Murphy USA Inc.
Form 10-Q
May 06, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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 001-35914

MURPHY USA INC.

(Exact name of registrant as specified in its charter)

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

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

(870) 875-7600

(Registrant's telephone number, including area code)

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

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

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

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

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

Yes No

Number of shares of Common Stock, $0.01 par value, outstanding at March 31, 2014 was 46,756,190.

MURPHY USA INC.

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ITEM 1. FINANCIAL STATEMENTS

Murphy USA Inc.

Consolidated Balance Sheets

(Thousands of dollars)	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 369,424	$ 294,741
Accounts receivable—trade, less allowance for doubtful accounts of $4,456 in 2014 and $4,456 in 2013	212,340	193,181
Inventories, at lower of cost or market	88,900	179,055
Prepaid expenses and other current assets	15,663	15,439
Total current assets	686,327	682,416
Property, plant and equipment, at cost less accumulated depreciation and amortization of $673,764 in 2014 and $655,360 in 2013	1,194,373	1,190,723
Deferred charges and other assets	8,265	8,103
Total assets	$ 1,888,965	$ 1,881,242
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	$ 16,500	$ 14,000
Trade accounts payable and accrued liabilities	487,770	433,228
Income taxes payable	31,942	72,146
Deferred income taxes	7,789	7,143
Total current liabilities	544,001	526,517
Long-term debt	530,295	547,578
Deferred income taxes	110,376	114,932
Asset retirement obligations	17,605	17,130
Deferred credits and other liabilities	18,508	18,749
Total liabilities	1,220,785	1,224,906
Stockholders' Equity		
Preferred Stock, par $0.01, (authorized 20,000,000 shares, none outstanding)	-	-
Common Stock, par $0.01, (authorized 200,000,000 shares, 46,756,190 and 46,743,633 shares issued and outstanding at 2014 and 2013, respectively)	468	467
Additional paid in capital (APIC)	550,503	548,293
Retained earnings	117,209	107,576
Total stockholders' equity	668,180	656,336
Total liabilities and stockholders' equity	$ 1,888,965	$ 1,881,242

See notes to consolidated and combined financial statements.

Murphy USA Inc.

Consolidated and Combined Statements of Income and Comprehensive Income

(unaudited)

	Three Months Ended March 31,	
(Thousands of dollars except per share amounts)	2014	2013
Revenues		
Petroleum product sales (a)	$ 3,594,347	$ 3,762,612
Merchandise sales	502,722	515,469
Ethanol sales and other	67,265	79,911
Total revenues	4,164,334	4,357,992
Costs and operating expenses		
Petroleum product cost of goods sold (a)	3,500,346	3,641,230
Merchandise cost of goods sold	432,462	448,796
Ethanol cost of goods sold	37,770	61,705
Station and other operating expenses	122,477	120,970
Depreciation and amortization	19,661	18,071
Selling, general and administrative	28,071	32,232
Accretion of asset retirement obligations	297	269
Total costs and operating expenses	4,141,084	4,323,273
Income from operations	23,250	34,719
Other income (expense)		
Interest income	15	281
Interest expense	(9,095)	(127)
Gain on sale of assets	170	8
Other nonoperating income	112	17
Total other income (expense)	(8,798)	179
Income before income taxes	14,452	34,898
Income tax expense	5,600	14,344
Income from continuing operations	8,852	20,554
Income from discontinued operations, net of taxes	781	1,493
Net Income	$ 9,633	$ 22,047
Earnings per share - basic:		
Income from continuing operations	$ 0.19	$ 0.44
Income from discontinued operations	0.02	0.03
Net Income - basic	$ 0.21	$ 0.47
Earnings per share - diluted:		
Income from continuing operations	$ 0.19	$ 0.44

Income from discontinued operations	0.02	0.03
Net Income - diluted	$ 0.21	$ 0.47
Weighted-average shares outstanding (in thousands):		
Basic	46,750	46,743
Diluted	46,884	46,743
Supplemental information:		
(a) Includes excise taxes of:	$ 445,404	$ 443,277

See notes to consolidated and combined financial statements.

Murphy USA Inc.

Consolidated and Combined Statements of Cash Flows

(unaudited)

(Thousands of dollars)	Three Months Ended March 31, 2014	2013
Operating Activities		
Net income	$ 9,633	$ 22,047
Adjustments to reconcile net income to net cash provided by operating activities		
Income from discontinued operations, net of taxes	(781)	(1,493)
Depreciation and amortization	19,661	18,071
Amortization of deferred major repair costs	169	133
Deferred and noncurrent income tax credits	(4,556)	(1,272)
Accretion on discounted liabilities	297	269
Pretax gains from sale of assets	(170)	(8)
Net decrease in noncash operating working capital	84,752	55,205
Other operating activities-net	3,698	(178)
Net cash provided by continuing operations	112,703	92,774
Net cash provided by (required by) discontinued operations	134	(1,335)
Net cash provided by operating activities	112,837	91,439
Investing Activities		
Property additions	(23,739)	(67,473)
Proceeds from sale of assets	279	22
Expenditures for major repairs	(728)	(280)
Investing activities of discontinued operations		
Sales proceeds	1,097	-
Other	-	(40)
Net cash required by investing activities	(23,091)	(67,771)
Financing Activities		
Repayments of long-term debt	(15,000)	(12)
Debt issuance costs	(63)	-
Net distributions to parent	-	(6,707)
Net cash required by financing activities	(15,063)	(6,719)
Net increase in cash and cash equivalents	74,683	16,949
Cash and cash equivalents at January 1	294,741	57,373
Cash and cash equivalents at March 31	$ 369,424	$ 74,322

See notes to consolidated and combined financial statements.

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Murphy USA Inc.

