

Murphy USA Inc.
Form 10-Q
August 02, 2018

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 June 30, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

Edgar Filing: Murphy USA Inc. - Form 10-Q

filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was 32,175,669.

MURPHY USA INC.

TABLE OF CONTENTS

	Page
<u>Part I – Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017</u>	<u>2</u>
<u>Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Changes in Equity for the six months ended June 30, 2018 and 2017 (unaudited)</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 4. Controls and Procedures</u>	<u>43</u>
<u>Part II – Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>43</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 5. Other Information</u>	<u>44</u>
<u>Item 6. Exhibits</u>	<u>44</u>
<u>Signatures</u>	<u>45</u>

ITEM 1. FINANCIAL STATEMENTS

Murphy USA Inc.

Consolidated Balance Sheets

(Millions of dollars, except share amounts)	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 71.9	\$ 170.0
Accounts receivable—trade, less allowance for doubtful accounts of \$1.1 in 2018 and in 2017	30.5	225.2
Inventories, at lower of cost or market	205.1	182.5
Prepaid expenses and other current assets	29.0	36.5
Total current assets	536.5	614.2
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$927.4 in 2018 and \$874.7 in 2017	1,714.6	1,679.5
Other assets	41.7	37.3
Total assets	\$ 2,292.8	\$ 2,331.0
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ 21.1	\$ 19.9
Trade accounts payable and accrued liabilities	529.1	513.4
Total current liabilities	550.2	533.3
Long-term debt, including capitalized lease obligations	850.8	860.9
Deferred income taxes	165.7	154.2
Asset retirement obligations	29.6	28.2
Deferred credits and other liabilities	10.2	16.0
Total liabilities	1,606.5	1,592.6
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 2018 and 2017, respectively)	0.5	0.5
Treasury stock (14,591,495 and 12,675,630 shares held at 2018 and 2017, respectively)	(945.9	) (806.5
Additional paid in capital (APIC)	546.1	549.9
Retained earnings	1,085.6	994.5
Total stockholders' equity	686.3	738.4
Total liabilities and stockholders' equity	\$ 2,292.8	\$ 2,331.0

See notes to consolidated financial statements.

Murphy USA Inc.

Consolidated Statements of Income
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Millions of dollars, except per share amounts)	2018	2017	2018	2017
Operating Revenues				
Petroleum product sales (a)	\$3,193.7	\$2,567.8	\$5,831.3	\$4,970.0
Merchandise sales	616.1	605.7	1,183.8	1,171.5
Other operating revenues	19.2	37.6	58.1	69.2
Total operating revenues	3,829.0	3,211.1	7,073.2	6,210.7
Operating Expenses				
Petroleum product cost of goods sold (a)	3,032.5	2,413.2	5,593.6	4,742.5
Merchandise cost of goods sold	513.8	507.9	990.0	984.9
Station and other operating expenses	134.8	129.4	262.2	254.2
Depreciation and amortization	33.0	27.5	64.8	54.5
Selling, general and administrative	35.2	31.4	69.7	69.6
Accretion of asset retirement obligations	0.5	0.5	1.0	0.9
Total operating expenses	3,749.8	3,109.9	6,981.3	6,106.6
Net settlement proceeds	3.4	—	50.4	—
Gain (loss) on sale of assets	(0.5)	) 0.1	(0.2)	) (3.4)
Income (loss) from operations	82.1	101.3	142.1	100.7
Other income (expense)				
Interest income	0.3	0.4	0.6	0.4
Interest expense	(13.4)	) (11.8)	) (26.4)	) (21.2)
Other nonoperating income (expense)	0.1	—	0.1	0.2
Total other income (expense)	(13.0)	) (11.4)	) (25.7)	) (20.6)
Income (loss) before income taxes	69.1	89.9	116.4	80.1
Income tax expense (benefit)	17.3	34.4	25.3	27.6
Net Income (Loss)	\$51.8	\$55.5	\$91.1	\$52.5
Basic and Diluted Earnings Per Common Share				
Basic	\$1.59	\$1.52	\$2.75	\$1.43
Diluted	1.58	1.51	2.72	\$1.42
Weighted-Average Common Shares Outstanding (in thousands):				
Basic	32,550	36,525	33,121	36,700
Diluted	32,842	36,861	33,448	37,018
Supplemental information:				
(a) Includes excise taxes of:	\$466.3	\$504.6	\$900.7	\$984.7

See notes to consolidated financial statements.

