

MURPHY OIL CORP /DE
Form 10-Q
August 05, 2014
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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, 2014

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 1-8590

MURPHY OIL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

71-0361522
(I.R.S. Employer
Identification Number)

200 Peach Street

P.O. Box 7000, El Dorado, Arkansas
(Address of principal executive offices)

71731-7000
(Zip Code)

(870) 862-6411

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock, \$1.00 par value, outstanding at June 30, 2014 was **177,571,522**.

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MURPHY OIL CORPORATION

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars)

	(Unaudited)	
	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 661,086	750,155
Canadian government securities with maturities greater than 90 days at the date of acquisition	427,372	374,842
Accounts receivable, less allowance for doubtful accounts of \$1,609 in 2014 and 2013	1,053,122	999,872
Inventories, at lower of cost or market		
Crude oil	38,119	40,077
Materials and supplies	251,375	254,118
Prepaid expenses	125,046	83,856
Deferred income taxes	59,619	61,991
Assets held for sale	617,194	943,732
Total current assets	3,232,933	3,508,643
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of \$9,318,710 in 2014 and \$8,540,239 in 2013	14,196,884	13,481,055
Goodwill	40,083	40,259
Deferred charges and other assets	101,883	98,123
Assets held for sale	302,151	381,404
Total assets	\$ 17,873,934	17,509,484
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 35,100	26,249
Accounts payable and accrued liabilities	2,257,458	2,335,712
Income taxes payable	302,028	222,930
Liabilities associated with assets held for sale	255,935	639,140
Total current liabilities	2,850,521	3,224,031
Long-term debt, including capital lease obligation	3,786,494	2,936,563
Deferred income taxes	1,507,484	1,466,100
Asset retirement obligations	905,467	852,488
Deferred credits and other liabilities	331,144	339,028
Liabilities associated with assets held for sale	93,927	95,544
Stockholders equity		
Cumulative Preferred Stock, par \$100, authorized 400,000 shares, none issued	0	0
Common Stock, par \$1.00, authorized 450,000,000 shares, issued 195,017,103 shares in 2014 and 194,920,155 shares in 2013	195,017	194,920
Capital in excess of par value	886,292	902,633
Retained earnings	8,231,331	8,058,792
Accumulated other comprehensive income	172,531	172,119

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Treasury stock, 17,445,581 shares of Common Stock in 2014 and 11,513,642 shares of Common Stock in 2013, at cost	(1,086,274)	(732,734)
Total stockholders' equity	8,398,897	8,595,730
Total liabilities and stockholders' equity	\$ 17,873,934	17,509,484

See Notes to Consolidated Financial Statements, page 7.

The Exhibit Index is on page 36.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Thousands of dollars, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013*	2014	2013*
REVENUES				
Sales and other operating revenues	\$ 1,357,905	1,315,600	2,639,113	2,614,526
Interest and other income (loss)	(8,884)	16,386	(3,692)	8,398
Total revenues	1,349,021	1,331,986	2,635,421	2,622,924
COSTS AND EXPENSES				
Lease operating expenses	285,865	251,775	548,120	588,998
Severance and ad valorem taxes	28,893	20,334	55,219	35,397
Exploration expenses, including undeveloped lease amortization	134,812	88,772	273,278	197,265
Selling and general expenses	95,000	86,904	187,026	168,371
Depreciation, depletion and amortization	458,993	381,384	855,242	744,526
Impairment of assets	0	21,587	0	21,587
Accretion of asset retirement obligations	12,327	11,961	24,392	23,857
Interest expense	33,769	29,593	66,655	56,621
Interest capitalized	(5,053)	(14,478)	(13,921)	(27,866)
Other expense	(178)	0	636	0
Total costs and expenses	1,044,428	877,832	1,996,647	1,808,756
Income from continuing operations before income taxes	304,593	454,154	638,774	814,168
Income tax expense	161,925	194,265	326,820	371,596
Income from continuing operations	142,668	259,889	311,954	442,572
Income (loss) from discontinued operations, net of taxes	(13,256)	142,755	(27,289)	320,671
NET INCOME	\$ 129,412	402,644	284,665	763,243
PER COMMON SHARE BASIC				
Income from continuing operations	\$ 0.80	1.38	1.73	2.33
Income (loss) from discontinued operations	(0.08)	0.75	(0.15)	1.69
Net income	\$ 0.72	2.13	1.58	4.02
PER COMMON SHARE DILUTED				
Income from continuing operations	\$ 0.79	1.37	1.72	2.32
Income (loss) from discontinued operations	(0.07)	0.75	(0.15)	1.68
Net income	\$ 0.72	2.12	1.57	4.00
Average common shares outstanding				
Basic	178,500,440	189,002,146	180,003,605	189,753,673
Diluted	180,045,020	189,944,793	181,327,914	190,702,248