Consolidated and Combined Statements of Changes in Equity

(unaudited)

(Thousands of dollars, except share amounts)	Common Stock Shares	Par	APIC	Net Parent Investment	Retained Earnings	Total
Balance as of December 31, 2012	-	$ -	$ -	$ 1,104,451	$ -	$ 1,104,451
Net income	-	-	-	22,047	-	22,047
Net transfers to/between former parent	-	-	-	(5,552)	-	(5,552)
Share-based compensation expense	-	-	-	-	-	-
Balance as of March 31, 2013	-	$ -	$ -	$ 1,120,946	$ -	$ 1,120,946

(Thousands of dollars, except share amounts)	Common Stock Shares	Par	APIC	Net Parent Investment	Retained Earnings	Total
Balance as of December 31, 2013	46,743,633	$ 467	$ 548,293	$ -	$ 107,576	$ 656,336
Net income	-	-	-	-	9,633	9,633
Issuance of common stock	12,557	1	(312)	-	-	(311)
Share-based compensation expense	-	-	2,522	-	-	2,522
Balance as of March 31, 2014	46,756,190	$ 468	$ 550,503	$ -	$ 117,209	$ 668,180

See notes to consolidated and combined financial statements.

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note 1 — Description of Business and Basis of Presentation

Description of business — The business of Murphy USA Inc. (“Murphy USA” or the “Company”) and its subsidiaries primarily consists of the U.S. retail marketing business that was separated from its former parent company, Murphy Oil Corporation (“Murphy Oil” or “Parent”), plus an ethanol production facility and other assets, liabilities and operating expenses of Murphy Oil that were associated with supporting the activities of the U.S. retail marketing operations. The separation was approved by the Murphy Oil board of directors on August 7, 2013, and was completed on August 30, 2013 through the distribution of 100% of the outstanding capital stock of Murphy USA to holders of Murphy Oil common stock on the record date of August 21, 2013. Murphy Oil stockholders of record received one share of Murphy USA common stock for every four shares of Murphy Oil common stock. The spin-off was completed in accordance with a separation and distribution agreement entered into between Murphy Oil and Murphy USA. Following the separation, Murphy USA is an independent, publicly traded company, and Murphy Oil retains no ownership interest in Murphy USA.

Murphy USA markets refined products through a network of retail gasoline stations and unbranded wholesale customers. Murphy USA’s owned retail stations are almost all located in close proximity to Walmart stores in 23 states and use the brand name Murphy USA®. Murphy USA also markets gasoline and other products at standalone stations under the Murphy Express brand. At March 31, 2014, Murphy USA had a total of 1,214 Company stations. In October 2009, Murphy USA acquired an ethanol production facility located in Hankinson, North Dakota, which was subsequently sold in December 2013 and is reflected as discontinued operations for all periods presented. The Company also acquired a partially constructed ethanol production facility in Hereford, Texas, in late 2010. The Hereford facility is designed to produce 105 million gallons of corn-based ethanol per year, and it began operations near the end of the first quarter of 2011.

The contributed assets of Murphy Oil included in the Company’s financial statements also include buildings, real estate, an airplane and computer equipment and software that are used to support the operating activities of Murphy USA.

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 for $1.00. Murphy USA was formed solely in contemplation of the separation and until the separation was completed on August 30, 2013, it had not commenced operations and had no material assets, liabilities, or commitments. Accordingly the accompanying consolidated and combined financial statements reflect the combined historical results of operations, financial position and cash flows of the Murphy Oil subsidiaries and certain assets, liabilities and operating expenses of Murphy Oil that comprise Murphy USA, as described above, as if such companies and accounts had been combined for all periods presented prior to August 30, 2013. All significant intercompany transactions and accounts within the combined financial statements have been eliminated.

The assets and liabilities in these consolidated and combined financial statements at March 31, 2014 have been reflected on a historical basis. Any periods presented that include dates prior to August 30, 2013 are periods when all of the assets and liabilities shown were 100 percent owned by Murphy Oil and represented operations of Murphy USA prior to the separation. For the period prior to separation, the consolidated and combined statements of income also include expense allocations for certain corporate functions historically performed by Murphy Oil, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, procurement and information technology. These allocations are based primarily on specific identification, headcount or computer utilization. Murphy USA's management believes the assumptions underlying the consolidated and combined financial statements, including the assumptions regarding the allocation of general corporate expenses from Murphy Oil, are reasonable. However, these consolidated and combined financial statements may not include all of the actual expenses that would have been incurred had the Company been a stand-alone company during the period prior to separation and may not reflect the combined results of operations, financial position and cash flows had the Company been a stand-alone company during the entirety of the periods presented.

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Actual costs that would have been incurred if Murphy USA had been a stand-alone company for the period prior to separation would depend upon multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

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 and combined financial statements is unaudited and includes all known accruals and adjustments, in the opinion of management, necessary for a fair presentation of the consolidated and combined 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 and combined financial statements should be read together with our audited financial statements for the years ended December 31, 2013, 2012 and 2011, 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 28, 2014.

Note 2 — Related Party Transactions

Related-party transactions of the Company include the allocation of certain general and administrative costs from Murphy Oil to the Company and payment of interest expense to Murphy Oil for intercompany payables balances for the periods prior to separation from Murphy Oil.

General and administrative costs were charged by Murphy Oil to the Company based on management's determination of such costs attributable to the operations of the Company. However, such related-party transactions cannot be presumed to be carried out on an arm's length basis as the requisite conditions of competitive, free-market dealings may not exist.

Prior to the separation Murphy Oil provided cash management services to the Company. As a result, the Company generally remitted funds received to Murphy Oil, and Murphy Oil paid all operating and capital expenditures on behalf of the Company. Such cash transactions were reflected in the change in the Net Investment by Parent.

The Consolidated and Combined Statements of Income include expense allocations for certain functions provided to the Company by Murphy Oil prior to the separation. If possible, these allocations were made on a specific identification basis. Otherwise, the expenses related to services provided to the Company by Murphy Oil were allocated to Murphy USA based on relative percentages, as compared to Murphy Oil’s other businesses, of headcount or other appropriate methods depending on the nature of each item of cost to be allocated.

Charges for functions historically provided to the Company by Murphy Oil were primarily attributable to Murphy Oil’s performance of many shared services that the Company benefitted from, such as treasury, tax, accounting, risk management, legal, internal audit, procurement, human resources, investor relations and information technology. Murphy USA also participated in certain Murphy Oil insurance, benefit and incentive plans. The Consolidated and Combined Statements of Income reflect charges from Murphy Oil and its other subsidiaries for these services of $0 and $20,649,000 for the three months ended March 31, 2014 and 2013. Included in the charges above for the period ended March 31, 2013 are amounts recognized for stock-based compensation expense (Note 8), as well as net periodic benefit expense associated with the Parent’s retirement plans (Note 9).