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

(Millions of dollars)	Six Months Ended June 30,	
	2018	2017
Operating Activities		
Net income (loss)	\$91.1	\$52.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	64.8	54.5
Deferred and noncurrent income tax charges	11.4	13.0
Accretion of asset retirement obligations	1.0	0.9
Pretax (gains) losses from sale of assets	0.2	3.4
Net (increase) decrease in noncash operating working capital	(4.6)	(84.7)
Other operating activities - net	2.4	0.8
Net cash provided by (required by) operating activities	166.3	40.4
Investing Activities		
Property additions	(102.3)	(134.2)
Proceeds from sale of assets	1.2	0.7
Other investing activities - net	(4.9)	(4.1)
Net cash provided by (required by) investing activities	(106.0)	(137.6)
Financing Activities		
Purchase of treasury stock	(144.4)	(66.3)
Borrowings of debt	—	338.8
Repayments of debt	(10.6)	(125.9)
Debt issuance costs	—	(0.9)
Amounts related to share-based compensation	(3.4)	(5.2)
Net cash provided by (required by) financing activities	(158.4)	140.5
Net increase (decrease) in cash and cash equivalents	(98.1)	43.3
Cash, cash equivalents, and restricted cash at January 1	170.0	153.8
Cash, cash equivalents, and restricted cash at June 30	\$71.9	\$197.1
Reconciliation of Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents at beginning of period	\$170.0	\$153.8
Restricted cash at beginning of period	—	—
Cash, cash equivalents, and restricted cash at beginning of period	\$170.0	\$153.8
Cash and cash equivalents at end of period	\$71.9	\$197.1
Restricted cash at end of period	—	—
Cash, cash equivalents, and restricted cash at end of period	\$71.9	\$197.1

See notes to consolidated financial statements.

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

(Millions of dollars, except share amounts)	Common Stock					Total
	Shares	Par	Treasury Stock	APIC	Retained Earnings	
Balance as of December 31, 2016	46,767,164	\$0.5	\$(608.0)	\$555.3	\$ 749.3	\$697.1
Net income (loss)	—	—	—	—	52.5	52.5
Purchase of treasury stock	—	—	(66.3)	—	—	(66.3)
Issuance of treasury stock	—	—	6.8	(6.8)	—	—
Amounts related to share-based compensation	—	—	—	(5.2)	—	(5.2)
Share-based compensation expense	—	—	—	2.5	—	2.5
Balance as of June 30, 2017	46,767,164	\$0.5	\$(667.5)	\$545.8	\$ 801.8	\$680.6

(Millions of dollars, except share amounts)	Common Stock					Total
	Shares	Par	Treasury Stock	APIC	Retained Earnings	
Balance as of December 31, 2017	46,767,164	\$0.5	\$(806.5)	\$549.9	\$994.5	\$738.4
Net income (loss)	—	—	—	—	91.1	91.1
Purchase of treasury stock	—	—	(144.4)	—	—	(144.4)
Issuance of treasury stock	—	—	5.0	(5.0)	—	—
Amounts related to share-based compensation	—	—	—	(3.4)	—	(3.4)
Share-based compensation expense	—	—	—	4.6	—	4.6
Balance as of June 30, 2018	46,767,164	\$0.5	\$(945.9)	\$546.1	\$ 1,085.6	\$686.3

See notes to consolidated financial statements.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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 26 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, 2018, Murphy USA had a total of 1,454 Company stations of which 1,159 were Murphy USA and 295 were Murphy Express.

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, 2017, 2016 and 2015, 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 20, 2018.

Recently Issued Accounting Standards—

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customers". Topic 606 supersedes the revenue recognition requirements Topic 605, "Revenue Recognition" (Topic 605), and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. See Note 2 "Revenues" for further details.

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 an impact on the Company's internal processes and controls and result in a change to the Company's accounting, we are still in the evaluation and information gathering stage of implementing the guidance

and cannot yet estimate the potential impact.

6

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". This ASU requires that a Statement of Cash Flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances on the Statement of Cash Flows upon adoption of this standard. The standard was effective for the Company on January 1, 2018 and was applied retrospectively to the Statement of Cash Flows. Accordingly, the Consolidated Statement of Cash Flows presents a reconciliation of the changes in cash, cash equivalents and restricted cash. Restricted cash consists of funds held by third party intermediaries for like-kind property exchanges and reported as a long-term asset in the Company's Balance Sheet.

Note 2 — Revenues

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting policies under Topic 605.

