

Murphy USA Inc.
Form 10-Q
August 03, 2017

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, 2017

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

(State or other jurisdiction of incorporation or organization)

46-2279221

(I.R.S. Employer Identification No.)

200 Peach Street

El Dorado, Arkansas

(Address of principal executive offices)

71730-5836

(Zip Code)

(870) 875-7600

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Number of shares of Common Stock, \$0.01 par value, outstanding at June 30, 2017 was 36,051,935.

MURPHY USA INC.

TABLE OF CONTENTS

	Page
<u>Part I – Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016</u>	<u>2</u>
<u>Consolidated Statements of Income for the three months and six months ended June 30, 2017 and 2016 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Changes in Equity for the six months ended June 30, 2017 and 2016 (unaudited)</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4. Controls and Procedures</u>	<u>39</u>
<u>Part II – Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>39</u>
<u>Item 1A. Risk Factors</u>	<u>39</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
<u>Item 5. Other Information</u>	<u>40</u>
<u>Item 6. Exhibits</u>	<u>40</u>
<u>Signatures</u>	<u>41</u>

ITEM 1. FINANCIAL STATEMENTS

Murphy USA Inc.

Consolidated Balance Sheets

(Thousands of dollars)	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$197,095	\$ 153,813
Accounts receivable—trade, less allowance for doubtful accounts of \$1,921 in 2017 and \$1,891 in 2016	164,372	183,519
Inventories, at lower of cost or market	179,044	153,351
Prepaid expenses and other current assets	25,233	24,871
Total current assets	565,744	515,554
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$818,409 in 2017 and \$780,426 in 2016	1,613,234	1,532,655
Other assets	44,208	40,531
Total assets	\$2,223,186	\$ 2,088,740
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$14,958	\$40,596
Trade accounts payable and accrued liabilities	394,303	473,370
Income taxes payable	—	594
Total current liabilities	409,261	514,560
Long-term debt, including capitalized lease obligations	869,086	629,622
Deferred income taxes	217,670	204,656
Asset retirement obligations	26,978	26,200
Deferred credits and other liabilities	19,550	16,626
Total liabilities	1,542,545	1,391,664
Stockholders' Equity		
Preferred Stock, par \$0.01 (authorized 20,000,000 shares, none outstanding)	—	—
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,767,164 and 46,767,164 shares issued at 2017 and 2016, respectively)	468	468
Treasury stock (10,715,229 and 9,831,196 shares held at June 30, 2017 and December 31, 2016, respectively)	(667,522)	(608,001)
Additional paid in capital (APIC)	545,887	555,338
Retained earnings	801,808	749,271
Total stockholders' equity	680,641	697,076
Total liabilities and stockholders' equity	\$2,223,186	\$ 2,088,740

See notes to consolidated financial statements.

Murphy USA Inc.

Consolidated Statements of Income
(unaudited)

(Thousands of dollars except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Operating Revenues				
Petroleum product sales (a)	\$2,567,719	\$2,371,735	\$4,969,973	\$4,260,019
Merchandise sales	605,698	589,457	1,171,488	1,151,194
Other operating revenues	37,643	44,570	69,217	84,811
Total operating revenues	3,211,060	3,005,762	6,210,678	5,496,024
Operating Expenses				
Petroleum product cost of goods sold (a)	2,413,175	2,242,936	4,742,508	4,026,065
Merchandise cost of goods sold	507,979	496,801	984,940	972,603
Station and other operating expenses	129,433	125,145	254,177	241,919
Depreciation and amortization	27,513	23,685	54,525	47,171
Selling, general and administrative	31,347	32,320	69,593	63,823
Accretion of asset retirement obligations	446	412	888	825
Total operating expenses	3,109,893	2,921,299	6,106,631	5,352,406
Gain (loss) on sale of assets	130	(490)	(3,368)	88,975
Income from operations	101,297	83,973	100,679	232,593
Other income (expense)				
Interest income	318	250	365	330
Interest expense	(11,644)	(10,210)	(21,142)	(19,598)
Other nonoperating income	3	85	235	118
Total other income (expense)	(11,323)	(9,875)	(20,542)	(19,150)
Income before income taxes	89,974	74,098	80,137	213,443
Income tax expense	34,411	27,788	27,600	81,259
Net Income	\$55,563	\$46,310	\$52,537	\$132,184
Basic and Diluted Earnings Per Common Share				
Basic	\$1.52	\$1.18	\$1.43	\$3.29
Diluted	1.51	1.17	\$1.42	\$3.26
Weighted-Average Common Shares Outstanding (in thousands):				
Basic	36,525	39,360	36,700	40,134
Diluted	36,861	39,720	37,018	40,505
Supplemental information:				
(a) Includes excise taxes of:	\$504,582	\$487,923	\$984,650	\$960,533

See notes to consolidated financial statements.

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

(Thousands of dollars)	Six Months Ended	
	June 30,	
	2017	2016
Operating Activities		
Net income	\$ 52,537	\$ 132,184
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	54,525	47,171
Deferred and noncurrent income tax charges	13,014	14,605
Accretion of asset retirement obligations	888	825
Pretax (gains) losses from sale of assets	3,368	(88,975)
Net (increase) decrease in noncash operating working capital	(84,718)	57,427
Other operating activities - net	828	5,365
Net cash provided by operating activities	40,442	168,602
Investing Activities		
Property additions	(134,150)	(116,569)
Proceeds from sale of assets	715	86,298
Changes in restricted cash	—	13,429
Other investing activities - net	(4,143)	(15,138)
Net cash required by investing activities	(137,578)	(31,980)
Financing Activities		
Purchase of treasury stock	(66,337)	(167,105)
Borrowings of debt	338,750	200,000
Repayments of debt	(125,901)	(10,165)
Debt issuance costs	(935)	(3,240)
Amounts related to share-based	(5,159)	(4,237)

compensation		
Net cash provided by financing activities	140,418	15,253
Net increase in cash and cash equivalents	43,282	151,875
Cash and cash equivalents at January 1	153,813	102,335
Cash and cash equivalents at June 30	\$ 197,095	\$ 254,210

See notes to consolidated financial statements.

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

(Thousands of dollars, except share amounts)	Common Stock					Total
	Shares	Par	Treasury Stock	APIC	Retained Earnings	
Balance as of December 31, 2015	46,767,164	\$468	\$(294,139)	\$558,182	\$527,779	\$792,290
Net income	—	—	—	—	132,184	132,184
Purchase of treasury stock	—	—	(167,105)	—	—	(167,105)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	6,748	(6,748)	—	—
Amounts related to share-based compensation	—	—	—	(4,237)	—	(4,237)
Share-based compensation expense	—	—	—	4,780	—	4,780
Balance as of June 30, 2016	46,767,164	\$468	\$(454,496)	\$551,977	\$659,963	\$757,912

(Thousands of dollars, except share amounts)	Common Stock					Total
	Shares	Par	Treasury Stock	APIC	Retained Earnings	
Balance as of December 31, 2016	46,767,164	\$468	\$(608,001)	\$555,338	\$749,271	\$697,076
Net income	—	—	—	—	52,537	52,537
Purchase of treasury stock	—	—	(66,337)	—	—	(66,337)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	6,816	(6,816)	—	—
Amounts related to share-based compensation	—	—	—	(5,159)	—	(5,159)
Share-based compensation expense	—	—	—	2,524	—	2,524
Balance as of June 30, 2017	46,767,164	\$468	\$(667,522)	\$545,887	\$801,808	\$680,641

See notes to consolidated financial statements.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Description of Business and Basis of Presentation

Description of business — Murphy USA Inc. (“Murphy USA” or the “Company”) markets refined products through a network of retail gasoline stations and to unbranded wholesale customers. Murphy USA’s owned retail stations are almost all located in close proximity to Walmart stores in 26 states and use the brand name Murphy USA®. Murphy USA also markets gasoline and other products at standalone stations under the Murphy Express brand. At June 30, 2017, Murphy USA had a total of 1,411 Company stations of which 1,154 were Murphy USA and 257 were Murphy Express.

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

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

In 2017, we revised our historical presentation of gains and losses on asset disposals and retirements, which are shown in our Consolidated Statements of Income as gain (loss) on sale of assets. This line item is currently, and will be prospectively, presented as a component of income from operations. Our accounting policy has been updated to reflect this presentation.

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

These interim consolidated financial statements should be read together with our audited financial statements for the years ended December 31, 2016, 2015 and 2014, 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 22, 2017.

Recently Issued Accounting Standards—

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the Accounting Standards Codification ("Codification") Topic 605, Revenue Recognition, and industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The Company will adopt ASU No. 2014-09 beginning January 1, 2018 using the modified retrospective approach applied to those contracts that were not completed at that date. Prior periods will not be retrospectively adjusted. The Company has substantially completed its analysis to identify all revenue streams, and is currently determining the impact the ASU will have on its various revenue streams and consolidated financial statements. The Company anticipates completing its analysis during the second half of 2017 and we continue to evaluate the impact to

our consolidated financial statements and disclosures. The Company is in the process of updating our existing controls and processes to comply with the guidance.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company currently presents excise tax and other similar taxes collected on sales of refined products and remitted to governmental agencies on a gross basis, in both revenues and cost of petroleum products sold in the income statement. ASU 2014-09 requires the Company to either analyze each tax on a jurisdiction-by-jurisdiction basis to determine if it is the principal in the transaction and continue to present the tax on a gross basis or elect to report all taxes on a net basis. The Company expects to elect to assess all excise and other similar taxes on a jurisdiction-by-jurisdiction basis resulting in certain taxes to be presented on a net basis upon adoption of ASU 2014-09, thus reducing revenue in the income statement with no impact to net income or cash flows. The Company does not expect the impact on reported revenue for the year ended December 31, 2018, or the quarters therein, to be material.

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

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to share-based payments, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified among other changes. The standard was effective for the Company on January 1, 2017.

The primary impact of adoption for the first half of 2017 was the recognition of \$1.9 million of excess tax benefits in the provision for income taxes rather than paid-in-capital for the current period. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings as of January 1, 2017, where the cumulative effect of these changes is required to be recorded. The Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

The Company elected to apply the presentation requirements for cash flows related to excess tax benefits prospectively as of January 1, 2017. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented on the consolidated statement of cash flows, as such cash flows have historically been presented as a financing activity.