Included in Interest income in the Consolidated and Combined Statements of Income for the three months ended March 31, 2014 and 2013 was interest income from affiliates of $0 and $274,000, respectively.

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

These amounts were paid on balances that were previously intercompany prior to the separation from Murphy Oil and were settled in full at the separation date.

Transition Services Agreement

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

We believe that the operating expenses and general and administrative expenses allocated to us prior to the separation and included in the accompanying consolidated and combined statements of income were a reasonable approximation of the costs related to Murphy USA's operations. However, such related-party transactions cannot be presumed to be carried out on an arm's-length basis as the terms were negotiated while Murphy USA was still a subsidiary of Murphy Oil. At March 31, 2014 Murphy USA had a current receivable from Murphy Oil of $164,000 and a payable to Murphy Oil of $989,000 related to the Transition Services Agreement.

Note 3 – Discontinued Operations

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

The results of operations associated with the Hankinson discontinued operations for the 2013 period are presented in the following table.

(Thousands of dollars)	Three Months Ended March 31, 2013
Revenues	$ 97,822
Income (loss) from operations before income taxes	2,299
Gain on sale before income taxes	-
Total income (loss) from discontinued operations before taxes	2,299
Provision for income taxes	806
Income (loss) from discontinued operations	$ 1,493

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Note 4 — Inventories

Inventories consisted of the following:

(Thousands of dollars)	March 31, 2014	December 31, 2013
Refined products and blendstocks - FIFO basis	$ 294,347	$ 372,531
Less LIFO reserve - refined products and blendstocks	(313,583)	(307,706)
Refined products and blendstocks - LIFO basis	(19,236)	64,825
Store merchandise for resale	91,299	97,058
Corn based products	12,175	12,447
Materials and supplies	4,662	4,725
Total inventories	$ 88,900	$ 179,055

At March 31, 2014 and December 31, 2013, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by $313,583,000 and $307,706,000, respectively. Corn based products consisted primarily of corn, dried distillers' grains with solubles (DDGS) and wet distillers' grains with solubles (WDGS), and were all valued on a first-in, first-out (FIFO) basis.

For the period ended March 31, 2014, the LIFO reserve exceeds the FIFO inventory due to the temporary decrement that existed at that date that is expected to be restored at year-end. This decrement is valued at current replacement cost and is recorded in the LIFO reserve account since it is temporary. During the period ended March 31, 2014, the Company recognized a benefit of $17,781,000 related to a decrement that existed at that date that is not expected to be restored at year-end.

Note 5 — Long-Term Debt

Long-term debt consisted of the following:

March 31,

(Thousands of dollars)	2014	December 31, 2013
6% senior notes due 2023 (net of unamortized discount of $8,205)	$ 491,795	$ 491,578
Term loan due 2016 (effective rate of 3.11% at March 31, 2014 and 3.71% at December 31, 2013)	55,000	70,000
Less current maturities	(16,500)	(14,000)
Total long-term debt	$ 530,295	$ 547,578

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

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

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

In addition, we are party to a registration rights agreement, which requires us to exchange the Senior Notes for notes eligible for public resale within 360 days of the issuance of the Senior Notes, or alternatively under certain circumstances, to file a shelf registration statement for public resale of the Senior Notes. On March 21, 2014, we filed a registration statement on Form S-4 to exchange these Senior Notes for notes eligible for public resale.

Credit Facilities

On August 30, 2013, we entered into a credit agreement in connection with the separation from Murphy Oil. The credit agreement provides for a committed $450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a $150 million term facility. It also provides for a $200 million uncommitted incremental facility. The ABL facility is scheduled to mature on August 30, 2018, subject to the ability to extend for two additional one-year periods with the consent of the extending lenders. The term facility is scheduled to mature on August 30, 2016. On August 30, 2013, Murphy Oil USA, Inc. borrowed $150 million under the term facility, together with the net proceeds of the offering of the Senior Notes, to finance a $650 million cash dividend from Murphy Oil USA, Inc. to Murphy Oil.

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

- 100% of eligible cash at such time, plus
- 90% of eligible credit card receivables at such time, plus
- 90% of eligible investment grade accounts, plus

- 85% of eligible other accounts, plus

- 80% of eligible product supply/wholesale refined products inventory at such time, plus

- 75% of eligible retail refined products inventory at such time, plus

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

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

Interest payable on the credit facilities is based on either:

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

- the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum, plus, (A) in the case of Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 2.75% to 3.00% per annum depending on a secured debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 1.75% to 2.00% per annum depending on a secured debt to EBITDA ratio.

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

We are obligated to make quarterly principal payments on the outstanding principal amount of the term facility beginning on the first anniversary of the effective date of the credit agreement in amounts equal to 10% of the term loans made on such effective date, with the remaining balance payable on the scheduled maturity date of the term facility. Borrowings under the credit facilities are prepayable at our option without premium or penalty. On March 31, 2014, we elected to prepay $15,000,000 on the term facility with our excess available cash from operations. We are also required to prepay the term facility with the net cash proceeds of certain asset sales or casualty events, subject to certain exceptions. The credit agreement also includes certain customary mandatory prepayment provisions with respect to the ABL facility.

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a fixed charge coverage ratio of a minimum of 1.0 to 1.0 when availability for at least three consecutive business days is less than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) $70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount), as well as a maximum secured debt to EBITDA ratio of 4.5 to 1.0 at any time when term facility commitments or term loans thereunder are outstanding. As of March 31, 2014, our secured leverage ratio and fixed charge coverage ratio were 0.17 and 1.32, respectively. After giving effect to the applicable restrictions on certain payments, which could include dividends under the credit agreement and the indenture, and subject to compliance with applicable law, as of December 31, 2013, the Company had approximately $26.7 million of its net income and retained earnings free of such restrictions.

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

Note 6 — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at March 31, 2014 and December 31, 2013 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.

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(Thousands of dollars)	March 31, 2014	December 31, 2013
Balance at beginning of period	$ 17,130	$ 15,401
Accretion expense	297	1,096
Liabilities incurred	178	633
Balance at end of period	$ 17,605	$ 17,130

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 7— Income Taxes

The Company's effective income tax rate generally exceeds the U.S. Federal statutory tax rate of 35%. The effective tax rate is calculated as the amount of income tax expense divided by income before income tax expense. For the three-month periods ended March 31, 2014 and 2013, the Company's effective tax rates were as follows:

	2014	2013
Three months ended March 31	38.7%	41.1%

The effective tax rate for the 2014 and 2013 periods ended March 31 exceeded the U.S. Federal tax rate of 35% primarily due 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 March 31, 2014, the earliest year remaining open for audit and/or settlement in the United States is 2010. 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.