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* Reclassified to conform to current presentation See Note D.
See Notes to Consolidated Financial Statements, page 7.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(Thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income	\$ 129,412	402,644	284,665	763,243
Other comprehensive income (loss), net of tax				
Net gain (loss) from foreign currency translation	133,559	(117,254)	(3,045)	(235,008)
Retirement and postretirement benefit plans	1,026	4,532	2,491	7,270
Deferred loss on interest rate hedges reclassified to interest expense	483	484	966	970
Other comprehensive income (loss)	135,068	(112,238)	412	(226,768)
COMPREHENSIVE INCOME	\$ 264,480	290,406	285,077	536,475

See Notes to Consolidated Financial Statements, page 7.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Thousands of dollars)

	Six Months Ended	
	2014	June 30, 2013 ¹
OPERATING ACTIVITIES		
Net income	\$ 284,665	763,243
Adjustments to reconcile net income to net cash provided by operating activities		
Loss (income) from discontinued operations	27,289	(320,671)
Depreciation, depletion and amortization	855,242	744,526
Impairment of assets	0	21,587
Amortization of deferred major repair costs	4,313	4,415
Dry hole costs	127,827	81,305
Amortization of undeveloped leases	37,764	32,052
Accretion of asset retirement obligations	24,392	23,857
Deferred and noncurrent income tax charges	18,122	72,745
Pretax loss from disposition of assets	4,997	224
Net (increase) decrease in noncash operating working capital	48,449	(131,812)
Other operating activities, net	22,106	(22,487)
Net cash provided by continuing operations	1,455,166	1,268,984
Net cash provided by discontinued operations	4,517	400,026
Net cash provided by operating activities	1,459,683	1,669,010
INVESTING ACTIVITIES		
Property additions and dry hole costs ²	(1,840,544)	(1,853,902)
Proceeds from sales of assets	3,089	130
Purchase of investment securities ³	(372,861)	(373,196)
Proceeds from maturity of investment securities ³	320,331	358,915
Investing activities of discontinued operations		
Sales proceeds	0	282,202
Property additions and other	(9,092)	(122,807)
Other net	(13,007)	1,718
Net cash required by investing activities	(1,912,084)	(1,706,940)
FINANCING ACTIVITIES		
Borrowings of long-term debt ²	850,000	461,978
Purchase of treasury stock	(375,000)	(250,000)
Proceeds from exercise of stock options and employee stock purchase plans	0	2,628
Withholding tax on stock-based incentive awards	(6,784)	(8,966)
Cash dividends paid	(112,126)	(119,376)
Other net	(1,224)	(2,724)
Net cash provided by financing activities	354,866	83,540
Effect of exchange rate changes on cash and cash equivalents	8,466	(18,500)

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Net increase (decrease) in cash and cash equivalents	(89,069)	27,110
Cash and cash equivalents at January 1	750,155	947,316
Cash and cash equivalents at June 30	\$ 661,086	974,426

¹ Reclassified to conform to current presentation See Note D.