There was no material impact to opening retained earnings as a result of adoption of Topic 606 that resulted in a cumulative effect adjustment.

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with our customers are satisfied; generally, this occurs with the transfer of control of our petroleum products, convenience merchandise, Renewable Identification Numbers ("RINs") and other assets to our third-party customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Excise and sales tax that we collect where we have determined we are the principal in the transaction have been recorded as revenue on a jurisdiction-by-jurisdiction basis.

The Company enters into buy/sell and similar arrangements when petroleum products are held at one location but are needed at a different location. The Company often pays or receives funds related to the buy/sell arrangements based on location or quality differences. The Company continues to account for these transactions as non-monetary exchanges under existing accounting guidance and typically reports these on a net basis in the Consolidated Income Statement.

7

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table disaggregates our revenue by major source for the quarters ended June 30, 2018 and 2017, respectively:

(Millions of dollars)	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Corporate		Consolidated	Corporate		Consolidated
	Marketing	Other		Marketing	Other	
	Assets	Assets	Assets	Assets		
Petroleum product sales (at retail) ¹	\$2,800.8	\$ —	\$ 2,800.8	\$2,268.2	\$ —	\$ 2,268.2
Petroleum product sales (at wholesale) ¹	392.9	—	392.9	299.6	—	299.6
Total petroleum product sales	3,193.7	—	3,193.7	2,567.8	—	2,567.8
Merchandise sales	616.1	—	616.1	605.7	—	605.7
Other operating revenues:						
RINs	18.3	—	18.3	36.7	—	36.7
Other revenues ²	0.8	0.1	0.9	0.9	—	0.9
Total revenues	\$3,828.9	\$ 0.1	\$ 3,829.0	\$3,211.1	\$ —	\$ 3,211.1

(Millions of dollars)	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Corporate		Consolidated	Corporate		Consolidated
	Marketing	Other		Marketing	Other	
	Assets	Assets	Assets	Assets		
Petroleum product sales (at retail) ¹	\$5,140.5	\$ —	\$ 5,140.5	\$4,402.1	\$ —	\$ 4,402.1
Petroleum product sales (at wholesale) ¹	690.8	—	690.8	567.9	—	567.9
Total petroleum product sales	5,831.3	—	5,831.3	4,970.0	—	4,970.0
Merchandise sales	1,183.8	—	1,183.8	1,171.5	—	1,171.5
Other operating revenues:						
RINs	55.7	—	55.7	65.7	—	65.7
Other revenues ²	1.9	0.5	2.4	3.3	0.2	3.5
Total revenues	\$7,072.7	\$ 0.5	\$ 7,073.2	\$6,210.5	\$ 0.2	\$ 6,210.7

¹ Includes excise and sales tax that remain eligible for inclusion under Topic 606

² Primarily includes collection allowance on excise and sales taxes and other miscellaneous items

The Company adopted ASC Topic 606 as of January 1, 2018 using the modified retrospective method. The impact of the excise and sales taxes collected and remitted to government authorities included in petroleum product sales that would have been recognized under previous revenue recognition guidance would have increased second quarter 2018 petroleum product sales (at retail) by \$6.5 million and petroleum product sales (at wholesale) by \$44.7 million for a total increase in petroleum product sales of \$51.2 million. For the six months ended June 30, 2018, petroleum product sales (at retail) would have increased by \$12.0 million and petroleum product sales (at wholesale) by \$80.1 million for a total increase in petroleum product sales of \$92.1 million.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Marketing segment

Petroleum product sales (at retail). For our retail store locations, the revenue related to petroleum product sales is recognized as the fuel is pumped to our customers. The transaction price at the pump typically includes some portion of sales or excise taxes as levied in the respective jurisdictions. Those taxes that are collected for remittance to governmental entities on a pass through basis are not recognized as revenue and they are recorded to a liability account until they are paid. Our customers typically use a mixture of cash, checks, credit cards and debit cards to pay for our products as they are received. We have accounts receivable from the various credit/debit card providers at any point in time related to product sales made on credit cards and debit cards. These receivables are typically collected in two to seven days, depending on the terms with the particular credit/debit card providers. Payment fees retained by the credit/debit card providers are recorded as station and other operating expenses.

Petroleum product sales (at wholesale). Our sales of petroleum products at wholesale are generally recorded as revenue when the deliveries have occurred and legal ownership of the product has transferred to the customer. Title transfer for bulk refined product sales typically occurs at pipeline custody points or upon trucks loading at product terminals. For bulk pipeline sales, we record receivables from customers that are generally collected within a week from custody transfer date. For our rack product sales, the majority of our customers' accounts are drafted by us within 10 days from product transfer.