Note 2 — Inventories

Inventories consisted of the following:

(Thousands of dollars)	June 30, 2017	December 31, 2016
Finished products - FIFO basis	\$202,737	\$ 207,903
Less LIFO reserve - finished products	(128,515)	(153,319)
Finished products - LIFO basis	74,222	54,584
Store merchandise for resale	100,214	95,649
Materials and supplies	4,608	3,118

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 — Long-Term Debt

Long-term debt consisted of the following:

(Thousands of dollars)	June 30, 2017	December 31, 2016
6% senior notes due 2023 (net of unamortized discount of \$5,392 at June 30, 2017 and \$5,826 at December 2016)	\$494,608	\$ 494,174
5.625% senior notes due 2027 (net of unamortized discount of \$3,682 at June 30, 2017)	296,318	—
Term loan due 2020 (effective rate of 3.78% at June 30, 2017)	97,000	180,000
Capitalized lease obligations, vehicles, due through 2021	1,909	1,451
Less unamortized debt issuance costs	(5,791)	(5,407)
Total long-term debt	884,044	670,218
Less current maturities	14,958	40,596
Total long-term debt, net of current	\$869,086	\$ 629,622

Senior Notes

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

On April 25, 2017, Murphy Oil USA, Inc., issued \$300 million of 5.625% Senior Notes due 2027 (the "2027 Senior Notes") under its existing shelf registration statement. The 2027 Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the 2027 Senior Notes contains restrictive covenants that are essentially identical to the covenants for the 2023 Senior Notes.

The 2023 and 2027 Senior Notes and the guarantees rank equally with all of our and the guarantors' existing and future senior unsecured indebtedness and effectively junior to our and the guarantors' existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets securing such indebtedness. The 2023 and 2027 Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes. As of June 30, 2017, we have zero outstanding under our ABL facility.

Credit Facilities and Term Loan

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

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

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

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The ABL facility includes a \$200 million sublimit for the issuance of letters of credit. Letters of credit issued under the ABL facility reduce availability under the ABL facility.

Interest payable on the credit facilities is based on either:

the London interbank offered rate, adjusted for statutory reserve requirements (the "Adjusted LIBO Rate"); or the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum,

plus, (A) in the case of Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on a total debt to EBITDA ratio under the ABL facility or (ii) with respect to the term loan facility, spreads ranging from 2.50% to 2.75% per annum depending on a total debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on total debt to EBITDA ratio or (ii) with respect to the term loan facility, spreads ranging from 1.50% to 1.75% per annum depending on a total debt to EBITDA ratio.

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

We were obligated to make quarterly amortization payments on the outstanding principal amount of the term loan facility beginning on July 1, 2016 equal to 5% of the aggregate principal amount of term loans made on March 10, 2016, with the remaining balance payable on the scheduled maturity date of the term loan facility. Borrowings under the credit facilities are prepayable at our option without premium or penalty. We are also required to prepay the term loan facility with the net cash proceeds of certain asset sales or casualty events, subject to certain exceptions. The credit agreement also includes certain customary mandatory prepayment provisions with respect to the ABL facility.

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 when availability for at least three consecutive business days is less than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) \$70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount), as well as a maximum secured total debt to EBITDA ratio of 4.5 to 1.0 at any time when term facility commitments or term loans are outstanding. As of June 30, 2017, our fixed charge coverage ratio was 0.57; however, we had more than \$100 million of availability under the ABL facility at that date so the fixed charge coverage ratio currently has no impact on our operations or liquidity. Our secured debt to EBITDA ratio as of June 30, 2017 was 0.26 to 1.0.

The Senior Credit Agreement contains restrictions on certain payments, including dividends, when availability under the credit agreement is less than or equal to the greater of \$100 million and 25% of the lesser of the revolving commitments and the borrowing base and our fixed charge coverage ratio is less than 1.0 to 1.0 (unless availability under the credit agreement is greater than \$100 million and 40% of the lesser of the revolving commitments and the borrowing base). As of June 30, 2017, our ability to make restricted payments was not limited as our availability

under the borrowing base was more than \$100 million, while our fixed charge coverage ratio under our Senior Credit Agreement was less than 1.0 to 1.0. As of December 31, 2016, we had a shortfall of approximately \$304.1 million of our net income and retained earnings subject to such restrictions before the fixed charge coverage ratio under our Senior Credit Agreement would exceed 1.0 to 1.0.

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

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at June 30, 2017 and December 31, 2016 related to the estimated costs to dismantle and abandon certain of its retail gasoline stations. The Company has not recorded an ARO for certain of its marketing assets because sufficient information is presently not available to estimate a range of potential settlement dates for the obligation. These assets are consistently being upgraded and are expected to be operational into the foreseeable future. In these cases, the obligation will be initially recognized in the period in which sufficient information exists to estimate the obligation.

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

(Thousands of dollars)	June 30, 2017	December 31, 2016
Balance at beginning of period	\$26,200	\$ 24,345
Accretion expense	888	1,650
Liabilities incurred	167	379
Settlement of liabilities	\$(277)	\$ (174)
Balance at end of period	\$26,978	\$ 26,200

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 5— Income Taxes

The effective tax rate is calculated as the amount of income tax expense divided by income before income tax expense (benefit). For the three and six month periods ended June 30, 2017 and 2016, the Company's effective tax rates were as follows:

	2017	2016
Three months ended June 30,	38.2%	37.5%
Six months ended June 30,	34.4%	38.1%

The effective tax rate for the three months ended June 30, 2017 was higher than the U.S. Federal tax rate of 35% but is in line with our estimated effective tax rate of 38% for the remainder of the year. For the six months ended June 30, 2017, the tax rate was lower than the U.S. Federal tax rate due to impacts from first quarter tax benefits.

The Company was included in Murphy Oil's tax returns for the periods prior to the separation. The statute of several jurisdictions remains subject to audit by taxing authorities. As of June 30, 2017, the earliest year remaining open for Federal examination is 2012 and for the states it ranges from 2009-2012. In addition to the pre-separation returns being open under statute, the federal and state tax returns post separation are also open under statute for examination. Although the Company believes that recorded liabilities for uncertain tax positions are adequate, additional gains or losses could occur in future periods from resolution of outstanding unsettled matters.

We adopted ASU 2016-09 on January 1, 2017, which requires the excess tax benefits or deficiencies to be reflected in the Consolidated Statements of Income as a component of the provision for income taxes whereas they previously were recognized in paid-in-capital. Total excess tax benefits recognized in the three and six months ended June 30,

2017 was \$0.1 million and \$1.9 million, respectively.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 — Incentive Plans

2013 Long-Term Incentive Plan

Effective August 30, 2013, certain of our employees participate in the Murphy USA 2013 Long-Term Incentive Plan which was subsequently amended and restated effective as of February 8, 2017 (the “MUSA 2013 Plan”). The MUSA 2013 Plan authorizes the Executive Compensation Committee of our Board of Directors (“the Committee”) to grant non-qualified or incentive stock options, stock appreciation rights, stock awards (including restricted stock and restricted stock unit awards), cash awards, and performance awards to our employees. No more than 5.5 million shares of MUSA common stock may be delivered under the MUSA 2013 Plan and no more than 1 million shares of common stock may be awarded to any one employee, subject to adjustment for changes in capitalization. The maximum cash amount payable pursuant to any “performance-based” award to any participant in any calendar year is \$5 million.

On February 8, 2017, the Committee granted nonqualified stock options for 114,800 shares at an exercise price of \$65.75 per share under the terms of the MUSA 2013 Plan. The Black-Scholes valuation for these awards is \$15.45 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 29,075 time-based restricted units granted at an average grant date fair value of \$65.41 along with 53,800 performance units. Half of the performance units vest based on a 3-year return on average capital employed (ROACE) calculation and the other half vest based on a 3-year total shareholder return (TSR) calculation that compares MUSA to a group of 16 peer companies. The portion of the awards that vest based on TSR qualify as a market condition and must be valued using a Monte Carlo valuation model. For the TSR portion of the awards, the fair value was determined to be \$94.51 per unit. For the ROACE portion of the awards, the valuation will be based on the grant date fair value of \$65.75 per unit and the number of awards will be periodically assessed to determine the probability of vesting.

On February 8, 2017, the Committee also granted 50,075 time-based restricted stock units granted to certain employees with a grant date fair value of \$65.75 per unit.

2013 Stock Plan for Non-employee Directors

Effective August 8, 2013, Murphy USA adopted the 2013 Murphy USA Stock Plan for Non-employee Directors (the “Directors Plan”). The directors for Murphy USA are compensated with a mixture of cash payments and equity-based awards. Awards under the Directors Plan may be in the form of restricted stock, restricted stock units, stock options, or a combination thereof. An aggregate of 500,000 shares of common stock shall be available for issuance of grants under the Directors Plan.

During the first quarter of 2017, the Company issued 15,948 restricted stock units to its non-employee directors at a weighted average grant date fair value of \$66.01 per share. These shares vest in three years from the grant date.

For the six months ended June 30, 2017 and 2016, share based compensation was \$2.5 million and \$4.8 million, respectively. The income tax benefit realized for the tax deductions from options exercised for the six months ended June 30, 2017 and 2016 was \$0.2 million and \$1.4 million, respectively.

Adoption of ASU 2016-09

On January 1, 2017, the Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amended the current stock compensation guidance. As part of the adoption of this standard, the Company determined to leave its policy related to accounting for forfeitures based on estimates rather than changing to actual forfeitures. See Note 1 "Description of Business and Basis of Presentation" for information regarding the impact of adopting this standard for the Company.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7— Financial Instruments and Risk Management

DERIVATIVE INSTRUMENTS — The Company makes limited use of derivative instruments to manage certain risks related to commodity prices. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Company’s senior management. The Company does not hold any derivatives for speculative purposes and it does not use derivatives with leveraged or complex features. Derivative instruments are traded primarily with creditworthy major financial institutions or over national exchanges such as the New York Mercantile Exchange (“NYMEX”). As of June 30, 2017, all current derivative activity is immaterial.

At June 30, 2017 and December 31, 2016, cash deposits of \$2.5 million and \$1.8 million related to commodity derivative contracts were reported in Prepaid expenses and other current assets in the Consolidated Balance Sheets, respectively. These cash deposits have not been used to increase the reported net assets or reduce the reported net liabilities on the derivative contracts at June 30, 2017 or December 31, 2016, respectively.

Note 8 – Earnings Per Share

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

On January 25, 2016, the Company announced that it would proceed with an independent growth plan in which we will concentrate on acquiring land from third parties rather than acquiring land directly from Walmart. In conjunction with this announcement, the Board of Directors approved a strategic allocation of capital for the Company to pursue new additional growth opportunities and to undertake a share repurchase program of the Company’s common stock. The Board authorized up to \$500 million in total for this activity through December 31, 2017. For the six months ended June 30, 2017, the Company acquired 994,231 shares of common stock for an average price of \$66.72 per share including brokerage fees. The Company has remaining authority of \$110.4 million under our current program.

