenue recognition guidance. ASU 2016-02 is effective for the Company beginning January 1, 2019. Early adoption of ASU 2016-02 is permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. While this ASU will have impact on our internal processes and controls and result in a change to our accounting, we are still in the evaluation and information gathering stage of implementing the guidance and can not yet estimate the

potential impact.

On March 30, 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. The standard is effective for fiscal periods beginning after December 15, 2016, with early adoption permitted. While we do not anticipate this ASU having a significant financial impact, we are currently evaluating the adoption of this standard on our consolidated financial statements and expect to adopt the standard effective January 1, 2017.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Discontinued Operations

In September 2015, the Company determined that it had met held for sale criteria for its Hereford, Texas ethanol production facility. On September 25, 2015, the Company signed a letter of intent to sell this subsidiary for a gain and the transaction closed on November 12, 2015.

The financial results of our Hereford plant for the three and nine months ended September 30, 2015 are presented as income from discontinued operations, net of income taxes on our condensed consolidated statements of income. The results of the Hereford ethanol plant were previously included along with "Corporate" as a reconciling item within our segment footnote prior to third quarter 2015. The following table presents financial results of the Hereford business:

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(Thousands of dollars)		
Revenues		
Ethanol sales	\$ 45,187	\$ 136,173
Total revenues	45,187	136,173
Costs and operating expenses		
Ethanol cost of goods sold	36,186	109,206
Station and other operating expenses	7,651	23,385
Depreciation and amortization	116	293
Selling, general and administrative expenses	373	1,100
Total costs and operating expenses	44,326	133,984
Income (loss) from operations	861	2,189
Other income (expense)		
Gain (loss) on sale of assets	—	—
Other nonoperating income (expense)	—	—
Total other income (expense)	—	—
Income (loss) before income taxes	861	2,189
Income tax expense (benefit)	351	893
Net income (loss)	\$ 510	\$ 1,296

The following table presents cash flow of the Hereford ethanol plant:

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(Thousands of dollars)		
Net cash provided by (used in) discontinued operating activities	(1,804)	10,948
Net cash used in discontinued investing activities	(1,183)	(4,945)

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 — Inventories

Inventories consisted of the following:

(Thousands of dollars)	September 30, 2016	December 31, 2015
Finished products - FIFO basis	\$ 188,771	\$ 159,774
Less LIFO reserve - finished products	(131,505)	(102,849)
Finished products - LIFO basis	57,266	56,925
Store merchandise for resale	90,673	94,925
Materials and supplies	4,603	4,056
Total inventories	\$ 152,542	\$ 155,906

At September 30, 2016 and December 31, 2015, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by \$131,505,000 and \$102,849,000, respectively.

Note 4 — Long-Term Debt

Long-term debt consisted of the following:

(Thousands of dollars)	September 30, 2016	December 31, 2015
6% senior notes due 2023 (net of unamortized discount of \$6,042 at September 2016 and \$6,692 at December 2015)	\$ 493,958	\$ 493,308
Term loan due 2020 (effective rate of 3.59% at September 30, 2016)	190,000	—
Less unamortized debt issuance costs	(5,727)	(3,526)
Total notes payable, net	678,231	489,782
Capitalized lease obligations, vehicles, due through 2019	1,151	600
Less current maturities	(40,471)	(222)
Total long-term debt	\$ 638,911	\$ 490,160

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.

Credit Facilities

In March 2016, we amended and extended our existing credit agreement. The credit agreement provides for a committed \$450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a \$200 million term loan facility. It also provides for a \$150 million uncommitted incremental facility. On March 10, 2016, Murphy Oil USA, Inc. borrowed \$200 million under the term loan facility that has a four-year term.

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Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The borrowing base is, at any time of determination, the 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 \$200 million sublimit for the issuance of letters of credit. Letters of credit issued under the ABL facility reduce availability under the ABL facility.

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 a total debt to EBITDA ratio under the ABL facility or (ii) with respect to the term loan facility, spreads ranging from 2.50% to 2.75% per annum depending on a total 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 total debt to EBITDA ratio or (ii) with respect to the term loan facility, spreads ranging from 1.50% to 1.75% per annum depending on a total 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 amortization payments on the outstanding principal amount of the term loan facility beginning on July 1, 2016 equal to 5% of the aggregate principal amount of term loans made on March 10, 2016, with the remaining balance payable on the scheduled maturity date of the term loan facility. Borrowings under the credit facilities are prepayable at our option without premium or penalty. We are also required to prepay the term loan 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 minimum 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 well as a maximum secured total debt to EBITDA ratio of 4.5 to 1.0 at any time when the term loans are outstanding. As of September 30, 2016, our fixed charge coverage ratio was 0.64; however, we had no debt outstanding under the ABL 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 \$100 million, then our fixed charge coverage ratio must be at least 1.0 to

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.0)) and the indenture, and subject to compliance with applicable law. As of December 31, 2015, the Company had a shortfall of approximately \$245.7 million of its net income and retained earnings subject to such restrictions before the fixed charge coverage ratio would exceed 1.0 to 1.0.