Under U.S. GAAP the financial statement recognition of the benefit for a tax position is dependent upon the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. The Company has not recorded any effect for unrecognized income tax benefits for the periods reported.

Note 8 — Incentive Plans

Prior to the separation and distribution, our employees participated in the Murphy Oil 2007 Long-Term Incentive Plan (the "2007 Plan") and the Murphy Oil 2012 Long-Term Incentive Plan (the "2012 Plan") and received Murphy Oil restricted stock awards and options to purchase shares of Murphy Oil common stock. While participating in these two plans, costs resulting from share-based payment transactions were allocated and recognized as an expense in the financial statements using a fair value-based measurement method over the periods that the awards vested. Certain employees of the Company have received annual grants in the form of Murphy Oil stock options, restricted stock units and other forms of share based payments prior to the separation and distribution. Accordingly, the Company has accounted for expense for these plans in accordance with SAB Topic 1-B for periods prior to the separation and distribution.

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

Murphy USA Inc.

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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 11, 2014, the Committee granted nonqualified stock options for 127,400 shares at an exercise price of $39.46 per share under the terms of the MUSA 2013 Plan. The Black-Scholes valuation for these awards is $11.44 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 39,250 time-based restricted units granted at a grant date fair value of $39.46 along with 78,500 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 17 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 $43.41 per unit. For the ROACE portion of the awards, the valuation will be based on the grant date fair value of $39.46 per unit and the number of awards will be periodically assessed to determine the probability of vesting.

On March 3, 2014, the Committee also granted 53,475 time-based restricted stock units granted to certain employees with a grant date fair value of $40.00 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.

For the three months ended March 31, 2014, the Company issued 22,437 restricted stock units to its non-employee directors at a weighted average grant date fair value of $39.07 per share. These shares vest in three years from the grant date.

For the three months ended March 31, 2014 and 2013, share based compensation was $2.5 million and $2.8 million, respectively. For the three months ended March 31, 2014 and 2013, cash received from options exercised under all share-based payment arrangements was $13,000 and $0, respectively. The related income tax benefit for tax benefit realized for the tax deductions from options exercised was $5,000 and $0 for the three months ended March 31, 2014 and 2013, respectively.

As of March 31, 2014, unrecognized compensation cost related to stock option awards was $3.8 million, which is expected to be recognized over a weighted average period of 1.9 years. Unrecognized compensation cost related to restricted stock awards was $18.1 million, which is expected to be recognized over a weighted average period of 2.9 years.

Note 9 — Employee and Retiree Benefit Plans

PENSION AND POSTRETIREMENT PLANS — Murphy Oil has defined benefit pension plans that are principally noncontributory and cover most full-time employees. Upon separation from Murphy Oil, all amounts for these plans related to Murphy USA were frozen and retained by Murphy Oil. Therefore, the assets and liabilities related to Murphy USA employees in these plans are not included in these financial statements as Murphy USA is considered to be participating in multiple employer benefit plans due to co-mingling of various plan assets. However, the periodic benefit expense for each period includes the

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expense of the U.S. benefit plans. All U.S. tax qualified plans meet the funding requirements of federal laws and regulations. Murphy Oil also sponsors health care and life insurance benefit plans, which are not funded, that cover most retired U.S. employees. The health care benefits are contributory; the life insurance benefits are noncontributory. Murphy USA does not expect to have similar pension or post-retirement plans for its employees.

The table that follows provides the components of net periodic benefit expense associated with Company employees for the three months ended March 31, 2013 as there was no comparable expense for the three months ended March 31, 2014.

	Three Months Ended March 31,			
	Pension Benefits		Other Postretirement Benefits	
(Thousands of dollars)	2014	2013	2014	2013
Service cost	$ -	$ 1,398	$ -	$ 525
Interest cost	-	811	-	360
Expected return on plan assets	-	(782)	-	-
Amortization of prior service cost (benefits)	-	18	-	(2)
Recognized actuarial loss	-	629	-	133
Net periodic benefit expense	$ -	$ 2,074	$ -	$ 1,016

U.S. Health Care Reform — In March 2010, the United States Congress enacted a health care reform law. Along with other provisions, the law (a) eliminated the tax free status of federal subsidies to companies with qualified retiree prescription drug plans that are actuarially equivalent to Medicare Part D plans beginning in 2013; (b) imposes a 40% excise tax on high-cost health plans as defined in the law beginning in 2018; (c) eliminated lifetime or annual coverage limits and required coverage for preventative health services beginning in September 2010; and (d) imposed a fee of $2 (subsequently adjusted for inflation) for each person covered by a health insurance policy beginning in September 2010. The new law did not significantly affect the Company's consolidated and combined financial statements as of March 31, 2014 and December 31, 2013 and for the three-month periods ended March 31, 2014 and 2013.

Note 10— Financial Instruments and Risk Management

DERIVATIVE INSTRUMENTS — The Company makes limited use of derivative instruments to manage certain risks related to commodity prices. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Company's senior management. The Company does not hold any derivatives for speculative purposes and it does not use derivatives with leveraged or complex features. Derivative instruments are traded primarily with creditworthy major financial institutions or over national exchanges such as the New York Mercantile Exchange ("NYMEX"). To qualify for hedge accounting, the changes in the market value of a derivative instrument must historically have been, and would be expected to continue to be, highly effective at offsetting changes in the prices of the hedged item. To the extent that the change in fair value of a derivative instrument has less than perfect correlation with the change in the fair value of the hedged item, a portion of the change in fair value of the derivative instrument is considered ineffective and would normally be recorded in earnings during the affected period.