Merchandise sales. For our retail store locations, the revenue related to merchandise sales is recognized as the customer completes their purchase at our locations. The transaction price typically includes some portion of sales tax as levied in the respective jurisdictions. Those taxes that are collected for remittance to governmental entities on a pass through basis are not recognized as revenue and they are recorded to a liability account until they are paid. As noted above, a mixture of payment types are used for these revenues and the same terms for credit/debit card receivables are realized.

The most significant judgment with respect to merchandise sales revenue is determining whether we are the principal or agent for some categories of merchandise such as lottery tickets, lotto tickets, newspapers and other small categories of merchandise. For scratch-off lottery tickets, we have determined we are the principal in the majority of the jurisdictions and therefore we record those sales on a gross basis. We have some categories of merchandise (such as lotto tickets) where we are the agent and the revenues recorded for those transactions are our net commission only.

In June 2018 the Company initiated a loyalty pilot program through a limited number of its retail locations. The customers earn rewards based on their spending or other promotional activities. This program creates a performance obligation which requires us to defer a portion of sales revenue to the loyalty program participants until they redeem their rewards. The rewards may be redeemed for merchandise or cash discounts on fuel purchases. Due to the limited nature of the pilot program and the short amount of time the program has been in effect, the deferred revenues recorded in the second quarter of 2018 were immaterial.

RINs sales. For the sale of RINs, we recognize revenue when the RIN is transferred to the counter-party and the sale is completed. Receivables from our counter-parties related to the RIN sales are typically collected within five days of the sale.

Other revenues. Items reported as other operating revenues include collection allowances for excise and sales tax and other miscellaneous items and are recognized as revenue when the transaction is completed.

Accounts receivable

Trade accounts receivable on the balance sheet represents both receivables related to contracts with customers and other trade receivables. At June 30, 2018 and December 31, 2017, we had \$164.0 million and \$145.6 million of receivables, respectively, related to contracts with customers recorded. All of the trade accounts receivable related to contracts with customers outstanding at March 31, 2018 and December 31, 2017 were collected during the succeeding quarter. These receivables were generally related to credit and debit card transactions along with short term bulk and wholesales from our customers, which have a very short settlement window.

9

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 3 — Inventories

Inventories consisted of the following:

(Millions of dollars)	June 30, 2018	December 31, 2017
Finished products - First-In, First-Out ("FIFO") basis	\$297.5	\$ 231.9
Less: Last-In, First-Out ("LIFO") reserve - finished products	(201.0)	(167.2)
Finished products - LIFO basis	96.5	64.7
Store merchandise for resale	104.1	104.8
Materials and supplies	4.5	13.0
Total inventories	\$205.1	\$ 182.5

At June 30, 2018 and December 31, 2017, the replacement cost (market value) of LIFO inventories exceeded the LIFO carrying value by \$201.0 million and \$167.2 million, respectively.

Note 4 — Long-Term Debt

Long-term debt consisted of the following:

(Millions of dollars)	June 30, 2018	December 31, 2017
6.00% senior notes due 2023 (net of unamortized discount of \$4.5 at June 30, 2018 and \$5.0 at December 2017)	\$495.5	\$ 495.0
5.625% senior notes due 2027 (net of unamortized discount of \$3.3 at June 30, 2018 and \$3.5 at December 2017)	296.7	296.5
Term loan due 2020 (effective interest rate of 4.63% at June 30, 2018)	82.0	92.0
Capitalized lease obligations, vehicles, due through 2021	2.2	2.5
Less unamortized debt issuance costs	(4.5)	(5.2)
Total long-term debt	871.9	880.8
Less current maturities	21.1	19.9
Total long-term debt, net of current	\$850.8	\$ 860.9

Senior Notes

On August 14, 2013, Murphy Oil USA, Inc., our primary operating subsidiary, issued 6.00% Senior Notes due 2023 (the "2023 Senior Notes") in an aggregate principal amount of \$500 million. The 2023 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 2023 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.

On April 25, 2017, Murphy Oil USA, Inc., issued \$300 million of 5.625% Senior Notes due 2027 (the "2027 Senior Notes") under its existing shelf registration statement. The 2027 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 2027 Senior Notes contains restrictive covenants that are essentially identical to the covenants

for the 2023 Senior Notes.