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.

Note 5 — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at September 30, 2016 and December 31, 2015 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)	September 30, December 31,	
	2016	2015
Balance at beginning of period	\$ 24,345	\$ 22,245
Accretion expense	1,236	1,521
Liabilities incurred	230	579
Settlement of liabilities	\$ (174)) \$ —
Balance at end of period	\$ 25,637	\$ 24,345

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 6— 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 and nine month periods ended September 30, 2016 and 2015, the Company's effective tax rates were as follows:

	2016	2015
Three months ended September 30,	36.6%	36.2%
Nine months ended September 30,	37.7%	37.6%

The effective tax rate for the three and nine months ended September 30, 2016 was higher than the U.S. Federal tax rate of 35% primarily due to U.S. state tax expense while the effective rates for the prior year periods were higher than the statutory rate primarily due to certain discrete items that impacted income taxes in the period in addition to U.S. state tax expense.

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

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September 30, 2016, the earliest year remaining open for Federal audit and/or settlement is 2012 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 7 — 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, 2016, the Committee granted nonqualified stock options for 96,500 shares at an exercise price of \$59.11 per share under the terms of the MUSA 2013 Plan. The Black-Scholes valuation for these awards is \$16.08 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 26,650 time-based restricted units granted at a grant date fair value of \$59.11 along with 53,300 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 \$82.94 per unit. For the ROACE portion of the awards, the valuation will be based on the grant date fair value of \$59.11 per unit and the number of awards will be periodically assessed to determine the probability of vesting.

On February 10, 2016, the Committee also granted 45,475 time-based restricted stock units granted to certain employees with a grant date fair value of \$59.11 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 2016, the Company issued 19,900 restricted stock units to its non-employee directors at a weighted average grant date fair value of \$59.14 per share. These shares vest in three years from the grant date.

For the nine months ended September 30, 2016 and 2015, share based compensation was \$6.9 million and \$6.8 million, respectively. The income tax benefit realized for the tax deductions from options exercised for the nine months ended September 30, 2016 was \$1.7 million.

Note 8— 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”). As of September 30, 2016, all current derivative activity is immaterial.

At September 30, 2016 and December 31, 2015, cash deposits of \$1.7 million and \$1.6 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 derivative contracts at September 30, 2016 or December 31, 2015, respectively.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – 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.

On January 25, 2016, the Company announced that it would proceed with an independent growth plan apart from Walmart rather than continue to acquire land from Walmart. In conjunction with this announcement, the Board of Directors approved a strategic allocation of capital for the Company to pursue new additional growth opportunities and to undertake a share repurchase program of the Company's common stock. The Board authorized up to \$500 million in total for the two capital programs through December 31, 2017. For the first nine months ended September 30, 2016, the Company has acquired 3,238,760 shares of common stock for an average price of \$65.56 per share including brokerage fees.

The following table provides a reconciliation of basic and diluted earnings per share computations for the three and nine months ended September 30, 2016 and 2015 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Earnings per common share:				
Net income (loss) per share - basic				
Income from continuing operations	\$45,491	\$60,021	\$177,675	\$108,358
Income (loss) from discontinued operations	—	510	—	1,296
Net income attributable to common stockholders	\$45,491	\$60,531	\$177,675	\$109,654
Weighted average common shares outstanding (in thousands)	38,896	42,437	39,719	44,038
Earnings per share:				
Continuing operations	\$1.17	\$1.41	\$4.47	\$2.46
Discontinued operations	—	0.01	—	0.03
Total earnings per share	\$1.17	\$1.42	\$4.47	\$2.49

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings per common share - assuming dilution:

Net income (loss) per share - diluted				
Income from continuing operations	\$45,491	\$60,021	\$177,675	\$108,358
Income (loss) from discontinued operations	—	510	—	1,296
Net income attributable to common stockholders	\$45,491	\$60,531	\$177,675	\$109,654
Weighted average common shares outstanding (in thousands)	38,896	42,437	39,719	44,038
Common equivalent shares:				
Dilutive options	278	323	270	351
Weighted average common shares outstanding - assuming dilution (in thousands)	39,174	42,760	39,989	44,389
Earnings per share:				
Continuing operations	\$1.16	\$1.40	\$4.44	\$2.44
Discontinued operations	—	0.01	—	0.03
Earnings per share - assuming dilution	\$1.16	\$1.41	\$4.44	\$2.47

Note 10 — Other Financial Information

OTHER OPERATING REVENUES – Other operating revenues in the Consolidated Statements of Income include the following items:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2016	2015	2016	2015
Renewable Identification Numbers (RINs) sales	\$48,047	\$20,037	\$130,690	\$93,883
Other	772	717	2,940	2,331
Other operating revenues	\$48,819	\$20,754	\$133,630	\$96,214

CASH FLOW DISCLOSURES — Cash income taxes paid, net of refunds, were \$57,472,000 and \$77,830,000 for the nine month periods ended September 30, 2016 and 2015, respectively. Interest paid was \$35,244,000 and \$31,337,000 for the nine month periods ended September 30, 2016 and 2015, respectively.

(Thousands of dollars)	Nine Months Ended September 30,	
	2016	2015
Accounts receivable	\$(3,403)	\$(5,742)
Inventories	3,364	(8,082)
Prepaid expenses and other current assets	11,891	(63)
Accounts payable and accrued liabilities	(6,289)	(16,642)
Income taxes payable	(181)	(11,695)
Current deferred income tax liabilities	—	9,030
Net decrease (increase) in noncash operating working capital	\$5,382	\$(33,194)

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 — 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 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.

At the balance sheet date the fair value of derivative contracts were determined using NYMEX quoted values but were immaterial.

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at September 30, 2016 and December 31, 2015. 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.

(Thousands of dollars)	At September 30, 2016		At December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Current and long-term debt	\$(679,382)	\$(699,284)	\$(490,382)	\$(511,916)

Note 12 — 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

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 September 30, 2016, 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 September 30, 2016. 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.

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 September 30, 2016, 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 \$19.0 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 September 30, 2016, the Company had contingent liabilities of \$16.9 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.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 — Business Segment

The Company's operations have one operating segment which is Marketing. The operations include the sale of retail motor fuel products and convenience merchandise along with the wholesale and bulk sale capabilities of our product supply and wholesale group. As the primary purpose of the product supply and wholesale group is to support our retail operations and provide fuel for their daily operation, the bulk and wholesale fuel sales are secondary to the support functions played by these groups. As such, they are all treated as one segment for reporting purposes as they sell the same products. This Marketing segment contains essentially all of the revenue generating functions of the Company. Results not included in the reportable segment include Corporate and Other Assets and Discontinued Operations. The reportable segment was determined based on information reviewed by the Chief Operating Decision Maker (CODM).

	Total Assets at September 30,	Three Months Ended September 30, 2016		September 30, 2015	
		External Revenues	Income (Loss)	External Revenues	Income (Loss)
(Thousands of dollars)					
Marketing	\$1,778,818	\$3,042,727	\$52,755	\$3,382,500	\$65,785
Corporate and other assets	278,011	11	(7,264)	7	(5,764)
Total continuing operations	2,056,829	3,042,738	45,491	3,382,507	60,021
Discontinued operations	—	—	—	—	510
Total	\$2,056,829	\$3,042,738	\$45,491	\$3,382,507	\$60,531

		Nine Months Ended September 30, 2016		September 30, 2015	
		External Revenues	Income (Loss)	External Revenues	Income (Loss)
(Thousands of dollars)					
Marketing		\$8,538,535	\$198,622	\$9,770,989	\$124,008
Corporate and other assets		227	(20,947)	268	(15,650)
Total operating segment		8,538,762	177,675	9,771,257	108,358
Discontinued operations		—	—	—	1,296
Total		\$8,538,762	\$177,675	\$9,771,257	\$109,654

Note 14 – 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 schedules present financial information on a consolidated basis in conformity with the SEC's Regulation S-X Rule 3-10(d):

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING BALANCE SHEET

(unaudited)

(Thousands of dollars)