The following table provides a reconciliation of basic and diluted earnings per share computations for the three and six months ended June 30, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Earnings per common share:				
Net income per share - basic				
Net income attributable to common stockholders	\$55,563	\$46,310	\$52,537	\$132,184
Weighted average common shares outstanding (in thousands)	36,525	39,360	36,700	40,134
Earnings per common share	\$1.52	\$1.18	\$1.43	\$3.29

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings per common share - assuming dilution:

Net income (loss) per share - diluted

Net income (loss) attributable to common stockholders	\$55,563	\$46,310	\$52,537	\$132,184
---	----------	----------	----------	-----------

Weighted average common shares outstanding (in thousands)	36,525	39,360	36,700	40,134
---	--------	--------	--------	--------

Common equivalent shares:

Dilutive options	336	360	318	371
------------------	-----	-----	-----	-----

Weighted average common shares outstanding - assuming dilution (in thousands)	36,861	39,720	37,018	40,505
---	--------	--------	--------	--------

Earnings per common share assuming dilution	\$1.51	\$1.17	\$1.42	\$3.26
---	--------	--------	--------	--------

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

Note 9 — Other Financial Information

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

(Thousands of dollars)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Renewable Identification Numbers (RINs) sales	\$36,618	\$43,868	\$65,646	\$82,643
Other	1,025	702	3,571	2,168
Other operating revenues	\$37,643	\$44,570	\$69,217	\$84,811

CASH FLOW DISCLOSURES — Cash income taxes paid (collected), net of refunds, were \$13.1 million and \$15.1 million for the six month periods ended June 30, 2017 and 2016, respectively. Interest paid, net of amounts capitalized, was \$17.1 million and \$18.1 million for the six month periods ended June 30, 2017 and 2016, respectively.

(Thousands of dollars)	Six Months Ended	
	June 30,	
	2017	2016
Accounts receivable	\$19,192	\$(11,921)
Inventories	(25,712)	) 3,412
Prepaid expenses and other current assets	(362)	) 23,978
Accounts payable and accrued liabilities	(77,242)	) 17,955
Income taxes payable	(594)	) 24,003
Net decrease (increase) in noncash operating working capital	\$(84,718)	\$57,427

Note 10 — 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.

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at June 30, 2017 and December 31, 2016. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The table excludes Cash and cash equivalents, Accounts receivable-trade, Trade accounts payable and accrued liabilities, all of which had fair values approximating carrying amounts. The fair value of Current and Long-term debt was estimated based on rates offered to the Company at that time for debt of the same maturities. The Company has off-balance sheet exposures relating to certain financial guarantees and letters of credit. The fair value of these, which represents fees associated with obtaining the instruments, was nominal.

(Thousands of dollars)	At June 30, 2017		At December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Current and long-term debt	\$(884,044)	\$(916,128)	\$(670,218)	\$(690,114)

Note 11 — Contingencies

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

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

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

obtained insurance covering certain levels of environmental exposures. The Company believes costs related to these sites will not have a material adverse effect on Murphy USA's net income, financial condition or liquidity in a future period.

Certain environmental expenditures are likely to be recovered by the Company from other sources, primarily environmental funds maintained by certain states. Since no assurance can be given that future recoveries from other sources will occur, the Company has not recorded a benefit for likely recoveries at June 30, 2017, however

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

certain jurisdictions provide reimbursement for these expenses which have been considered in recording the net exposure.

The U.S. Environmental Protection Agency (EPA) currently considers the Company a Potentially Responsible Party (PRP) at one Superfund site. The potential total cost to all parties to perform necessary remedial work at this site may be substantial. However, based on current negotiations and available information, the Company believes that it is a de minimis party as to ultimate responsibility at the Superfund site. Accordingly, the Company has not recorded a liability for remedial costs at the Superfund site at June 30, 2017. The Company could be required to bear a pro rata share of costs attributable to nonparticipating PRPs or could be assigned additional responsibility for remediation at this site or other Superfund sites. The Company believes that its share of the ultimate costs to clean-up this site will be immaterial and will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

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

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

INSURANCE — The Company maintains insurance coverage at levels that are customary and consistent with industry standards for companies of similar size. Murphy USA maintains statutory workers compensation insurance with a deductible of \$1.0 million per occurrence, general liability insurance with a deductible of \$3.0 million per occurrence, and auto liability insurance with a deductible of \$0.3 million per occurrence. As of June 30, 2017, there were a number of outstanding claims that are of a routine nature. The estimated incurred but unpaid liabilities relating to these claims are included in Trade account payables and accrued liabilities on the Consolidated Balance Sheets. While the ultimate outcome of these claims cannot presently be determined, management believes that the accrued liability of \$19.5 million will be sufficient to cover the related liability for all insurance claims and that the ultimate disposition of these claims will have no material effect on the Company's financial position and results of operations.

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

TAX MATTERS — Murphy USA is subject to extensive tax liabilities imposed by multiple jurisdictions, including income taxes, indirect taxes (excise/duty, sales/use and gross receipts taxes), payroll taxes, franchise taxes, withholding taxes and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities because of these audits may subject us to interest and penalties.

OTHER MATTERS — In the normal course of its business, the Company is required under certain contracts with various governmental authorities and others to provide financial guarantees or letters of credit that may be drawn upon if the Company fails to perform under those contracts. At June 30, 2017, the Company had contingent liabilities of

\$16.9 million on outstanding letters of credit. The Company has not accrued a liability in its balance sheet related to these financial guarantees and letters of credit because it is believed that the likelihood of having these drawn is remote.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 — Business Segment

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

	Total Assets at June 30,	Three Months Ended			
		June 30, 2017		June 30, 2016	
(Thousands of dollars)		External Revenues	Income (Loss)	External Revenues	Income (Loss)
Marketing	1,914,740	\$3,211,038	\$63,714	\$3,005,750	\$53,442
Corporate and other assets	308,446	22	(8,151)	12	(7,132)
Total	2,223,186	\$3,211,060	\$55,563	\$3,005,762	\$46,310

	Total Assets at June 30,	Six Months Ended			
		June 30, 2017		June 30, 2016	
(Thousands of dollars)		External Revenues	Income (Loss)	External Revenues	Income (Loss)
Marketing	6,210,444	64,314	\$5,495,808	\$145,867	
Corporate and other assets	234	(11,777)	216	(13,683)	
Total	\$6,210,678	\$52,537	\$5,496,024	\$132,184	

Note 13 – Guarantor Subsidiaries

Certain of the Company's 100% owned, domestic subsidiaries (the "Guarantor Subsidiaries") fully and unconditionally guarantee, on a joint and several basis, certain of the outstanding indebtedness of the Company, including the 6.00% senior notes due 2023 and the 5.625% senior notes due 2027. The following consolidating schedules present financial information on a consolidated basis in conformity with the SEC's Regulation S-X Rule 3-10(d):

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING BALANCE SHEET

(unaudited)

(Thousands of dollars)

Assets	June 30, 2017		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	Parent Company	Issuer				
Current assets						
Cash and cash equivalents	—	197,090	5	—	—	197,095
Accounts receivable—trade, less allowance for doubtful accounts of \$1,921 in 2017	—	164,372	—	—	—	164,372
Inventories, at lower of cost or market	—	179,044	—	—	—	179,044
Prepaid expenses and other current assets	—	25,230	3	—	—	25,233
Total current assets	—	565,736	8	—	—	565,744
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$818,409 in 2017	—	1,612,436	798	—	—	1,613,234
Investments in subsidiaries	2,030,647	144,911	—	—	(2,175,558)	—
Other assets	—	44,208	—	—	—	44,208
Total assets	2,030,647	2,367,291	806	—	(2,175,558)	2,223,186
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	—	14,958	—	—	—	14,958
Inter-company accounts payable	689,653	(484,066)	(51,249)	(154,338)	—	—
Trade accounts payable and accrued liabilities	—	394,303	—	—	—	394,303
Total current liabilities	689,653	(74,805)	(51,249)	(154,338)	—	409,261
Long-term debt, including capitalized lease obligations	—	869,086	—	—	—	869,086
Deferred income taxes	—	217,670	—	—	—	217,670
Asset retirement obligations	—	26,978	—	—	—	26,978
Deferred credits and other liabilities	—	19,550	—	—	—	19,550
Total liabilities	689,653	1,058,479	(51,249)	(154,338)	—	1,542,545
Stockholders' Equity						
Preferred Stock, par \$0.01 (authorized 20,000,000 shares, none outstanding)	—	—	—	—	—	—
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,767,164 shares issued at June 30, 2017)	468	1	60	—	(61)	468
Treasury Stock (10,715,229 shares held at June 30, 2017)	(667,522)	—	—	—	—	(667,522)
Additional paid in capital (APIC)	1,206,240	568,482	52,004	87,543	(1,368,382)	545,887
Retained earnings	801,808	740,329	(9)	66,795	(807,115)	801,808
Total stockholders' equity	1,340,994	1,308,812	52,055	154,338	(2,175,558)	680,641
Total liabilities and stockholders' equity	2,030,647	2,367,291	806	—	(2,175,558)	2,223,186

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING BALANCE SHEET

(Thousands of dollars)

Assets	December 31, 2016		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	Parent Company	Issuer				
Current assets						
Cash and cash equivalents	\$—	\$153,813	\$ —	\$ —	\$—	\$153,813
Accounts receivable—trade, less allowance for doubtful accounts of \$1,891 in 2016	—	183,519	—	—	—	183,519
Inventories, at lower of cost or market	—	153,351	—	—	—	153,351
Prepaid expenses and other current assets	—	24,871	—	—	—	24,871
Total current assets	—	515,554	—	—	—	515,554
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$780,426 in 2016	—	1,532,655	—	—	—	1,532,655
Investments in subsidiaries	1,978,110	144,917	—	—	(2,123,027)	—
Other assets	—	40,531	—	—	—	40,531
Total assets	\$1,978,110	\$2,233,657	\$ —	\$ —	\$(2,123,027)	\$2,088,740
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$—	\$40,596	\$ —	\$ —	\$—	\$40,596
Inter-company accounts payable	623,316	(416,914)	(52,064	(154,338	—	—
Trade accounts payable and accrued liabilities	—	473,370	—	—	—	473,370
Income taxes payable	—	591	3	—	—	594
Total current liabilities	623,316	97,643	(52,061	(154,338	—	514,560
Long-term debt, including capitalized lease obligations	—	629,622	—	—	—	629,622
Deferred income taxes	—	204,656	—	—	—	204,656
Asset retirement obligations	—	26,200	—	—	—	26,200
Deferred credits and other liabilities	—	16,626	—	—	—	16,626
Total liabilities	623,316	974,747	(52,061	(154,338	—	1,391,664
Stockholders' Equity						
Preferred Stock, par \$0.01 (authorized 20,000,000 shares, none outstanding)	—	—	—	—	—	—
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,767,164 shares issued at December 31, 2016)	468	1	60	—	(61)	468
Treasury Stock (9,831,196 shares held at December 31, 2016)	(608,001)	—	—	—	—	(608,001)
Additional paid in capital (APIC)	1,213,056	571,117	52,004	87,543	(1,368,382)	555,338
Retained earnings	749,271	687,792	(3)	66,795	(754,584)	749,271
Total stockholders' equity	1,354,794	1,258,910	52,061	154,338	(2,123,027)	697,076
Total liabilities and stockholders' equity	\$1,978,110	\$2,233,657	\$ —	\$ —	\$(2,123,027)	\$2,088,740