² Excludes non-cash asset and long-term obligation of \$356,170 in 2013 associated with lease commencement for production equipment at the Kakap field offshore Malaysia.

³ Investments are Canadian government securities with maturities greater than 90 days at the date of acquisition.

See Notes to Consolidated Financial Statements, page 7.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)

(Thousands of dollars)

	Six Months Ended June 30,	
	2014	2013
Cumulative Preferred Stock par \$100, authorized 400,000 shares, none issued	0	0
Common Stock par \$1.00, authorized 450,000,000 shares, issued 195,017,103 at June 30, 2014 and 194,770,571 shares at June 30, 2013		
Balance at beginning of period	\$ 194,920	194,616
Exercise of stock options	97	155
Balance at end of period	195,017	194,771
Capital in Excess of Par Value		
Balance at beginning of period	902,633	873,934
Exercise of stock options, including income tax benefits	(11,232)	1,928
Restricted stock transactions and other	(27,970)	(24,485)
Stock-based compensation	22,884	30,327
Other	(23)	(87)
Balance at end of period	886,292	881,617
Retained Earnings		
Balance at beginning of period	8,058,792	7,717,389
Net income for the period	284,665	763,243
Cash dividends	(112,126)	(119,376)
Balance at end of period	8,231,331	8,361,256
Accumulated Other Comprehensive Income		
Balance at beginning of period	172,119	408,901
Foreign currency translation loss, net of income taxes	(3,045)	(235,008)
Retirement and postretirement benefit plans, net of income taxes	2,491	7,270
Deferred loss on interest rate hedges reclassified to interest expense, net of income taxes	966	970
Balance at end of period	172,531	182,133
Treasury Stock		
Balance at beginning of period	(732,734)	(252,805)
Purchase of treasury shares	(375,000)	(250,000)
Sale of stock under employee stock purchase plans	275	655
Awarded restricted stock, net of forfeitures	21,185	16,545
Balance at end of period	(1,086,274)	(485,605)
Total Stockholders Equity	\$ 8,398,897	9,134,172

See notes to Consolidated Financial Statements, page 7

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

These notes are an integral part of the financial statements of Murphy Oil Corporation and Consolidated Subsidiaries (Murphy/the Company) on pages 2 through 6 of this Form 10-Q report.

Note A Interim Financial Statements

The consolidated financial statements of the Company presented herein have not been audited by independent auditors, except for the Consolidated Balance Sheet at December 31, 2013. In the opinion of Murphy's management, the unaudited financial statements presented herein include all accruals necessary to present fairly the Company's financial position at June 30, 2014, and the results of operations, cash flows and changes in stockholders' equity for the three-month and six-month periods ended June 30, 2014 and 2013, in conformity with accounting principles generally accepted in the United States of America (U.S.). In preparing the financial statements of the Company in conformity with accounting principles generally accepted in the U.S., management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates.

Financial statements and notes to consolidated financial statements included in this Form 10-Q report should be read in conjunction with the Company's 2013 Form 10-K report, as certain notes and other pertinent information have been abbreviated or omitted in this report. Financial results for the three-month and six-month periods ended June 30, 2014 are not necessarily indicative of future results.

Note B Property, Plant and Equipment

Under U.S. generally accepted accounting principles for companies that use the successful efforts method of accounting, exploratory well costs should continue to be capitalized when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the company is making sufficient progress assessing the reserves and the economic and operating viability of the project.

At June 30, 2014, the Company had total capitalized exploratory well costs pending the determination of proved reserves of \$396.4 million. The following table reflects the net changes in capitalized exploratory well costs during the six-month periods ended June 30, 2014 and 2013.

(Thousands of dollars)	2014	2013
Beginning balance at January 1	\$ 393,030	445,697
Additions pending the determination of proved reserves	3,376	27,129
Reclassifications to proved properties based on the determination of proved reserves	0	(28,398)
Balance at June 30	\$ 396,406	444,428

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed for each individual well and the number of projects for which exploratory well costs have been capitalized. The projects are aged based on the last well drilled in the project.