10

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The 2023 and 2027 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 2023 and 2027 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 and Term Loan

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 with a current outstanding principal of \$82 million. As of June 30, 2018, we have zero outstanding under our ABL facility.

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 a 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.

Murphy USA Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

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 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 million (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 term facility commitments or term loans are outstanding. As of June 30, 2018, our fixed charge coverage ratio was 0.75; however, we had more than \$100 million of availability under the ABL facility at that date so the fixed charge coverage ratio currently has no impact on our operations or liquidity. Our secured debt to EBITDA ratio as of June 30, 2018 was 0.18 to 1.0.

The credit agreement contains restrictions on certain payments, including dividends, when availability under the credit agreement is less than or equal to the greater of \$100 million and 25% of the lesser of the revolving commitments and the borrowing base and our fixed charge coverage ratio is less than 1.0 to 1.0 (unless availability under the credit agreement is greater than \$100 million and 40% of the lesser of the revolving commitments and the borrowing base). As of June 30, 2018, our ability to make restricted payments was not limited as our availability under the borrowing base was more than \$100 million, while our fixed charge coverage ratio under our credit agreement was less than 1.0 to 1.0. As of December 31, 2017, we had a shortfall of approximately \$206.9 million of our net income and retained earnings subject to such restrictions before the fixed charge coverage ratio under our credit agreement 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 June 30, 2018 and December 31, 2017 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.

(Millions of dollars)	June 30, December 31,	
	2018	2017
Balance at beginning of period	\$ 28.2	\$ 26.2
Accretion expense	1.0	1.8
Settlements of liabilities	(0.2)	(0.3)
Liabilities incurred	0.6	0.5
Balance at end of period	\$ 29.6	\$ 28.2

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.

Murphy USA Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Note 6 — Income Taxes

The effective tax rate is calculated as the amount of income tax expense (benefit) divided by income before income tax expense (benefit). For the three and six month periods ended June 30, 2018 and 2017, the Company's approximate effective tax rates were as follows:

	2018	2017
Three months ended June 30,	25.0%	38.2%
Six months ended June 30,	21.7%	34.4%

The effective tax rate for the three and six months ended June 30, 2018 was lower than prior periods primarily due to the benefits of Federal tax reform on 2018's tax provisions.

In addition, in the six months ended June 30, 2018 the Company recognized a tax benefit of approximately \$3.1 million related to the settlement of prior year state uncertain tax positions and approximately \$1.0 million of excess tax benefits related to stock compensation for employees. For the six months ended June 30, 2017, the Company recorded benefits from two discrete tax events, which were approximately \$1.9 million of excess tax benefits related to stock compensation and a tax benefit of approximately \$1.3 million related to the settlement of prior year uncertain tax positions.

The Company was included in Murphy Oil's tax returns for the periods prior to the separation. The statute of several jurisdictions remains subject to audit by taxing authorities. As of June 30, 2018, the earliest year remaining open for Federal examination is 2014 and for the states it ranges from 2012-2016. In addition to the pre-separation returns being open under statute, the federal and state tax returns post separation are also open under statute for examination. Although the Company believes that recorded liabilities for uncertain tax positions are adequate, additional gains or losses could occur in future periods from resolution of outstanding unsettled matters.

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 8, 2017 (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 7, 2018, the Committee granted nonqualified stock options for 93,600 shares at an exercise price of \$71.00 per share under the terms of the MUSA 2013 Plan. The Black-Scholes valuation for these awards is \$17.32 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 22,350 time-based restricted units granted at a grant date fair value of \$71.00 along with 44,700 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 \$87.60 per unit. For the ROACE

portion of the awards, the valuation will be based on the grant date fair value of \$71.00 per unit and the number of awards will be periodically assessed to determine the probability of vesting.

On March 27, 2018, the Committee also granted 43,905 time-based restricted stock units granted to certain employees with a grant date fair value of \$72.88 per unit.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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 2018, the Company issued 10,800 restricted stock units to its non-employee directors at a grant date fair value of \$69.42 per share. These shares vest in three years from the grant date.

For the six months ended June 30, 2018 and 2017, share-based compensation was \$4.6 million and \$2.5 million, respectively. The income tax benefit realized for the tax deductions from options exercised for the six months ended June 30, 2018 and 2017 was \$0.2 million and \$0.2 million, respectively.

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 June 30, 2018, all current derivative activity is immaterial.

At June 30, 2018 and December 31, 2017, cash deposits of \$2.0 million and \$2.7 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 June 30, 2018 or December 31, 2017, respectively.