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(unaudited)

(Thousands of dollars)

	Three Months Ended June 30, 2017					Eliminations	Consolidated
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Operating Revenues							
Petroleum product sales	—	2,567,719	—	—	—	—	2,567,719
Merchandise sales	—	605,698	—	—	—	—	605,698
Other operating revenues	—	37,641	2	—	—	—	37,643
Total operating revenues	—	3,211,058	2	—	—	—	3,211,060
Operating Expenses							
Petroleum product cost of goods sold	—	2,413,175	—	—	—	—	2,413,175
Merchandise cost of goods sold	—	507,979	—	—	—	—	507,979
Station and other operating expenses	—	129,432	1	—	—	—	129,433
Depreciation and amortization	—	27,507	6	—	—	—	27,513
Selling, general and administrative	—	31,347	—	—	—	—	31,347
Accretion of asset retirement obligations	—	446	—	—	—	—	446
Total operating expenses	—	3,109,886	7	—	—	—	3,109,893
Gain (loss) on sale of assets	—	130	—	—	—	—	130
Income (loss) from operations	—	101,302	(5)	—	—	—	101,297
Other income (expense)							
Interest income	—	318	—	—	—	—	318
Interest expense	—	(11,644)	—	—	—	—	(11,644)
Other nonoperating income	—	3	—	—	—	—	3
Total other income (expense)	—	(11,323)	—	—	—	—	(11,323)
Income (loss) before income taxes	—	89,979	(5)	—	—	—	89,974
Income tax expense	—	34,411	—	—	—	—	34,411
Income (loss)	—	55,568	(5)	—	—	—	55,563
Equity earnings in affiliates, net of tax	(55,563)	—	—	—	—	55,563	—
Net Income (Loss)	(55,563)	55,568	(5)	—	—	55,563	55,563

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(unaudited)

(Thousands of dollars)

	Three Months Ended June 30, 2016					Consolidated
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Operating Revenues						
Petroleum product sales	\$—	\$2,371,735	\$—	\$—	\$—	\$2,371,735
Merchandise sales	—	589,457	—	—	—	589,457
Other operating revenues	—	44,570	—	—	—	44,570
Total operating revenues	\$—	\$3,005,762	\$—	\$—	\$—	\$3,005,762
Operating Expenses						
Petroleum product cost of goods sold	—	2,242,936	—	—	—	2,242,936
Merchandise cost of goods sold	—	496,801	—	—	—	496,801
Station and other operating expenses	—	125,145	—	—	—	125,145
Depreciation and amortization	—	23,685	—	—	—	23,685
Selling, general and administrative	—	32,320	—	—	—	32,320
Accretion of asset retirement obligations	—	412	—	—	—	412
Total operating expenses	—	2,921,299	—	—	—	2,921,299
Gain (loss) on sale of assets	\$—	\$(490)	\$—	\$—	\$—	\$(490)
Income from operations	\$—	\$83,973	\$—	\$—	\$—	\$83,973
Other income (expense)						
Interest income	—	250	—	—	—	250
Interest expense	—	(10,210)	—	—	—	(10,210)
Other nonoperating income	—	85	—	—	—	85
Total other income (expense)	\$—	\$(9,875)	\$—	\$—	\$—	\$(9,875)
Income before income taxes	—	74,098	—	—	—	74,098
Income tax expense	—	27,788	—	—	—	27,788
Income	—	46,310	—	—	—	46,310
Equity earnings in affiliates, net of tax	46,310	—	—	—	(46,310)	—
Net Income (Loss)	\$46,310	\$46,310	\$—	\$—	—\$(46,310)	\$46,310

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(unaudited)

(Thousands of dollars)

	Six Months Ended June 30, 2017					Consolidated
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Operating Revenues						
Petroleum product sales	—	4,969,973	—	—	—	4,969,973
Merchandise sales	—	1,171,488	—	—	—	1,171,488
Other operating revenues	—	69,215	2	—	—	69,217
Total operating revenues	—	6,210,676	2	—	—	6,210,678
Operating Expenses						
Petroleum product cost of goods sold	—	4,742,508	—	—	—	4,742,508
Merchandise cost of goods sold	—	984,940	—	—	—	984,940
Station and other operating expenses	—	254,176	1	—	—	254,177
Depreciation and amortization	—	54,519	6	—	—	54,525
Selling, general and administrative	—	69,592	1	—	—	69,593
Accretion of asset retirement obligations	—	888	—	—	—	888
Total operating expenses	—	6,106,623	8	—	—	6,106,631
Gain (loss) on sale of assets	—	(3,368)	—	—	—	(3,368)
Income (loss) from operations	—	100,685	(6)	—	—	100,679
Other income (expense)						
Interest income	—	365	—	—	—	365
Interest expense	—	(21,142)	—	—	—	(21,142)
Other nonoperating income	—	235	—	—	—	235
Total other income (expense)	—	(20,542)	—	—	—	(20,542)
Income (loss) before income taxes	—	80,143	(6)	—	—	80,137
Income tax expense	—	27,600	—	—	—	27,600
Income (loss)	—	52,543	(6)	—	—	52,537
Equity earnings in affiliates, net of tax	52,537	(6)	—	—	(52,531)	—
Net Income (Loss)	52,537	52,537	(6)	—	(52,531)	52,537

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(unaudited)

(Thousands of dollars)

	Six Months Ended June 30, 2016					
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Petroleum product sales	\$—	\$4,260,019	\$ —	\$ —	—\$—	\$4,260,019
Merchandise sales	—	1,151,194	—	—	—	1,151,194
Other operating revenues	—	84,811	—	—	—	84,811
Total operating revenues	\$—	\$5,496,024	\$ —	\$ —	—\$—	\$5,496,024
Operating Expenses						
Petroleum product cost of goods sold	—	4,026,065	—	—	—	4,026,065
Merchandise cost of goods sold	—	972,603	—	—	—	972,603
Station and other operating expenses	—	241,919	—	—	—	241,919
Depreciation and amortization	—	47,171	—	—	—	47,171
Selling, general and administrative	—	63,822	1	—	—	63,823
Accretion of asset retirement obligations	—	825	—	—	—	825
Total operating expenses	—	5,352,405	1	—	—	5,352,406
Gain (loss) on sale of assets	\$—	\$88,975	\$ —	\$ —	—\$—	\$88,975
Income from operations	\$—	\$232,594	\$ (1)	\$ —	—\$—	\$232,593
Other income (expense)						
Interest income	—	330	—	—	—	330
Interest expense	—	(19,598)	—	—	—	(19,598)
Other nonoperating income	—	118	—	—	—	118
Total other income (expense)	\$—	\$(19,150)	\$ —	\$ —	—\$—	\$(19,150)
Income before income taxes	—	213,444	(1)	—	—	213,443
Income tax expense (benefit)	—	81,259	—	—	—	81,259
Income	—	132,185	(1)	—	—	132,184
Equity earnings in affiliates, net of tax	132,184	(1)	—	—	(132,183)	—
Net Income (Loss)	\$132,184	\$132,184	\$ (1)	\$ —	—\$(132,183)	\$132,184

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENT OF CASH FLOW

(unaudited)

(Thousands of dollars)

	Six Months Ended June 30, 2017					Consolidated
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Operating Activities						
Net income (loss)	\$52,537	\$52,537	\$ (6)	\$ —	—	\$(52,531) \$ 52,537
Adjustments to reconcile net income (loss) to net cash provided by (required by) operating activities						
Depreciation and amortization	—	54,519	6	—	—	54,525
Deferred and noncurrent income tax charges (credits)	—	13,014	—	—	—	13,014
Accretion of asset retirement obligations	—	888	—	—	—	888
(Gain) loss on sale of assets	—	3,368	—	—	—	3,368
Net increase in noncash operating working capital	—	(84,715)	(3)	—	—	(84,718)
Equity in earnings of affiliates	(52,537)	6	—	—	52,531	—
Other operating activities - net	—	828	—	—	—	828
Net cash provided by (required by) operating activities	—	40,445	(3)	—	—	40,442
Investing Activities						
Property additions	—	(133,346)	(804)	—	—	(134,150)
Proceeds from sale of assets	—	715	—	—	—	715
Changes in restricted cash	—	—	—	—	—	—
Other investing activities - net	—	(4,143)	—	—	—	(4,143)
Net cash required by investing activities	—	(136,774)	(804)	—	—	(137,578)
Financing Activities						
Purchase of treasury stock	(66,337)	—	—	—	—	(66,337)
Borrowings of debt	—	338,750	—	—	—	338,750
Repayments of debt	—	(125,901)	—	—	—	(125,901)
Debt issuance costs	—	(935)	—	—	—	(935)
Amounts related to share-based compensation	—	(5,159)	—	—	—	(5,159)
Net distributions to parent	66,337	(67,149)	812	—	—	—
Net cash provided by financing activities	—	139,606	812	—	—	140,418
Net increase in cash and cash equivalents	—	43,277	5	—	—	43,282
Cash and cash equivalents at January 1	—	153,813	—	—	—	153,813
Cash and cash equivalents at June 30	\$—	\$197,090	\$ 5	\$ —	—	\$ 197,095

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENT OF CASH FLOW

(unaudited)

(Thousands of dollars)