The Company is subject to commodity price risk related to corn that it will purchase in the future for feedstock and WDGS that it will sell in the future at its remaining ethanol production facility. At March 31, 2014 and 2013, the Company had open physical delivery commitment contracts for purchase of approximately 3.5 million and 18.7 million bushels of corn, respectively, for processing at its ethanol plants. For the periods ended March 31, 2014 and 2013, the Company had open physical delivery commitment contracts for sale of approximately 0.5 million and 0.9 million equivalent bushels, respectively, of DDGS and WDGS. To manage the price risk associated with certain of these physical delivery commitments which have fixed prices, at March 31, 2014, the Company had outstanding

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derivative contracts with offsetting long and short volumes of 0.5 million bushels, that mature at future prices in effect on the expected date of delivery under the physical delivery commitment contracts. At March 31, 2013, the Company had a net short volume of 6.0 million bushels of these same outstanding derivative contracts. Additionally, at March 31, 2014 and 2013, the Company had outstanding derivative contracts with a net short volume of 1.9 and 2.1 million bushels of corn to buy back when certain corn inventories are expected to be processed. The impact of marking to market these commodity derivative contracts decreased income before taxes by $0.6 million and increased income before taxes by $0.2 million for the three months ended March 31, 2014 and 2013, respectively.

At March 31, 2014 and December 31, 2013, the fair value of derivative instruments not designated as hedging instruments are presented in the following table.

	March 31, 2014				December 31, 2013			
(Thousands of dollars)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity derivative contracts	Accounts Receivable	$ 515	Accounts Payable	$ 1,088	Accounts Receivable	$ 224	Accounts Payable	$ 291

For the three-month periods ended March 31, 2014 and 2013, the gains and losses recognized in the consolidated and combined Statements of Income for derivative instruments not designated as hedging instruments are presented in the following table.

(Thousands of dollars)	Statement of Income	Gain (Loss) Three Months Ended March 31,	
Type of Derivative Contract	Location	2014	2013
Commodity	Fuel and ethanol costs of goods sold	$ (1,465)	$ (1,598)

The Company offsets certain assets and liabilities related to derivative contracts when the legal right of offset exists. Derivative assets and liabilities which have offsetting positions at March 31, 2014 and December 31, 2013 are presented in the following tables:

(Thousands of dollars)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
At March 31, 2014			
Commodity derivatives	$ 597	$ (82)	$ 515
At December 31, 2013			
Commodity derivatives	$ 233	$ (9)	$ 224

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet
At March 31, 2014			
Commodity derivatives	$ 1,170	$ (82)	$ 1,088
At December 31, 2013			
Commodity derivatives	$ 300	$ (9)	$ 291

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All commodity derivatives above are corn-based contracts associated with the Company's Hereford plant as all positions related to Hankinson were assumed by the buyer in conjunction with the sale. Net derivative assets are included in Accounts Receivable presented in the table on the prior page and are included in Accounts Receivable on the Consolidated Balance Sheets; likewise, net derivative liabilities in the above table are included in Accounts Payable in the table above and are included in Accounts Payable and Accrued Liabilities on the Consolidated Balance Sheets. These contracts permit net settlement and the Company generally avails itself of this right to settle net. At March 31, 2014 and December 31, 2013, cash deposits of $2.0 million and $2.9 million related to commodity derivative contracts were reported in Prepaid Expenses in the Consolidated Balance Sheets, respectively. These cash deposits have not been used to reduce the reported net liabilities on the corn-based derivative contracts at March 31, 2014 or December 31, 2013.

Note 11 – Earnings Per Share

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

On August 30, 2013, 46,743,316 shares of our common stock were distributed to the shareholders of Murphy Oil in connection with the separation and distribution. For comparative purposes, we have assumed this amount to be outstanding as of the beginning of each prior period prior to the separation and distribution presented in the calculation of weighted average shares outstanding.

The following table provides a reconciliation of basic and diluted earnings per share computations for the three months ended March 31, 2014 and 2013 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2014	2013
Earnings per common share:		
Net income attributable to common stockholders	$ 9,633	$ 22,047

Weighted average common shares outstanding (in thousands)	46,750	46,743
Total earnings per share	$ 0.21	$ 0.47
Earnings per common share - assuming dilution:		
Net income attributable to common stockholders	$ 9,633	$ 22,047
Weighted average common shares outstanding (in thousands)	46,750	46,743
Common equivalent shares:		
Dilutive options	134	-
Weighted average common shares outstanding - assuming dilution (in thousands)	46,884	46,743
Earnings per share - assuming dilution	$ 0.21	$ 0.47

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Note 12 — Other Financial Information

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

(Thousands of dollars)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Sales of ethanol and related plant products	$ 48,789	$ 65,846
Renewable Identification Numbers (RINs) sales	17,593	13,301
Other	883	764
Total ethanol sales and other revenue	$ 67,265	$ 79,911

CASH FLOW DISCLOSURES — Cash income taxes paid (collected), net of refunds, were $50,100,000 and $(38,000) for the three-month periods ended March 31, 2014 and 2013, respectively. Interest paid was $16,250,000 and $127,000 for the three-month periods ended March 31, 2014 and 2013, respectively. Noncash additions to net parent investment related primarily to settlement of income taxes were $0 and $1,155,000 for the three-month periods ended March 31, 2014 and 2013, respectively.

(Thousands of dollars)	Three Months Ended March 31, 2014	2013

Accounts receivable	$ (19,160)	$ 140,642
Inventories	90,155	57,796
Prepaid expenses	(253)	117
Accounts payable and accrued liabilities	53,990	(146,011)
Income taxes payable	(40,626)	3,654
Current deferred income tax liabilities	646	(993)
Net decrease in noncash operating working capital	$ 84,752	$ 55,205

Note 13 — Assets and Liabilities Measured at Fair Value

The Company carries certain assets and liabilities at fair value in its Consolidated Balance Sheets. The fair value hierarchy is based on the quality of inputs used to measure fair value, with Level 1 being the highest quality and Level 3 being the lowest quality. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs which reflect assumptions about pricing by market participants.

The Company carries certain assets and liabilities at fair value in its Consolidated Balance Sheets. The fair value measurements for these assets and liabilities at March 31, 2014 and December 31, 2013 are presented in the following table.

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(Thousands of dollars)	Fair Value March 31, 2014	Fair Value Measurements at Reporting Date Listing Quoted Prices In Active Markets for Identical Assets (Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Commodity derivative contracts	$ 515	-	$ 515	-
Liabilities				
Commodity derivative contracts	$ (1,088)	-	$ (1,088)	-

(Thousands of dollars)	Fair Value December 31, 2013	Fair Value Measurements at Reporting Date Listing Quoted Prices In Active Markets for Identical Assets (Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Commodity derivative contracts	$ 224	-	$ 224	-
Liabilities				
Commodity derivative contracts	$ (291)	-	$ (291)	-

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

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at March 31, 2014 and December 31, 2013. 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, 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.