(Thousands of dollars)	Amount	2014		June 30,		2013	
		No. of Wells	No. of Projects	Amount	No. of Wells	No. of Projects	
Aging of capitalized well costs:							
Zero to one year	\$ 32,192	2	1	\$ 49,994	3	1	
One to two years	50,333	3	1	37,898	5	1	
Two to three years	37,969	5	0	73,863	7	3	
Three years or more	275,912	22	7	282,673	26	5	
	\$ 396,406	32	9	\$ 444,428	41	10	

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Of the \$364.2 million of exploratory well costs capitalized more than one year at June 30, 2014, \$214.2 million is in Malaysia, \$116.3 million is in the U.S. and \$33.7 million is in Brunei. In all three geographical areas, either further appraisal or development drilling is planned and/or development studies/plans are in various stages of completion.

See also Note E for discussion regarding a capital lease of production equipment at the Kakap field.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)****Note C Inventories**

Inventories are carried at the lower of cost or market. For the Company's U.K. refining and marketing operations reported as discontinued operations, the cost of crude oil and finished products is predominantly determined on the last-in, first-out (LIFO) method. At June 30, 2014 and December 31, 2013, the carrying value of inventories under the LIFO method was \$161.2 million and \$268.6 million, respectively, less than such inventories would have been valued using the first-in, first-out (FIFO) method. These inventories are included in assets held for sale on the Consolidated Balance Sheet.

Note D Discontinued Operations

The Company has previously announced its intention to sell its U.K. refining and marketing operations. The Company has accounted for this U.K. downstream business as discontinued operations for all periods presented, including a reclassification of 2013 operating results and cash flows for this business to discontinued operations. The U.K. downstream operations were previously reported as a separate segment within the Company's former refining and marketing business. On July 31, 2014, Murphy signed an agreement to sell the Milford Haven, Wales, refinery and terminal assets. Pending regulatory approval and subject to other material conditions, this transaction is scheduled to be completed by October 31, 2014. Additionally, a separate transaction for sale of the U.K. retail marketing business is at an advanced stage.

On August 30, 2013, Murphy Oil Corporation (the Company) distributed 100% of the outstanding common stock of Murphy USA Inc. (MUSA) to its shareholders in a generally tax-free spin-off for U.S. federal income tax purposes. Prior to the separation, MUSA held all of the Company's U.S. downstream operations, including retail gasoline stations and other marketing assets, plus two ethanol production facilities. The shares of MUSA common stock are traded on the New York Stock Exchange under the ticker symbol MUSA. The Company has no continuing involvement with MUSA operations. Accordingly, the operating results and the cash flows for these former U.S. downstream operations have been reported as discontinued operations in the 2013 consolidated financial statements. The U.S. downstream operations were previously reported as a separate segment within the Company's former refining and marketing business.

The Company also sold its oil and gas assets in the United Kingdom during 2013. After-tax gains on sale of the assets were \$68.8 million in the three months ended June 30, 2013 and \$216.2 million in the six months ended June 30, 2013. The Company has accounted for these U.K. upstream operations as discontinued operations in its consolidated financial statements for all periods presented.

The results of operations associated with these discontinued operations for the three-month and six-month periods ended June 30, 2014 and 2013 were as follows:

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	\$ 811,134	5,964,045	2,243,520	11,479,583
Income before income taxes, including pretax gain on disposals of \$55,640 and \$130,568 during the three-month and six-month periods in 2013	\$ (16,938)	184,418	(34,233)	317,339
Income tax expense (benefit)	(3,682)	41,663	(6,944)	(3,332)
Income (loss) from discontinued operations	\$ (13,256)	142,755	(27,289)	320,671

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note D Discontinued Operations (Contd.)

The following table presents the carrying value of the major categories of assets and liabilities of U.K. refining and marketing operations reflected as held for sale on th