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.

Upon the completion of the most recent repurchase plan authorized by the Murphy USA Inc. Board of Directors in December 2017, the Company expects to continue to conduct share repurchases under quarterly allocations in line with its past practice. For the six months ended June 30, 2018, the Company acquired 1,994,632 shares of common stock for an average price of \$72.39 per share including brokerage fees.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table provides a reconciliation of basic and diluted earnings per share computations for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Millions of dollars, except share amounts)				
Earnings per common share:				
Net income (loss) per share - basic				
Net income (loss) attributable to common stockholders	\$51.8	\$55.5	\$91.1	\$52.5
Weighted average common shares outstanding (in thousands)	32,550	36,525	33,121	36,700
Earnings per common share	\$1.59	\$1.52	\$2.75	\$1.43
Earnings per common share - assuming dilution:				
Net income (loss) per share - diluted				
Net income (loss) attributable to common stockholders			\$51.8	\$55.5
			\$91.1	\$52.5
Weighted average common shares outstanding (in thousands)			32,550	36,525
Common equivalent shares:				
Dilutive share-based awards			292	336
Weighted average common shares outstanding - assuming dilution (in thousands)			32,842	36,861
			33,448	37,018
Earnings per common share assuming dilution			\$1.58	\$1.51
			\$2.72	\$1.42

We have excluded from the earnings-per-share calculation certain stock options and shares that are considered to be anti-dilutive under the treasury stock method. For the reported periods, the number of time-based restricted stock units, performance based units and non-qualified stock options that are excluded due to their anti-dilutive nature is immaterial.

Note 10 — Other Financial Information

CASH FLOW DISCLOSURES — Cash income taxes paid (collected), net of refunds, were \$9.5 million and \$13.1 million for the six month periods ended June 30, 2018 and 2017, respectively. Interest paid, net of amounts capitalized, was \$24.9 million and \$17.1 million for the six month periods ended June 30, 2018 and 2017, respectively.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(Millions of dollars)	Six Months Ended June 30,	
	2018	2017
Accounts receivable	\$ (5.3)	\$ 19.2
Inventories	(22.6)	(25.7)
Prepaid expenses and other current assets	7.6	(0.4)
Accounts payable and accrued liabilities	15.7	(77.2)
Income taxes payable	—	(0.6)
Net (increase) decrease in noncash operating working capital	\$ (4.6)	\$ (84.7)

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 was determined using NYMEX quoted values but was immaterial.

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at June 30, 2018 and December 31, 2017. 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, Restricted cash, and 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.

(Millions of dollars)	At June 30, 2018		At December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Current and long-term debt	\$ (871.9)	\$ (882.5)	\$ (880.8)	\$ (904.9)

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.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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, 2018, 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, 2018. 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.

Murphy USA Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

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, general liability insurance with a self-insured retention of \$3.0 million per occurrence, and auto liability insurance with a deductible of \$0.3 million per occurrence. As of June 30, 2018, 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 \$19.5 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, 2018, the Company had contingent liabilities of \$16.1 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 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 ("PS&W") group. As the primary purpose of the PS&W 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 performed 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. Net settlement proceeds from litigation are included in Corporate and other assets operating income. The reportable segment was determined based on information reviewed by the Chief Operating Decision Maker (CODM).

	Total Assets at June 30,	Three Months Ended					
		June 30, 2018	External Revenues	Income (Loss)	June 30, 2017	External Revenues	Income (Loss)
(Millions of dollars)							
Marketing	\$2,063.1	\$3,828.9	\$60.8	\$3,211.1	\$63.7		
Corporate and other assets	229.7	0.1	(9.0)	—	(8.2)		

Edgar Filing: Murphy USA Inc. - Form 10-Q

Total \$2,292.8 \$3,829.0 \$51.8 \$3,211.1 \$55.5

18

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	Six Months Ended			
	June 30, 2018		June 30, 2017	
(Millions of dollars)	External Revenues	Income (Loss)	External Revenues	Income (Loss)
Marketing	\$7,072.7	\$ 71.5	\$6,210.5	\$ 64.3
Corporate and other assets	0.5	19.6	0.2	(11.8)
Total	\$7,073.2	\$ 91.1	\$6,210.7	\$ 52.5

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 and the 5.625% senior notes due 2027. 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
(unaudited)