	Six Months Ended June 30, 2016					Consolidated
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Operating Activities						
Net income (loss)	\$132,184	\$132,184	\$ (1)	\$	—\$(132,183)	\$ 132,184
Adjustments to reconcile net income (loss) to net cash provided by (required by) operating activities						
Depreciation and amortization	—	47,171	—	—	—	47,171
Deferred and noncurrent income tax charges (credits)	—	14,605	—	—	—	14,605
Accretion of asset retirement obligations	—	825	—	—	—	825
Pretax (gains) losses from sale of assets	—	(88,975)	—	—	—	(88,975)
Net decrease in noncash operating working capital	—	57,427	—	—	—	57,427
Equity in earnings of affiliates	(132,184)	1	—	—	132,183	—
Other operating activities - net	—	5,365	—	—	—	5,365
Net cash provided by (required by) operating activities	—	168,603	(1)	—	—	168,602
Investing Activities						
Property additions	—	(116,569)	—	—	—	(116,569)
Proceeds from sale of assets	—	86,298	—	—	—	86,298
Changes in restricted cash	—	13,429	—	—	—	13,429
Other investing activities - net	—	(15,138)	—	—	—	(15,138)
Net cash required by investing activities	—	(31,980)	—	—	—	(31,980)
Financing Activities						
Purchase of treasury stock	(167,105)	—	—	—	—	(167,105)
Borrowings of debt	—	200,000	—	—	—	200,000
Repayments of debt	—	(10,165)	—	—	—	(10,165)
Debt issuance costs	—	(3,240)	—	—	—	(3,240)
Amounts related to share-based compensation	—	(4,237)	—	—	—	(4,237)
Net distributions to parent	167,105	(167,106)	1	—	—	—
Net cash provided by financing activities	—	15,252	1	—	—	15,253
Net increase in cash and cash equivalents	—	151,875	—	—	—	151,875
Cash and cash equivalents at January 1	—	102,335	—	—	—	102,335
Cash and cash equivalents at June 30	\$—	\$254,210	\$ —	\$	—\$—	\$ 254,210

Murphy USA Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENT OF CHANGES IN EQUITY

(unaudited)

(Thousands of dollars)

Statement of Stockholders' Equity	Six Months Ended June 30, 2017					
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Common Stock						
Balance as of December 31, 2016	\$468	\$1	\$ 60	\$ —	\$(61)	\$468
Issuance of common stock	—	—	—	—	—	—
Balance as of June 30, 2017	\$468	\$1	\$ 60	\$ —	\$(61)	\$468
Treasury Stock						
Balance as of December 31, 2016	\$(608,001)	\$—	\$ —	\$ —	\$—	\$(608,001)
Issuance of common stock	6,816	—	—	—	—	6,816
Repurchase of common stock	(66,337)	—	—	—	—	(66,337)
Balance as of June 30, 2017	\$(667,522)	\$—	\$ —	\$ —	\$—	\$(667,522)
APIC						
Balance as of December 31, 2016	\$1,213,056	\$571,117	\$ 52,004	\$ 87,543	\$(1,368,382)	\$555,338
Issuance of common stock	(6,816)	—	—	—	—	(6,816)
Amounts related to share-based compensation	—	(5,159)	—	—	—	(5,159)
Share-based compensation expense	—	2,524	—	—	—	2,524
Balance as of June 30, 2017	\$1,206,240	\$568,482	\$ 52,004	\$ 87,543	\$(1,368,382)	\$545,887
Retained Earnings						
Balance as of December 31, 2016	\$749,271	\$687,792	\$(3)	\$ 66,795	\$(754,584)	\$749,271
Net income (loss)	52,537	52,537	(6)	—	(52,531)	52,537
Balance as of June 30, 2017	\$801,808	\$740,329	\$(9)	\$ 66,795	\$(807,115)	\$801,808

CONSOLIDATING STATEMENT OF CHANGES IN EQUITY

(unaudited)

(Thousands of dollars)

Statement of Stockholders' Equity	Six Months Ended June 30, 2016					
	Parent Company	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Common Stock						
Balance as of December 31, 2015	\$468	\$1	\$ 60	\$ —	\$(61)	\$468
Issuance of common stock	—	—	—	—	—	—
Balance as of June 30, 2016	\$468	\$1	\$ 60	\$ —	\$(61)	\$468
Treasury Stock						
Balance as of December 31, 2015	\$(294,139)	\$—	\$ —	\$ —	\$—	\$(294,139)
Issuance of common stock	6,748	—	—	—	—	6,748
Repurchase of common stock	(167,105)	—	—	—	—	(167,105)
Balance as of June 30, 2016	\$(454,496)	\$—	\$ —	\$ —	\$—	\$(454,496)
APIC						
Balance as of December 31, 2015	\$1,222,465	\$564,554	\$ 52,004	\$ 87,543	\$(1,368,384)	\$558,182
Issuance of common stock	(6,748)	—	—	—	—	(6,748)
Amounts related to share-based compensation	—	(4,237)	—	—	—	(4,237)
Share-based compensation expense	—	4,780	—	—	—	4,780
Balance as of June 30, 2016	\$1,215,717	\$565,097	\$ 52,004	\$ 87,543	\$(1,368,384)	\$551,977
Retained Earnings						
Balance as of December 31, 2015	\$527,779	\$466,300	\$(2)	\$ 66,795	\$(533,093)	\$527,779

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

Net income (loss)	132,184	132,184	(1	)	—	(132,183	)	132,184
Balance as of June 30, 2016	\$659,963	\$598,484	\$ (3	)	\$ 66,795	\$(665,276	)	\$ 659,963

25

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("Management's Discussion and Analysis" or "MD&A") is the Company's analysis of its financial performance and of significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes included in this Quarterly Report on Form 10-Q. It contains forward-looking statements including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations and intentions. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "should," "will," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions identify forward statements. The Company does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Company's disclosures under "Forward-Looking Statements" and "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q.

For purposes of this Management's Discussion and Analysis, references to "Murphy USA", the "Company", "we", "us" and "our" refer to Murphy USA Inc. and its subsidiaries on a consolidated basis.

Management's Discussion and Analysis is organized as follows:

Executive Overview—This section provides an overview of our business and the results of operations and financial condition for the periods presented. It includes information on the basis of presentation with respect to the amounts presented in the Management's Discussion and Analysis and a discussion of the trends affecting our business.

Results of Operations—This section provides an analysis of our results of operations, including the results of our operating segment for the three and six months ended June 30, 2017 and 2016.

Capital Resources and Liquidity—This section provides a discussion of our financial condition and cash flows as of and for the three and six months ended June 30, 2017 and 2016. It also includes a discussion of our capital structure and available sources of liquidity.

Critical Accounting Policies—This section describes the accounting policies and estimates that we consider most important for our business and that require significant judgment.

Executive Overview

The following MD&A is intended to help the reader understand our results of operations and financial condition. This section is provided to supplement, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to these financial statements contained elsewhere in this Quarterly Report on Form 10-Q, this MD&A section and the consolidated financial statements in our Annual Report on Form 10-K. Our Form 10-K contains a discussion of matters not included within this document, such as disclosures regarding critical accounting policies and estimates, and contractual obligations.

Our Business

We market refined products through a network of retail gasoline stations and to unbranded wholesale customers. Our owned retail stations are almost all located in close proximity to Walmart stores and use the brand name Murphy USA®. We also market gasoline and other products at standalone stations under the Murphy Express brand. At

June 30, 2017, we had a total of 1,411 Company stations in 26 states, principally in the Southeast, Southwest and Midwest United States.

Basis of Presentation

Murphy USA was incorporated in March 2013, and until the separation from Murphy Oil was completed on August 30, 2013, it had not commenced operations and had no material assets, liabilities or commitments. The financial information presented in this Management's Discussion and Analysis is derived from the consolidated financial statements of Murphy USA Inc. and its subsidiaries for all periods presented.

Trends Affecting Our Business

Our operations are significantly impacted by the gross margins we receive on our fuel sales. These gross margins are commodity-based, change daily and are volatile. While we expect our total fuel sales volumes to grow and the gross margins we realize on those sales to remain strong, these gross margins can change rapidly due to many factors. These factors include, but are not limited to, the price of refined products, interruptions in supply caused by severe weather, severe refinery mechanical failures for an extended period of time, and competition in the local markets in which we operate.

The cost of our main sales products, gasoline and diesel, is greatly impacted by the cost of crude oil in the United States. Generally, rising prices for crude oil increase the Company's cost for wholesale fuel products purchased. When wholesale fuel costs rise, the Company is not always able to immediately pass these cost increases on to its retail customers at the pump, which in turn reduces the Company's sales margin. Also, rising prices tend to cause our customers to reduce discretionary fuel consumption, which generally reduces our fuel sales volumes. Retail fuel margins were stronger in the current year quarter due to more favorable market conditions. PS&W results were weaker due to elements beyond normal seasonality. These external market factors included record-high gasoline inventories, subdued retail demand and discounted pipeline space values.

In addition, our revenues are impacted by our ability to leverage our diverse supply infrastructure in pursuit of obtaining the lowest cost fuel supply available; for example, activities such as blending bulk fuel with ethanol and bio-diesel to capture and subsequently sell Renewable Identification Numbers ("RINs"). Under the Energy Policy Act of 2005, the Environmental Protection Agency ("EPA") is authorized to set annual quotas establishing the percentage of motor fuels consumed in the United States that must be attributable to renewable fuels. Obligated parties are required to demonstrate that they have met any applicable quotas by submitting a certain amount of RINs to the EPA. RINs in excess of the set quota can be sold in a market for RINs at then-prevailing prices. The market price for RINs fluctuates based on a variety of factors, including but not limited to governmental and regulatory action. There are other market related factors that can affect the net impact we receive from RINs on a company-wide basis either favorably or unfavorably. Our business model does not depend on our ability to generate revenues from RINs. Revenue from the sales of RINs is included in "Other operating revenues" in the Consolidated Statements of Income.

As of June 30, 2017, we have \$800 million of Senior Notes and \$97 million of term loan outstanding. We believe that we will generate sufficient cash from operations to fund our ongoing operating requirements. We expect to use the credit facilities to provide us with available financing intended to meet any ongoing cash needs in excess of internally generated cash flows. To the extent necessary, we will borrow under these facilities to fund our ongoing operating requirements. At June 30, 2017, we have additional available capacity under the committed \$450 million credit facilities (subject to the borrowing base), together with capacity under a \$150 million incremental uncommitted facility. There can be no assurances, however, that we will generate sufficient cash from operations or be able to draw on the credit facilities, obtain commitments for our incremental facility and/or obtain and draw upon other credit facilities.