Assets	September 30, 2016		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	Parent Company	Issuer				
Current assets						
Cash and cash equivalents	\$—	\$206,692	\$ —	\$ —	\$—	\$206,692
Accounts receivable—trade, less allowance for doubtful accounts of \$1,988 in 2016	—	139,692	—	—	—	139,692
Inventories, at lower of cost or market	—	152,542	—	—	—	152,542
Prepaid expenses and other current assets	—	29,153	—	—	—	29,153
Total current assets	—	528,079	—	—	—	528,079
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$756,305 in 2016	—	1,488,261	—	—	—	1,488,261
Restricted cash	—	—	—	—	—	—
Investments in subsidiaries	1,934,292	144,920	—	—	(2,079,212)	—
Other assets	—	40,489	—	—	—	40,489
Total assets	\$1,934,292	\$2,201,749	\$ —	\$ —	\$(2,079,212)	\$2,056,829
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$—	\$40,471	\$ —	\$ —	\$—	\$40,471
Inter-company accounts payable	512,372	(305,973)	(52,061	(154,338	—	—
Trade accounts payable and accrued liabilities	—	376,897	—	—	—	376,897
Deferred income taxes	—	—	—	—	—	—
Total current liabilities	512,372	111,395	(52,061	(154,338	—	417,368
Long-term debt, including capitalized lease obligations	—	638,911	—	—	—	638,911
Deferred income taxes	—	200,601	—	—	—	200,601
Asset retirement obligations	—	25,637	—	—	—	25,637
Deferred credits and other liabilities	—	15,125	—	—	—	15,125
Total liabilities	512,372	991,669	(52,061	(154,338	—	1,297,642
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 shares issued at September 30, 2016)	468	1	60	—	(61)	468
Treasury Stock (8,167,623 shares held at September 30, 2016)	(497,111)	—	—	—	—	(497,111)
Additional paid in capital (APIC)	1,213,109	566,104	52,004	87,543	(1,368,384)	550,376
Retained earnings	705,454	643,975	(3)	66,795	(710,767)	705,454
Total stockholders' equity	1,421,920	1,210,080	52,061	154,338	(2,079,212)	759,187
Total liabilities and stockholders' equity	\$1,934,292	\$2,201,749	\$ —	\$ —	\$(2,079,212)	\$2,056,829

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING BALANCE SHEET

(Thousands of dollars)

Assets	December 31, 2015		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	Parent Company	Issuer				
Current assets						
Cash and cash equivalents	\$—	\$102,335	\$ —	\$ —	\$—	\$102,335
Accounts receivable—trade, less allowance for doubtful accounts of \$1,963 in 2015	—	136,253	—	—	—	136,253
Inventories, at lower of cost or market	—	155,906	—	—	—	155,906
Prepaid expenses and other current assets	—	41,173	—	—	—	41,173
Total current assets	—	435,667	—	—	—	435,667
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$724,486 in 2015	—	1,369,318	—	—	—	1,369,318
Restricted cash	—	68,571	—	—	—	68,571
Investments in subsidiaries	1,756,617	144,921	—	—	(1,901,538)	—
Other assets	—	12,685	—	—	—	12,685
Total assets	\$1,756,617	\$2,031,162	\$ —	\$ —	\$(1,901,538)	\$1,886,241
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$—	\$222	\$ —	\$ —	\$—	\$222
Inter-company accounts payable	300,044	(93,644)	(52,062	(154,338	—	—
Trade accounts payable and accrued liabilities	—	390,341	—	—	—	390,341
Deferred income taxes	—	1,729	—	—	—	1,729
Total current liabilities	300,044	298,648	(52,062	(154,338	—	392,292
Long-term debt, including capitalized lease obligations	—	490,160	—	—	—	490,160
Deferred income taxes	—	161,236	—	—	—	161,236
Asset retirement obligations	—	24,345	—	—	—	24,345
Deferred credits and other liabilities	—	25,918	—	—	—	25,918
Total liabilities	300,044	1,000,307	(52,062	(154,338	—	1,093,951
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 shares issued at December 31, 2015)	468	1	60	—	(61)	468
Treasury Stock (5,088,434 shares held at December 31, 2015)	(294,139)	—	—	—	—	(294,139)
Additional paid in capital (APIC)	1,222,465	564,554	52,004	87,543	(1,368,384)	558,182
Retained earnings	527,779	466,300	(2)	66,795	(533,093)	527,779
Total stockholders' equity	1,456,573	1,030,855	52,062	154,338	(1,901,538)	792,290
Total liabilities and stockholders' equity	\$1,756,617	\$2,031,162	\$ —	\$ —	\$(1,901,538)	\$1,886,241

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(unaudited)

(Thousands of dollars) Three Months Ended September 30, 2016

Revenues	Parent Issuer Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations
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