CONSOLIDATING BALANCE SHEET

(Millions of dollars, except share amounts)	June 30, 2018		Guarantor	Non-Guarantor	Eliminations	Consolidated
Assets	Parent Company	Issuer	Subsidiaries	Subsidiaries		
Current assets						
Cash and cash equivalents	\$—	\$71.5	\$ 0.4	\$ —	\$—	\$ 71.9
Accounts receivable—trade, less allowance for doubtful accounts of \$1.1 in 2018	—	230.5	—	—	—	230.5
Inventories, at lower of cost or market	—	205.1	—	—	—	205.1
Prepaid expenses and other current assets	—	29.0	—	—	—	29.0
Total current assets	—	536.1	0.4	—	—	536.5
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$927.4 in 2018	—	1,712.6	2.0	—	—	1,714.6
Investments in subsidiaries	2,314.5	144.8	—	—	(2,459.3)	—
Other assets	—	41.7	—	—	—	41.7
Total assets	\$2,314.5	\$2,435.2	\$ 2.4	\$ —	\$(2,459.3)	\$ 2,292.8
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$—	\$21.1	\$ —	\$ —	\$—	\$ 21.1
Inter-company accounts payable	973.6	(769.7)	(49.6)	(154.3)	—	—
Trade accounts payable and accrued liabilities	—	529.1	—	—	—	529.1
Total current liabilities	973.6	(219.5)	(49.6)	(154.3)	—	550.2
Long-term debt, including capitalized lease obligations	—	850.8	—	—	—	850.8
Deferred income taxes	—	165.7	—	—	—	165.7
Asset retirement obligations	—	29.6	—	—	—	29.6
Deferred credits and other liabilities	—	10.2	—	—	—	10.2
Total liabilities	973.6	836.8	(49.6)	(154.3)	—	1,606.5
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 June 30, 2018)	0.5	—	0.1	—	(0.1)	0.5
Treasury Stock (14,591,495 shares held at June 30, 2018)	(945.9)	—	—	—	—	(945.9)
Additional paid in capital (APIC)	1,200.7	574.3	52.0	87.5	(1,368.4)	546.1
Retained earnings	1,085.6	1,024.1	(0.1)	66.8	(1,090.8)	1,085.6
Total stockholders' equity	1,340.9	1,598.4	52.0	154.3	(2,459.3)	686.3
Total liabilities and stockholders' equity	\$2,314.5	\$2,435.2	\$ 2.4	\$ —	\$(2,459.3)	\$ 2,292.8

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

CONSOLIDATING BALANCE SHEET

(Millions of dollars, except share amounts)

	December 31, 2017					
Assets	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets						
Cash and cash equivalents	\$—	\$ 169.9	\$ 0.1	\$ —	\$—	\$ 170.0
Accounts receivable—trade, less allowance for doubtful accounts of \$1.1 in 2017	—	225.2	—	—	—	225.2
Inventories, at lower of cost or market	—	182.5	—	—	—	182.5
Prepaid expenses and other current assets	—	36.5	—	—	—	36.5
Total current assets	—	614.1	0.1	—	—	614.2
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$874.7 in 2017	—	1,678.3	1.2	—	—	1,679.5
Investments in subsidiaries	2,223.4	144.9	—	—	(2,368.3)	—
Other assets	—	37.3	—	—	—	37.3
Total assets	\$2,223.4	\$2,474.6	\$ 1.3	\$ —	\$(2,368.3)	\$ 2,331.0
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$—	\$ 19.9	\$ —	\$ —	\$—	\$ 19.9
Inter-company accounts payable	829.2	(624.1)	(50.8)	(154.3)	—	—
Trade accounts payable and accrued liabilities	—	513.4	—	—	—	513.4
Total current liabilities	829.2	(90.8)	(50.8)	(154.3)	—	533.3
Long-term debt, including capitalized lease obligations	—	860.9	—	—	—	860.9
Deferred income taxes	—	154.2	—	—	—	154.2
Asset retirement obligations	—	28.2	—	—	—	28.2
Deferred credits and other liabilities	—	16.0	—	—	—	16.0
Total liabilities	829.2	968.5	(50.8)	(154.3)	—	1,592.6
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, 2017)	0.5	—	0.1	—	(0.1)	0.5
Treasury Stock (12,675,630 shares held at December 31, 2017)	(806.5)	—	—	—	—	(806.5)
Additional paid in capital (APIC)	1,205.7	573.1	52.0	87.5	(1,368.4)	549.9
Retained earnings	994.5	933.0	—	66.8	(999.8)	994.5
Total stockholders' equity	1,394.2	1,506.1	52.1	154.3	(2,368.3)	738.4
Total liabilities and stockholders' equity	\$2,223.4	\$2,474.6	\$ 1.3	\$ —	\$(2,368.3)	\$ 2,331.0