On December 21, 2012, we signed an agreement with Walmart providing for the potential purchase of land to develop new Company stations located adjacent to existing Walmart stores in Walmart's core market area covering the Southeast, Southwest and Midwest United States. The construction program is expected to be completed in 2017 relative to the 2012 sites. In connection with this agreement, we expect to incur additional station operating and depreciation expenses due to the addition of new stores. The Company currently anticipates total capital expenditures (including purchases of Walmart properties and other land for future developments) for the full year 2017 to range from approximately \$250 million to \$300 million depending on how many new sites are developed. We intend to

fund the remainder of our capital program in 2017 primarily using operating cash flow but will supplement funding where necessary using borrowings under available credit facilities.

We believe that our business will continue to grow in the future as we expect to build additional locations chosen by our real estate development team that have the characteristics we look for in a strong site. The pace of this growth is continually monitored by our management, and these plans can be altered based on operating cash flows generated and the availability of debt facilities.

We currently estimate our ongoing effective tax rate to be approximately 38.0% for the remainder of the year.

Seasonality

Our business has inherent seasonality due to the concentration of our retail sites in certain geographic areas, as well as customer activity behaviors during different seasons. In general, sales volumes and operating incomes are typically highest in the second and third quarters during the summer activity months and lowest during the winter months. As a result, operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Business Segment

The Company has one operating segment which is Marketing. This segment includes our retail marketing sites and product supply and wholesale assets.

For additional operating segment information, see Note 20 “Business Segments” in the audited combined financial statements for the three year period ended December 31, 2016 included with our Annual Report on Form 10-K and Note 12 “Business Segment” in the accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2017.

Results of Operations

Consolidated Results

For the three month period ended June 30, 2017, the Company reported net income of \$55.6 million, or \$1.51 per diluted share, on revenue of \$3.21 billion. Net income was \$46.3 million for the same period in 2016, or \$1.17 per diluted share, on \$3.01 billion in revenue. The increase in quarterly net income was primarily driven by higher total fuel margins, higher network fuel volumes and more favorable merchandise margins.

For the six month period ended June 30, 2017, the Company reported net income of \$52.5 million, or \$1.42 per diluted share, on revenue of \$6.21 billion. Net income was \$132.2 million for the same period in 2016, or \$3.26 per diluted share, on \$5.50 billion in revenue. The decrease in year-to-date net income is primarily due to the inclusion of the gain on the disposition of the CAM pipeline in first quarter 2016 along with lower all in fuel contribution for the current period.

Three Months Ended June 30, 2017 versus Three Months Ended June 30, 2016

Quarterly revenues for 2017 increased \$205.3 million, or 6.8%, compared to the same quarter in 2016. The higher revenues were caused by higher retail prices and volumes and merchandise margins and increased store count in 2017, partially offset by a decrease in RIN sales.

Total cost of sales increased \$181.4 million, or 6.6%, compared to 2016. This increase is primarily due to higher fuel purchase costs in all areas in the 2017 quarter and increased store count in 2017.

Station and other operating expenses increased \$4.3 million, or 3.4%, from 2016. This increase was driven by increased total payment fees, maintenance costs and promotional costs during the 2017 period partially due to higher store count compared to the prior year quarter.

Selling, general and administrative (SG&A) expenses for 2017 decreased \$1.0 million, or 3.0%, from 2016. The decline in SG&A costs is primarily due to timing of spending on enterprise wide initiatives on a quarter-over-quarter

basis.

The effective tax rate was 38.2% for the 2017 quarter and 37.5% for the 2016 quarter. The effective tax rate for the current quarter is higher than the U.S. Federal tax rate of 35% but is in line with our estimated effective tax rate of 38%.

28

Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Year-to-date revenues for 2017 increased \$714.7 million, or 13.0%, compared to the same six month period in 2016. The higher revenues were caused by higher retail prices and volumes and merchandise margins and increased store count in 2017, partially offset by a decrease in RIN sales.

Total cost of sales increased \$728.8 million, or 14.6%, compared to 2016. This increase is primarily due to higher fuel purchase costs in all areas in the 2017 period and increased store count in 2017.

Station and other operating expenses increased \$12.3 million, or 5.1%, from 2016. This increase was driven by increased payment fees, maintenance costs and promotional costs during the 2017 period partially due to higher store count compared to the prior period.

Selling, general and administrative (SG&A) expenses for 2017 increased \$5.8 million, or 9.0%, from 2016. The increase in SG&A costs is primarily due to higher labor and employee benefit costs related to a previously announced restructuring charge combined with slightly increased headcount, as well as spending for technology projects.

The effective tax rate was 34.4% for the first six months of 2017 and 38.1% for the 2016 period. The effective year-to-date tax rate is lower than the U.S. Federal tax rate of 35% due to tax benefits realized in the first quarter of 2017.

Segment Results

A summary of the Company's earnings by business segment follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Thousands of dollars)	2017	2016	2017	2016
Marketing	\$63,714	\$53,442	\$64,314	\$145,867
Corporate and other assets	(8,151)	(7,132)	(11,777)	(13,683)
Net income (loss)	\$55,563	\$46,310	\$52,537	\$132,184

Three Months Ended June 30, 2017 versus Three Months Ended June 30, 2016

Net income for the three months ended June 30, 2017 increased compared to the same period in 2016 primarily due to:

• Higher retail fuel margin per gallon

- Higher merchandise margin

The items below partially offset the increase in earnings in the current period:

• Higher station and other operating expense

• Higher interest expense due to the issuance of the 2027 Senior Notes in the current period

• Lower PS&W contribution including RINs

Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Net income for the six months ended June 30, 2017 decreased compared to the same period in 2016 primarily due to:

- No repeat of the gain from the disposition of CAM pipeline
- Slightly higher total station and other operating expenses
- Increased G&A expense related to higher labor and benefits

The items below partially offset the decrease in earnings in the current period:

- Higher merchandise gross margin dollars from higher sales and improved rebates
- Improved retail fuel margins in the current year due to higher margins and total volumes

(Thousands of dollars, except volume per store month and margins)	Three Months Ended June 30,		Six Months Ended June 30,	
Marketing Segment	2017	2016	2017	2016
Operating Revenues				
Petroleum product sales	\$2,567,719	\$2,371,735	\$4,969,973	\$4,260,019
Merchandise sales	605,698	589,457	1,171,488	1,151,194
Other operating revenues	37,621	44,558	68,983	84,595
Total operating revenues	3,211,038	3,005,750	6,210,444	5,495,808
Operating expenses				
Petroleum products cost of goods sold	2,413,176	2,242,936	4,742,508	4,026,065
Merchandise cost of goods sold	507,979	496,801	984,940	972,603
Station and other operating expenses	129,433	125,145	254,177	241,919
Depreciation and amortization	25,888	22,118	51,308	44,033
Selling, general and administrative	31,346	32,319	69,593	63,822
Accretion of asset retirement obligations	446	412	888	825
Total operating expenses	3,108,268	2,919,731	6,103,414	5,349,267
Gain (loss) on sale of assets	129	(489)	(3,368)	88,976
Income from operations	102,899	85,530	103,662	235,517
Other income				
Interest expense	(20)	(12)	(39)	(21)
Other nonoperating income (expense)	4	13	230	41
Total other income (expense)	(16)	1	191	20
Income before income taxes	102,883	85,531	103,853	235,537
Income tax expense	39,169	32,089	39,539	89,670
Net Income	\$63,714	\$53,442	\$64,314	\$145,867
Gallons sold per store month				
Gallons sold per store month	253,333	258,587	248,219	255,327
Fuel margin (cpg)	16.6	10.8	13.4	11.0
Fuel margin \$ per store month	\$42,091	\$28,019	\$33,306	\$28,029
Total tobacco sales revenue per store month	\$105,840	\$110,309	\$102,958	\$108,173
Total non-tobacco sales revenue per store month	\$38,981	\$37,203	\$37,317	\$35,874
Total merchandise sales revenue per store month	\$144,821	\$147,512	\$140,275	\$144,047
Merchandise margin \$ per store month	\$23,366	\$23,187	\$22,338	\$22,347
Merchandise margin as a percentage of merchandise sales	16.1	% 15.7	% 15.9	% 15.5
Store count at end of period	1,411	1,344	1,411	1,344
Total store months during the period	4,182	3,996	8,351	7,992

Three Months Ended June 30, 2017 versus Three Months Ended June 30, 2016

Net income in the Marketing segment for 2017 increased \$10.3 million compared to the 2016 period. The primary driver was the 7.7% increase in total fuel contribution to 18.1 cpg in 2017. Additionally, merchandise gross margin increased 5.5% to \$97.7 million.

Total revenues for the Marketing segment were approximately \$3.2 billion for 2017 and \$3.0 billion for 2016. Revenues included excise taxes collected and remitted to government authorities of \$505 million in 2017 and \$488 million in 2016. The primary cause of the uplift in revenues was an \$0.11 per gallon increase in retail fuel price in the 2017 quarter.

Total fuel sales volumes per station were down 2.0% to 253,333 gallons per store month in the 2017 period from 258,587 gallons per store month in 2016. This decline is due to subdued retail demand combined with the temporary closure of five high-performing stores for raze and rebuild activity. Retail fuel margin increased 53.7% in the 2017 quarter to 16.6 cpg, compared to 10.8 cpg in the prior year quarter. Retail fuel margins increased in second quarter 2017 as falling product prices created a more favorable market structure and environment versus the consistently rising wholesale prices in second quarter 2016.

Total PS&W margin dollars, excluding RINs, were negative \$20.8 million in the 2017 period compared to \$17.4 million in 2016. The decrease in the current period was largely caused by record-high gasoline inventories, subdued retail demand, and discounted pipeline space values.

The 2017 period includes the sale of RINs of \$36.6 million compared to \$43.9 million in 2016. During the 2017 quarter, 61 million RINs were sold at an average selling price of \$0.60 per RIN while the prior year quarter had sales of 57 million RINs at an average price of \$0.77 per RIN.

Merchandise total sales increased 2.8% to \$605.7 million in 2017 from \$589.5 million in 2016 and was primarily due to an increase in non-tobacco sales of 4.8% average per store month ("APSM"), offset by a decrease in tobacco products revenue of 4.1% APSM. Quarterly merchandise margins in 2017 were higher than 2016. The increase in gross margin dollars of 5.5% in the current period was due primarily to continual turnover to new, high-demand products, in addition to per store improvements and improved promotional effectiveness. As a result, total unit margins were up by 40 basis points from 15.7% in the prior period to a new quarterly record of 16.1% in the current year.