	At March 31, 2014		At December 31, 2013	
(Thousands of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Current and long-term debt	$ (546,795)	$ (552,200)	$ (561,578)	$ (559,411)

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Note 14 — Contingencies

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

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

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

Certain environmental expenditures are likely to be recovered by the Company from other sources, primarily environmental funds maintained by certain states. Since no assurance can be given that future recoveries from other sources will occur, the Company has not recorded a benefit for likely recoveries at March 31, 2014, 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 March 31, 2014. 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.

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 $0.5 million per occurrence. As of March 31, 2014, 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 $4.6 million will be sufficient to cover the related liability 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 was insured under Murphy Oil’s insurance policies for occurrences prior to the completion of the separation. The specifications and insured limits under those policies, however, were at a level consistent with Murphy Oil as a whole. Following the separation, 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 March 31, 2014, the Company had contingent liabilities of $15.3 million on outstanding letters of credit. The Company has not accrued a liability in its balance sheet related to these financial guarantees and letters of credit because it is believed that the likelihood of having these drawn is remote.

Note 15 — Business Segments

During the fourth quarter of 2013, the Company sold its Hankinson, North Dakota ethanol plant. This was the largest of the two ethanol plants that were owned by the Company. Because of this sale, the Company was required to reevaluate its operating segments for reporting purposes. After reviewing the quantitative and qualitative aspects of the Company’s segments, it was determined that the remaining ethanol assets did not warrant separate segment presentation. Therefore, the segments for the Company were restated for all prior periods to reflect one remaining operating segment, Marketing. The remaining ethanol assets were recast into the category with the prior Corporate assets and renamed “Corporate and other assets”. In addition, due to the sale of the Hankinson entity, the Company also shows discontinued operations for all periods presented for the prior Hankinson activity. Segment information is as follows:

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(Thousands of dollars)	Total Assets at March 31,	Three Months Ended March 31, 2014 External Revenues	Income (Loss)	March 31, 2013 External Revenues	Income (Loss)
Marketing	$ 1,831,732	$ 4,115,437	$ 13,761	$ 4,292,146	$ 23,387
Corporate and other assets	57,233	48,897	(4,909)	65,846	(2,833)
Total operating segment	1,888,965	4,164,334	8,852	4,357,992	20,554
Discontinued operations	-	-	781	-	1,493
Total	$ 1,888,965	$ 4,164,334	$ 9,633	$ 4,357,992	$ 22,047

Note 16 – Guarantor Subsidiaries

Certain of the Company’s 100% owned, domestic subsidiaries (the “Guarantor Subsidiaries”) fully and unconditionally guarantee, on a joint and several basis, certain of the outstanding indebtedness of the Company, including the 6.00% senior notes due 2023. The following consolidating and combining schedules present financial information on a consolidated and combined basis in conformity with the SEC’s Regulation S-X Rule 3-10(d):

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CONSOLIDATING BALANCE SHEET

(Thousands of dollars)

	March 31, 2014					
Assets	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets						
Cash and cash equivalents	$ -	$ 368,629	$ -	$ 795	$ -	$ 369,424
Accounts receivable—trade, less allowance for doubtful accounts of $4,456 in 2014	-	210,493	-	1,847	-	212,340
Inventories, at lower of cost or market	-	70,160	-	18,740	-	88,900
Prepaid expenses and other current assets	-	13,447	-	2,216	-	15,663
Total current assets	-	662,729	-	23,598	-	686,327
Property, plant and equipment, at cost less accumulated depreciation and amortization of $673,764 in 2014	-	1,192,522	-	1,851	-	1,194,373
Investments in subsidiaries	1,336,414	156,362	-	-	(1,492,776)	-
Deferred charges and other assets	-	7,467	-	798	-	8,265
Total assets	$ 1,336,414	$ 2,019,080	$ -	$ 26,247	$ (1,492,776)	$ 1,888,965
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	$ -	$ 16,500	$ -	$ -	$ -	$ 16,500
Inter-company accounts payable	-	125,069	(52,071)	(72,998)	-	-
Trade accounts payable and accrued liabilities	-	482,625	-	5,145	-	487,770
Income taxes payable	-	31,629	8	305	-	31,942
Deferred income taxes	-	7,789	-	-	-	7,789
Total current liabilities	-	663,612	(52,063)	(67,548)	-	544,001
Long-term debt	-	530,295	-	-	-	530,295

Deferred income taxes	-	122,878	-	(12,502)	-	110,376
Asset retirement obligations	-	17,605	-	-	-	17,605
Deferred credits and other liabilities	-	18,508	-	-	-	18,508
Total liabilities	-	1,352,898	(52,063)	(80,050)	-	1,220,785
Stockholders' Equity						
Preferred Stock, par $0.01, (authorized 20,000,000 shares, none outstanding)	-	-	-	-	-	-
Common Stock, par $0.01, (authorized 200,000,000 shares, 46,756,190 shares issued and outstanding at March 31, 2014)	468	1	60	-	(61)	468
Additional paid in capital (APIC)	1,228,370	550,968	52,004	35,677	(1,316,516)	550,503
Retained earnings	107,576	115,213	(1)	70,620	(176,199)	117,209
Total stockholders' equity	1,336,414	666,182	52,063	106,297	(1,492,776)	668,180
Total liabilities and stockholders' equity	$ 1,336,414	$ 2,019,080	$ -	$ 26,247	$ (1,492,776)	$ 1,888,965

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CONSOLIDATING BALANCE SHEET

(Thousands of dollars)