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

CONSOLIDATING INCOME STATEMENT

(Millions of dollars)	Three Months Ended June 30, 2018					
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Petroleum product sales	\$—	\$3,193.7	\$—	\$—	\$—	\$ 3,193.7
Merchandise sales	—	616.1	—	—	—	616.1
Other operating revenues	—	19.2	—	—	—	19.2
Total operating revenues	—	3,829.0	—	—	—	3,829.0
Operating Expenses						
Petroleum product cost of goods sold	—	3,032.5	—	—	—	3,032.5
Merchandise cost of goods sold	—	513.8	—	—	—	513.8
Station and other operating expenses	—	134.8	—	—	—	134.8
Depreciation and amortization	—	33.0	—	—	—	33.0
Selling, general and administrative	—	35.2	—	—	—	35.2
Accretion of asset retirement obligations	—	0.5	—	—	—	0.5
Total operating expenses	—	3,749.8	—	—	—	3,749.8
Net settlement proceeds	—	3.4	—	—	—	3.4
Gain (loss) on sale of assets	—	(0.5)	—	—	—	(0.5)
Income (loss) from operations	—	82.1	—	—	—	82.1
Other income (expense)						
Interest income	—	0.3	—	—	—	0.3
Interest expense	—	(13.4)	—	—	—	(13.4)
Other nonoperating income	—	0.1	—	—	—	0.1
Total other income (expense)	—	(13.0)	—	—	—	(13.0)
Income (loss) before income taxes	—	69.1	—	—	—	69.1
Income tax expense	—	17.3	—	—	—	17.3
Income (loss)	—	51.8	—	—	—	51.8
Equity earnings in affiliates, net of tax	51.8	—	—	—	(51.8)	—
Net Income (Loss)	\$51.8	\$51.8	\$—	\$—	—\$ (51.8)	\$ 51.8

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

CONSOLIDATING INCOME STATEMENT

(Millions of dollars)	Three Months Ended June 30, 2017					Consolidated
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Operating Revenues						
Petroleum product sales	\$—	\$2,567.8	\$—	\$—	\$—	\$ 2,567.8
Merchandise sales	—	605.7	—	—	—	605.7
Other operating revenues	—	37.6	—	—	—	37.6
Total operating revenues	—	3,211.1	—	—	—	3,211.1
Operating Expenses						
Petroleum product cost of goods sold	—	2,413.2	—	—	—	2,413.2
Merchandise cost of goods sold	—	507.9	—	—	—	507.9
Station and other operating expenses	—	129.4	—	—	—	129.4
Depreciation and amortization	—	27.5	—	—	—	27.5
Selling, general and administrative	—	31.4	—	—	—	31.4
Accretion of asset retirement obligations	—	0.5	—	—	—	0.5
Total operating expenses	—	3,109.9	—	—	—	3,109.9
Net settlement proceeds	—	—	—	—	—	—
Gain (loss) on sale of assets	—	0.1	—	—	—	0.1
Income (loss) from operations	—	101.3	—	—	—	101.3
Other income (expense)						
Interest income	—	0.4	—	—	—	0.4
Interest expense	—	(11.8)	—	—	—	(11.8)
Other nonoperating income	—	—	—	—	—	—
Total other income (expense)	—	(11.4)	—	—	—	(11.4)
Income (loss) before income taxes	—	89.9	—	—	—	89.9
Income tax expense	—	34.4	—	—	—	34.4
Income (loss)	—	55.5	—	—	—	55.5
Equity earnings in affiliates, net of tax	55.5	—	—	—	(55.5)	—
Net Income (Loss)	\$55.5	\$55.5	\$—	\$—	—\$ (55.5)	\$ 55.5

Murphy USA Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

CONSOLIDATING INCOME STATEMENT

(Millions of dollars)	Six Months Ended June 30, 2018				
	Parent Issuer Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues					
Petroleum product sales	\$ 5,831.3	\$ —	\$ —	\$ —	\$ 5,831.3
Merchandise sales	1,183.8	—	—	—	1,183.8
Other operating revenues	58.1	—	—	—	58.1
Total operating revenues	7,073.2	—	—	—	7,073.2
Operating Expenses					
Petroleum product cost of goods sold					