Station and other operating expenses increased \$4.3 million in the current period compared to 2016 levels. Total operating expenses in 2017 were higher, reflecting increased payment fees and new store additions. On an APSM basis, expenses applicable to retail declined 2.4%, primarily because of lower labor costs in the period combined with lower maintenance per store due to timing of work performed.

Depreciation expense increased \$3.8 million in the 2017 period, an increase of 17.0% over the prior period. This increase was primarily caused by more stores operating in the 2017 period compared to the prior year period.

Selling, general and administrative (SG&A) expenses decreased \$1.0 million, or 3.0%, in 2017. This decrease was due to timing of spending for enterprise wide initiatives quarter-over-quarter.

Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Net income in the Marketing segment for 2017 decreased \$81.6 million compared to the 2016 period. The primary reason for this decline was no repeat of the gain from the disposition of the CAM pipeline in the prior year combined with a reduction in total fuel contribution and higher total operating expenses. This decline was partially offset by higher total retail fuel sales volumes and higher merchandise margins. Chain wide retail fuel sales volumes increased 1.6% to 2.1 billion gallons sold in 2017.

Total revenues for the Marketing segment were approximately \$6.2 billion for 2017 and \$5.5 billion for 2016. Revenues included excise taxes collected and remitted to government authorities of \$985 million in 2017 and \$961 million in 2016. The primary cause of the significant increase in revenues was a \$0.28 per gallon increase in retail

fuel price in the 2017 period.

31

Total fuel sales volumes per station were down 2.8% to 248,219 gallons per store month in the 2017 period from 255,327 gallons per store month in 2016. This decline is due to subdued retail demand combined with the temporary closure of 17 high-performing stores for a significant part of the period for raze and rebuild activity. Retail fuel margin increased 21.8% in the 2017 period to 13.4 cpg, compared to 11.0 cpg in the prior year. Retail fuel margins increased in 2017 as volatility was more pronounced in the 2017 period compared to the same period in 2016. Total PS&W margin dollars, excluding RINs, were negative \$49.3 million in the 2017 period compared to \$8.2 million in 2016. The decrease in the current period was largely caused by record-high gasoline inventories, subdued retail demand, and discounted pipeline space values.

The 2017 period includes the sale of RINs of \$65.6 million compared to \$82.6 million in 2016. During the period, 114 million RINs were sold at an average selling price of \$0.58 per RIN while the prior year had sales of 111 million RINs at an average price of \$0.74 per RIN.

Merchandise total sales increased 1.8% to \$1.17 billion in 2017 from \$1.15 billion in 2016 and was primarily due to an increase in non-tobacco sales of 4.0% APSM, offset by a decrease in tobacco products revenue of 4.8% APSM.

Year-to-date merchandise margins in 2017 were higher than 2016. The increase in gross margin dollars of 4.5% in the period was due primarily to more favorable pricing, in addition to per store improvements and improved promotional effectiveness. As a result, total unit margins were up by 40 basis points from 15.5% in the prior period to 15.9% in the current year.

Station and other operating expenses increased \$12.3 million in the current period compared to 2016 levels. Total station and other operating expenses in 2017 were higher, reflecting increased payment fees and new store additions. On an APSM basis, expenses applicable to retail declined 2.4%, primarily because of lower labor costs in the period. Depreciation expense increased \$7.3 million in the 2017 period, an increase of 16.5% over the prior period. This increase was primarily caused by more stores operating in the 2017 period compared to the prior year period. Selling, general and administrative (SG&A) expenses increased \$5.8 million, or 9.0%, in 2017. This increase was due to higher labor and employee benefit costs related to a previously announced restructuring charge combined with slightly increased headcount, as well as certain technology related costs.

Same store sales ("SSS") comparison

	Variance from prior year			
	Three months ended		Six months ended	
	June 30, 2017		June 30, 2017	
	SSS	APSM	SSS	APSM
Fuel gallons per month	(1.6)%	(2.0)%	(2.3)%	(2.8)%
Merchandise sales	(0.4)%	(1.8)%	(1.0)%	(2.6)%
Tobacco sales	(1.6)%	(4.1)%	(2.2)%	(4.8)%
Non-tobacco sales	3.0 %	4.8 %	2.6 %	4.0 %
Merchandise margin	1.9 %	0.8 %	1.1 %	— %
Tobacco margin	2.6 %	(0.3)%	2.0 %	(0.8)%
Non-tobacco margin	0.9 %	2.3 %	(0.2)%	1.0 %

Historically, the Company has used the APSM metric to represent certain data on a per site basis. The APSM metric includes all stores open through the date of the calculation. Other retailers have used same store sales (SSS) as their metric. The table above shows the comparison of APSM to SSS for 3 specific items. In most cases, the SSS metric is more favorable than the APSM metric. The primary reason for this is that SSS does not include new stores that have been opened a short time and are still developing their customer base. The difference between the APSM and SSS results highlights the impact of our growing mix of small store formats (e.g. 1200 sq. ft.) which have a higher mix of non-tobacco sales and a ramp up period on tobacco sales.

The same store sales comparison includes aggregated individual store results for all stores open throughout both periods presented. For all periods presented, the store must have been open for the entire calendar year to be included in the comparison. Remodeled stores that remained open or were closed for just a very brief time (less than a month) during the period being compared remain in the same store sales calculation. If a store is replaced, either at the same location (raze and rebuild) or relocated to a new location, it will typically be excluded from the calculation. Newly constructed sites, including raze-and-rebuilds do not enter the calculation until they are open for each full calendar year for the periods being compared (open by January 1, 2016 for the sites being compared in the 2017 versus 2016 calculations).

Corporate and other assets

Three Months Ended June 30, 2017 versus Three Months Ended June 30, 2016

After-tax results for Corporate and other assets decreased in the recently completed quarter, experiencing a loss of \$8.2 million compared to a loss of \$7.1 million in the second quarter of 2016. Interest expense was higher in the current quarter by \$1.4 million due to the addition of the \$300 million senior notes in the current quarter.

Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

After-tax results for Corporate and other assets improved in the recently completed quarter, experiencing a loss of \$11.8 million compared to a loss of \$13.7 million in 2016. This improvement was due to the 2017 period containing certain income tax benefits related to the adoption of ASU 2016-09 and discrete state tax refunds received. Interest expense was slightly higher in the current quarter by \$1.5 million due to the addition of the \$300 million senior notes in the second quarter 2017.

Non-GAAP Measures

The following table sets forth the Company's Adjusted EBITDA for the three and six months ended June 30, 2017 and 2016. EBITDA means net income (loss) plus net interest expense, plus income tax expense, depreciation and amortization, and Adjusted EBITDA adds back (i) other non-cash items (e.g., impairment of properties and accretion of asset retirement obligations) and (ii) other items that management does not consider to be meaningful in assessing our operating performance (e.g., (income) from discontinued operations, gain (loss) on sale of assets and other non-operating expense (income)). EBITDA and Adjusted EBITDA are not measures that are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

We use this Adjusted EBITDA in our operational and financial decision-making, believing that such measure is useful to eliminate certain items in order to focus on what we deem to be a more reliable indicator of ongoing operating performance and our ability to generate cash flow from operations. Adjusted EBITDA is also used by many of our investors, research analysts, investment bankers, and lenders to assess our operating performance. We believe that the presentation of Adjusted EBITDA provides useful information to investors because it allows understanding of a key measure that we evaluate internally when making operating and strategic decisions, preparing our annual plan, and evaluating our overall performance. However, non-GAAP measures are not a substitute for GAAP disclosures, and

Adjusted EBITDA may be prepared differently by us than by other companies using similarly titled non-GAAP measures.

The reconciliation of net income (loss) to EBITDA and Adjusted EBITDA follows:

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$55,563	\$46,310	\$52,537	\$132,184
Income tax expense (benefit)	34,411	27,788	27,600	81,259
Interest expense, net of interest income	11,326	9,960	20,777	19,268
Depreciation and amortization	27,513	23,685	54,525	47,171
EBITDA	128,813	107,743	155,439	279,882
Accretion of asset retirement obligations	446	412	888	825
(Gain) loss on sale of assets	(130)	) 490	3,368	(88,975)
Other nonoperating (income) expense	(3)	) (85)	(235)	(118)
Adjusted EBITDA	\$129,126	\$108,560	\$159,460	\$191,614

Capital Resources and Liquidity

Significant Sources of Capital

We continue to have a committed \$450 million asset based loan facility (the “ABL facility”), which is subject to the remaining borrowing capacity of \$208 million at June 30, 2017 (which can be utilized for working capital and other general corporate purposes, including supporting our operating model as described herein) and a \$200 million term loan facility, as well as a \$150 million incremental uncommitted facility. As of June 30, 2017, we had \$97 million outstanding under our term loan and no amounts outstanding under our ABL. See “Debt – Credit Facilities” below for the calculation of our borrowing base.

We believe our short-term and long-term liquidity is adequate to fund not only our operations, but also our anticipated near-term and long-term funding requirements, including capital spending programs, execution of announced share repurchase programs, potential dividend payments, repayment of debt maturities and other amounts that may ultimately be paid in connection with contingencies.

Operating Activities

Net cash provided by operating activities was \$40 million for the six months ended June 30, 2017 and \$169 million for the comparable period in 2016. The decrease was due primarily to a decrease in accounts payable, which was partially offset by an increase in inventories. Net income decreased \$79.6 million in 2017 compared to the corresponding period in 2016 due to no repeat of the gain on disposition of the CAM pipeline in 2016.

Investing Activities

For the six months ended June 30, 2017, cash required by investing activities was \$138 million compared to \$32 million in 2016. The higher investing cash use in the current period was primarily due to higher capital expenditure spending in the current period to raze and rebuild retail locations while the prior year period also contained sales proceeds and changes in restricted cash.

Financing Activities

Financing activities in the six months ended June 30, 2017 provided cash of \$140 million compared to cash provided of \$15 million in the six months ended June 30, 2016. Current period activity included issuing \$300 million of our 2027 Senior Notes compared to the 2016 period when cash was generated from the borrowing of a \$200 million term loan. The current period also included the repurchase of common shares of \$66 million, as well as the repayment of \$126 million of debt.

Share Repurchase Program

On January 25, 2016, the Company announced that its Board of Directors authorized up to \$500 million for a share repurchase program of the Company's common stock along with funding for new additional growth opportunities. Through the second quarter of 2017, the Company had purchased approximately \$390 million of its common shares under this current repurchase authorization with \$66 million of this amount being acquired during the first six months of 2017. The timing and number of shares repurchased under the program was determined by management at its discretion, and depended on a number of factors, including compliance with the terms of our outstanding indebtedness, results of our internal shareholder valuation model, general market and business conditions and applicable legal requirements. All purchases under this share repurchase program were funded through existing cash balances, operating cash flows, and borrowings under our term loan and ABL facility. We do not expect this repurchase program to negatively impact our ability to fund future development projects such as building new stores.