	December 31, 2013					
Assets	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Combined
Current assets						
Cash and cash equivalents	$ -	$ 294,741	$ -	$ -	$ -	$ 294,741
Accounts receivable—trade, less allowance for doubtful accounts of $4,456 in 2013	-	191,904	-	1,277	-	193,181
Inventories, at lower of cost or market	-	157,795	-	21,260	-	179,055
Prepaid expenses and other current assets	-	12,217	-	3,222	-	15,439
Total current assets	-	656,657	-	25,759	-	682,416
Property, plant and equipment, at cost less accumulated depreciation and amortization of $655,360 in 2013	-	1,189,082	-	1,641	-	1,190,723
Investments in subsidiaries	1,228,837	-	-	-	(1,228,837)	-
Deferred charges and other assets	-	95,604	-	239	(87,740)	8,103
Total assets	$ 1,228,837	$ 1,941,343	$ -	$ 27,639	$ (1,316,577)	$ 1,881,242
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	$ -	$ 14,000	$ -	$ -	$ -	$ 14,000
Inter-company accounts payable	-	119,366	(52,107)	(67,259)	-	-
Trade accounts payable and accrued liabilities	-	429,763	-	3,465	-	433,228
Income taxes payable	-	71,450	43	653	-	72,146
Deferred income taxes	-	7,143	-	-	-	7,143
Total current liabilities	-	641,722	(52,064)	(63,141)	-	526,517
Long-term debt	-	547,578	-	-	-	547,578
Deferred income taxes	-	128,451	-	(13,519)	-	114,932
Asset retirement obligations	-	17,130	-	-	-	17,130
Deferred credits and other liabilities	-	18,749	-	-	-	18,749

Total liabilities	-	1,353,630	(52,064)	(76,660)	-	1,224,906
Stockholders' Equity						
Preferred Stock, par $0.01, (authorized 20,000,000 shares, none outstanding)	-	-	-	-	-	-
Common Stock, par $0.01, (authorized 200,000,000 shares, 46,746,633 shares issued and outstanding at December 31, 2013)	467	1	60	-	(61)	467
Additional paid in capital (APIC)	1,228,370	548,758	52,004	35,677	(1,316,516)	548,293
Retained earnings	-	38,954	-	68,622	-	107,576
Total stockholders' equity	1,228,837	587,713	52,064	104,299	(1,316,577)	656,336
Total liabilities and stockholders' equity	$ 1,228,837	$ 1,941,343	$ -	$ 27,639	$ (1,316,577)	$ 1,881,242

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(Thousands of dollars except per share amounts)	Three Months Ended March 31, 2014					
	Parent		Guarantor	Non-Guarantor		
Revenues	Company	Issuer	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Petroleum product sales	$ -	$ 3,634,271	$ -	$ -	$ (39,924)	$ 3,594,347
Merchandise sales	-	502,722	-	-	-	502,722

Ethanol sales and other	-	18,476	-	48,789	-	67,265
Total revenues	$ -	$ 4,155,469	$ -	$ 48,789	$ (39,924)	$ 4,164,334
Costs and operating expenses						
Petroleum product cost of goods sold	-	3,540,270	-	-	(39,924)	3,500,346
Merchandise cost of goods sold	-	432,462	-	-	-	432,462
Ethanol cost of goods sold	-	-	-	37,770	-	37,770
Station and other operating expenses	-	113,815	-	8,662	-	122,477
Depreciation and amortization	-	19,634	-	27	-	19,661
Selling, general and administrative	-	27,625	1	445	-	28,071
Accretion of asset retirement obligations	-	297	-	-	-	297
Total costs and operating expenses	-	4,134,103	1	46,904	(39,924)	4,141,084
Income from operations	$ -	$ 21,366	$ (1)	$ 1,885	$ -	$ 23,250
Other income (expense)						
Interest income	-	15	-	-	-	15
Interest expense	-	(9,095)	-	-	-	(9,095)
Gain on sale of assets	-	170	-	-	-	170
Other nonoperating income	-	112	-	-	-	112
Total other income (expense)	$ -	$ (8,798)	$ -	$ -	$ -	$ (8,798)
Income from continuing operations before income taxes	-	12,568	(1)	1,885	-	14,452
Income tax expense	-	4,932	-	668	-	5,600
Income from continuing operations	-	7,636	(1)	1,217	-	8,852
Income from discontinued operations, net of taxes	-	-	-	781	-	781
Net Income	$ -	$ 7,636	$ (1)	$ 1,998	$ -	$ 9,633

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

COMBINING INCOME STATEMENT

(Thousands of dollars except per share amounts)	Three Months Ended March 31, 2013					
	Parent		Guarantor	Non-Guarantor		
Revenues	Company	Issuer	Subsidiaries	Subsidiaries	Eliminations	Combined
Petroleum product sales	$ -	$ 3,810,772	$ -	$ -	$ (48,160)	$ 3,762,612
Merchandise sales	-	515,469	-	-	-	515,469
Ethanol sales and other	-	14,065	-	65,846	-	79,911
Total revenues	$ -	$ 4,340,306	$ -	$ 65,846	$ (48,160)	$ 4,357,992
Costs and operating expenses						
Petroleum product cost of goods sold	-	3,689,390	-	-	(48,160)	3,641,230
Merchandise cost of goods sold	-	448,796	-	-	-	448,796
Ethanol cost of goods sold		-	-	61,705	-	61,705
Station and other operating expenses	-	113,507	-	7,463	-	120,970
Depreciation and amortization	-	18,061	-	10	-	18,071
Selling, general and administrative	-	31,127	1	1,104	-	32,232
Accretion of asset retirement obligations	-	269	-	-	-	269
Total costs and operating expenses	-	4,301,150	1	70,282	(48,160)	4,323,273
Income from operations	$ -	$ 39,156	$ (1)	$ (4,436)	$ -	$ 34,719
Other income (expense)						

Interest income	-	281	-	-	-	281
Interest expense	-	(127)	-	-	-	(127)
Gain on sale of assets	-	8	-	-	-	8
Other nonoperating income	-	17	-	-	-	17
Total other income (expense)	$ -	$ 179	$ -	$ -	$ -	$ 179
Income from continuing operations before income taxes	-	39,335	(1)	(4,436)	-	34,898
Income tax expense	-	15,867	-	(1,523)	-	14,344
Income from continuing operations	-	23,468	(1)	(2,913)	-	20,554
Income from discontinued operations, net of taxes	-	-	-	1,493	-	1,493
Net Income	$ -	$ 23,468	$ (1)	$ (1,420)	$ -	$ 22,047