Debt

Our long-term debt at June 30, 2017 and December 31, 2016 are as set forth below:

(Thousands of dollars)	June 30, 2017	December 31, 2016
6% senior notes due 2023 (net of unamortized discount of \$5,392 at June 30, 2017 and \$5,826 at December 2016)	\$494,608	\$ 494,174
5.625% senior notes due 2027 (net of unamortized discount of \$3,682 at June 30, 2017)	296,318	—
Term loan due 2020 (effective rate of 3.78% at June 30, 2017)	97,000	180,000
Capitalized lease obligations, vehicles, due through 2021	1,909	1,451
Less unamortized debt issuance costs	(5,791)	(5,407)
Total notes payable, net	884,044	670,218
Less current maturities	14,958	40,596
Total long-term debt	\$869,086	\$ 629,622

Senior Notes

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

On April 25, 2017, Murphy Oil USA, Inc., our primary operating subsidiary, issued \$300 million of 5.625% Senior Notes due 2027 (the "2027 Senior Notes") under its existing shelf registration statement. The 2027 Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the 2027 Senior Notes contains restrictive covenants that are essentially identical to the covenants for the 2023 Senior Notes.

The 2023 and 2027 Senior Notes and the guarantees rank equally with all of our and the guarantors' existing and future senior unsecured indebtedness and effectively junior to our and the guarantors' existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets

securing such indebtedness. The 2023 and 2027 Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

Credit Facilities and Term Loan

In March 2016, we amended and extended our existing credit agreement. The credit agreement provides for a committed \$450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a \$200 million term loan facility. It also provides for a \$150 million uncommitted incremental facility. On March 10, 2016, Murphy Oil USA, Inc. borrowed \$200 million under the term loan facility that has a four-year term. As of June 30, 2017, we have zero outstanding under our ABL facility.

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

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

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

The ABL facility includes a \$200 million sublimit for the issuance of letters of credit. Letters of credit issued under the ABL facility reduce availability under the ABL facility.

Interest payable on the credit facilities is based on either:

• the London interbank offered rate, adjusted for statutory reserve requirements (the “Adjusted LIBO Rate”); or
• the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum,

plus, (A) in the case of Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on a total debt to EBITDA ratio under the ABL facility or (ii) with respect to the term loan facility, spreads ranging from 2.50% to 2.75% per annum depending on a total debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on total debt to EBITDA ratio or (ii) with respect to the term loan facility, spreads ranging from 1.50% to 1.75% per annum depending on a total debt to EBITDA ratio.

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

We are obligated to make quarterly amortization payments on the outstanding principal amount of the term loan facility equal to 5% of the aggregate principal amount of term loans made on March 10, 2016, with the remaining balance payable on the scheduled maturity date of the term loan facility. Borrowings under the credit facilities are prepayable at our option without premium or penalty. We are also required to prepay the term loan facility with the net cash proceeds of certain asset sales or casualty events, subject to certain exceptions. The credit agreement also includes certain customary mandatory prepayment provisions with respect to the ABL facility.

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a minimum fixed charge coverage ratio of a minimum of 1.0 to 1.0 when availability for at least three consecutive business days is less than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) \$70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount), as well as a maximum secured total debt to EBITDA ratio of 4.5 to 1.0 at any time when the term loans are outstanding. As of June 30, 2017, our fixed charge coverage ratio was 0.57; however, we had more than \$100 million of availability under the ABL facility at that date so the fixed charge coverage ratio currently has no impact on our operations or liquidity. Our secured debt to EBITDA ratio as of June 30, 2017 was 0.26 to 1.0.

The Senior Credit Agreement contains restrictions on certain payments, including dividends, when availability under the credit agreement is less than or equal to the greater of \$100 million and 25% of the lesser of the revolving commitments and the borrowing base and our fixed charge coverage ratio is less than 1.0 to 1.0 (unless availability under the credit agreement is greater than \$100 million and 40% of the lesser of the revolving commitments and the borrowing base). As of June 30, 2017, our ability to make restricted payments was not limited as our availability under the borrowing base was more than \$100 million, while our fixed charge coverage ratio under our Senior Credit Agreement was less than 1.0 to 1.0. As of December 31, 2016, we had a shortfall of approximately \$304.1 million of our net income and retained earnings subject to such restrictions before the fixed charge coverage ratio under our Senior Credit Agreement would exceed 1.0 to 1.0.

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

Capital Spending

Capital spending and investments in our Marketing segment relate primarily to the acquisition of land and the construction of new Company stations. Our Marketing capital is also deployed to improve our existing sites, which we refer to as sustaining capital. We also use sustaining capital in this business as needed to ensure reliability and continued performance of our sites. We also invest in our Corporate and other assets segment. The following table outlines our capital spending and investments by segment for the three and six month periods ended June 30, 2017 and 2016:

(Thousands of dollars)	Three Months		Six Months Ended	
	Ended June 30,	2016	2017	2016
Marketing:				
Company stores	\$50,816	\$53,663	\$98,683	\$86,996
Terminals	383	374	668	409
Sustaining capital	12,458	10,008	19,925	14,926
Corporate and other assets	11,335	5,502	18,793	8,872
Total	\$74,992	\$69,547	\$138,069	\$111,203

We currently expect capital expenditures for the full year 2017 to range from approximately \$250 million to \$300 million, including \$205 million to \$255 million for the retail marketing business, \$10 million for PS&W operations and \$35 million for Corporate and other assets including our Corporate initiatives which are intended to improve

certain key systems and processes for the Company and the completion of the remodel of our Corporate headquarters. Also included in this total is approximately \$26 million of maintenance capital for a continuation of our refresh program at 300 sites, along with increasing our supercooler installations to over 200 locations this year. See Note 17 “Commitments” in the audited consolidated financial statements for the year ended December 31, 2016 included in our Annual Report on Form 10-K.

Critical Accounting Policies

There has been no material update to our critical accounting policies since our Annual Report on Form 10-K for the year ended December 31, 2016. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies” in the Form 10-K.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements express management’s current views concerning future events or results, including without limitation our anticipated growth strategy, particularly with respect to our Walmart relationship and plans to build additional sites, and our ability to generate revenues, including the sale of RINs, which are subject to inherent risks and uncertainties. Factors that could cause one or more of these forecasted events not to occur include, but are not limited to, a deterioration in the business or prospects of the U.S. retail marketing business, adverse developments in the U.S. retail marketing business’s markets or adverse developments in the U.S. or global capital markets, credit markets or economies generally, the volatility and level of crude oil, corn and other commodity prices, the volatility and level of gasoline prices, customer demand for our products, disruptions in our relationship with Walmart, political and regulatory developments that may be adverse to us, and uncontrollable natural hazards or any of the other factors set forth under the caption “Risk Factors” in this Quarterly Report and in our Form 10-K. As a result you should not place undue reliance on forward-looking statements. If any of the forecasted events does not occur for any reason, our business, results of operation, cash flows and/or financial condition may be materially adversely affected.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We are exposed to market risks related to the volatility in the price of crude oil and refined products (primarily gasoline and diesel) used in our operations. These fluctuations can affect our revenues and purchases, as well as the cost of operating, investing and financing activities. We make 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 our middle-office function and the Company's senior management. As described in Note 7 "Financial Instruments and Risk Management" in the accompanying unaudited consolidated financial statements, there were short-term commodity derivative contracts in place at June 30, 2017 to hedge the purchase price of refined products. A 10% increase or decrease in the respective benchmark price of the commodities underlying these derivative contracts would have been immaterial to the Company. Changes in the fair value of these derivative contracts generally offset the changes in the value for an equivalent volume of these products.

For additional information about our use of derivative instruments, see Note 13 "Financial Instruments and Risk Management" in our audited combined financial statements for the three year period ended December 31, 2016 included in the Form 10-K and Note 7 "Financial Instruments and Risk Management" in the accompanying unaudited consolidated financial statements for the six months ended June 30, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management has evaluated, with the participation of our principal executive and financial officers, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of June 30, 2017.

Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of June 30, 2017, the Company was engaged in a number of legal proceedings, all of which the Company considers routine and incidental to its business. See Note 11 "Contingencies" in the accompanying consolidated financial statements. Based on information currently available to the Company, the ultimate resolution of environmental and legal matters referred to in this Item is not expected to have a material adverse effect on the Company's net income, financial condition or liquidity in a future period.

ITEM 1A. RISK FACTORS

Our business, results of operations, cash flows and financial condition involve various risks and uncertainties. These risk factors are discussed under the caption "Risk Factors" in our Annual Report on Form 10-K. We have not identified

any additional risk factors not previously disclosed in the Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Below is detail of the Company's purchases of its own equity securities during the period:

Period Duration	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares of Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ¹
April 1, 2017 to April 30, 2017	—	\$ —	—	\$ 159,316,872
May 1, 2017 to May 31, 2017	598,141	66.95	598,141	119,273,272
June 1, 2017 to June 30, 2017	127,600	69.61	127,600	110,390,996
Three Months Ended June 30, 2017	725,741	\$ 67.42	725,741	\$ 110,390,996

¹ Terms of the repurchase plan authorized by the Murphy USA Inc. Board of Directors and announced on January 25, 2016 include authorization for the Company to acquire up to \$500 million of its Common shares by December 31, 2017.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The Exhibit Index on page 42 of this Form 10-Q report lists the exhibits that are filed herewith or incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MURPHY USA INC.
(Registrant)

By /s/ Donald R. Smith Jr. _____
Donald R. Smith Jr., Vice President
and Controller (Chief Accounting Officer
and Duly Authorized Officer)
August 3, 2017

41

EXHIBIT INDEX

Exhibit Number	Description
4.1	Indenture dated as of April 25, 2017 among Murphy Oil USA, Inc., Murphy USA Inc., as a guarantor, the other guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to Form 8-K as filed April 25, 2017)
10.1	Murphy USA Inc. 2013 Long-Term Incentive Plan, as amended and restated as of February 9, 2017 (incorporated by reference to Exhibit 10.8 to Form 10-K as filed February 22, 2017)
10.2*	Consulting Agreement with former officer Marn Cheng
12*	Computation of Ratio of Earnings to Fixed Charges
31.1*	Certification required by Rule 13a-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer
31.2*	Certification required by Rule 13a-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.