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENT OF CASH FLOW

(Thousands of dollars)	Three Months Ended March 31, 2014					
	Parent		Guarantor	Non-Guarantor		
Operating Activities	Company	Issuer	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net income	$ -	$ 7,636	$ (1)	$ 1,998	$ -	$ 9,633
Adjustments to reconcile net income to net cash provided by operating activities						
(Income) loss from discontinued operations, net of tax	-	-	-	(781)	-	(781)
Depreciation and amortization	-	19,634	-	27	-	19,661
Amortization of deferred major repair costs	-		-	169	-	169
Deferred and noncurrent income tax charges (credits)	-	(5,573)	-	1,017	-	(4,556)
Accretion on discounted liabilities	-	297	-	-	-	297
Pretax gains from sale of assets	-	(170)	-	-	-	(170)
Net decrease in noncash operating working capital	-	80,464	-	4,288	-	84,752
Other operating activities-net	-	3,698	-	-	-	3,698
Net cash provided by (required by) continuing operations	-	105,986	(1)	6,718	-	112,703
Net cash provided by discontinued operations	-	-	-	134	-	134
Net cash provided by (required by) operating activities	-	105,986	(1)	6,852	-	112,837
Investing Activities						
Property additions	-	(23,501)	-	(238)	-	(23,739)
Proceeds from sale of assets	-	279	-	-	-	279
Expenditures for major repairs	-	-	-	(728)	-	(728)
Investing activities of discontinued operations						
Sales proceeds	-	-	-	1,097	-	1,097
Other	-	-	-	-	-	-
Net cash provided by (required by) investing activities	-	(23,222)	-	131	-	(23,091)
Financing Activities						
Repayments of long-term debt	-	(15,000)	-	-	-	(15,000)
Debt issuance costs		(63)				(63)
Net distributions to parent	-	6,187	1	(6,188)	-	-
Net cash provided by (required by) financing activities	-	(8,876)	1	(6,188)	-	(15,063)
Net increase in cash and cash equivalents	-	73,888	-	795	-	74,683
Cash and cash equivalents at January 1	-	294,741	-	-	-	294,741

Cash and cash equivalents at March 31	$	-	$	368,629	$	-	$	795	$	-	$	369,424

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Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

COMBINING STATEMENT OF CASH FLOW

(Thousands of dollars)	Three Months Ended March 31, 2013					
	Parent		Guarantor	Non-Guarantor		
Operating Activities	Company	Issuer	Subsidiaries	Subsidiaries	Eliminations	Combined
Net income	$ -	$ 23,468	$ (1)	$ (1,420)	$ -	$ 22,047
Adjustments to reconcile net income to net cash provided by operating activities						
(Income) loss from discontinued operations, net of tax	-	-	-	(1,493)	-	(1,493)
Depreciation and amortization	-	18,061	-	10	-	18,071
Amortization of deferred major repair costs	-	-	-	133	-	133
Deferred and noncurrent income tax charges (credits)	-	(2,349)	-	1,077	-	(1,272)
Accretion on discounted liabilities	-	269	-	-	-	269
Pretax gains from sale of assets	-	(8)	-	-	-	(8)
Net decrease in noncash operating working capital	-	42,840	-	12,365	-	55,205
Other operating activities-net	-	(178)	-	-	-	(178)
Net cash provided by (required by) continuing operations	-	82,103	(1)	10,672	-	92,774
Net cash required by discontinued operations	-	-	-	(1,335)		(1,335)
Net cash provided by (required by) operating activities	-	82,103	(1)	9,337	-	91,439
Investing Activities						
Property additions	-	(66,536)	-	(937)	-	(67,473)
Proceeds from sale of assets	-	22	-	-	-	22
Expenditures for major repairs	-	-	-	(280)	-	(280)
Investing activities of discontinued operations						
Sales proceeds	-	-	-	-	-	-
Other	-	-	-	(40)	-	(40)
Net cash required by investing activities	-	(66,514)	-	(1,257)	-	(67,771)
Financing Activities						
Repayments of long-term debt	-	-	-	(12)	-	(12)
Debt issuance costs	-	-	-	-	-	-
Net distributions to parent	-	1,360	1	(8,068)	-	(6,707)
Net cash provided by (required by) financing activities	-	1,360	1	(8,080)	-	(6,719)
Net increase in cash and cash equivalents	-	16,949	-	-	-	16,949
Cash and cash equivalents at January 1	-	57,373	-	-	-	57,373
Cash and cash equivalents at March 31	$ -	$ 74,322	$ -	$ -	$ -	$ 74,322

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Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENT OF CHANGES IN EQUITY

(Thousands of dollars)	Three Months Ended March 31, 2014					
Statement of Stockholders' Equity/Net Parent Investment	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Common Stock						
Balance as of December 31, 2013	$ 467	$ 1	$ 60	$ -	$ (61)	$ 467
Issuance of common stock	1	-	-	-	-	1
Balance as of March 31, 2014	$ 468	$ 1	$ 60	$ -	$ (61)	$ 468
APIC						
Balance as of December 31, 2013	$ 1,228,370	$ 548,758	$ 52,004	$ 35,677	$ (1,316,516)	$ 548,293
Issuance of common stock	-	(312)	-	-	-	(312)
Share-based compensation expense	-	2,522	-	-	-	2,522
Balance as of March 31, 2014	$ 1,228,370	$ 550,968	$ 52,004	$ 35,677	$ (1,316,516)	$ 550,503
Net Parent Investment						
Balance as of December 31, 2013	$ -	$ -	$ -	$ -	$ -	$ -
Net income	-	-	-	-	-	-
Net transfers to/between former parent	-	-	-	-	-	-
Balance as of March 31, 2014	$ -	$ -	$ -	$ -	$ -	$ -
Retained Earnings						
Balance as of December 31, 2013	$ -	$ 38,954	$ -	$ 68,622	$ -	$ 107,576
Net income	107,576	76,259	(1)	1,998	(176,199)	9,633
Balance as of March 31, 2014	$ 107,576	$ 115,213	$ (1)	$ 70,620	$ (176,199)	$ 117,209

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Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN EQUITY

(Thousands of dollars)	Three Months Ended March 31, 2013					
Statement of Stockholders' Equity/Net Parent Investment	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Common Stock						
Balance as of December 31, 2012	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of common stock	-	-	-	-	-	-
Balance as of March 31, 2013	$ -	$ -	$ -	$ -	$ -	$ -
APIC						
Balance as of December 31, 2012	$ &nbs					