MURPHY OIL CORP /DE
Form 10-Q
November 07, 2007
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark one)**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2007**

**OR**

**¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ______ to ______**

**Commission File Number 1-8590**

# MURPHY OIL CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **71-0361522** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification Number)** |
| **200 Peach Street** | **71731-7000** |

**P.O. Box 7000, El Dorado, Arkansas**
**(Address of principal executive offices)** **(Zip Code)**
**(870) 862-6411**

**(Registrant s telephone number, including area code)**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and larger accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Number of shares of Common Stock, $1.00 par value, outstanding at September 30, 2007 was **189,257,665**.

Table of Contents

**MURPHY OIL CORPORATION**

**TABLE OF CONTENTS**

**Table of Contents**

**PART I FINANCIAL INFORMATION**

***ITEM 1. FINANCIAL STATEMENTS***

Murphy Oil Corporation and Consolidated Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

(Thousands of dollars)

| | (Unaudited) September 30, 2007 | December 31, 2006* |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 789,665 | 543,390 |
| Short-term investments in marketable securities | 59,821 | |
| Accounts receivable, less allowance for doubtful accounts of $7,834 in 2007 and $10,408 in 2006 | 1,079,609 | 995,089 |
| Inventories, at lower of cost or market | | |
| Crude oil and blend stocks | 276,101 | 73,696 |
| Finished products | 254,146 | 224,469 |
| Materials and supplies | 132,354 | 112,912 |
| Prepaid expenses | 80,347 | 136,674 |
| Deferred income taxes | 24,544 | 20,861 |
| Total current assets | 2,696,587 | 2,107,091 |
| Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of $3,375,953 in 2007 and $2,872,293 in 2006 | 6,336,567 | 5,106,282 |
| Goodwill | 51,758 | 44,057 |
| Deferred charges and other assets | 446,032 | 225,731 |
| Total assets | $ 9,530,944 | 7,483,161 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities | | |
| Current maturities of long-term debt | $ 5,246 | 4,466 |
| Notes payable | 10,982 | 2,659 |
| Accounts payable and accrued liabilities | 1,424,374 | 1,240,977 |
| Income taxes payable | 79,079 | 63,003 |
| Total current liabilities | 1,519,681 | 1,311,105 |
| Notes payable | 1,493,275 | 833,126 |
| Nonrecourse debt of a subsidiary | 3,159 | 7,149 |
| Deferred income taxes | 779,467 | 621,329 |
| Asset retirement obligations | 293,988 | 237,875 |
| Deferred credits and other liabilities | 533,683 | 327,964 |
| Minority interest | 27,116 | 23,340 |
| Stockholders equity | | |
| Cumulative Preferred Stock, par $100, authorized 400,000 shares, none issued | | |

| | | |
|---|---|---|
| Common Stock, par $1.00, authorized 450,000,000 shares, issued 189,522,070 shares in 2007 and 187,691,508 shares in 2006 | 189,522 | 187,692 |
| Capital in excess of par value | 532,236 | 454,860 |
| Retained earnings | 3,813,431 | 3,349,832 |
| Accumulated other comprehensive income | 352,278 | 131,999 |
| Treasury stock, 264,405 shares of Common Stock in 2007 and 119,308 shares in 2006, at cost | (6,892) | (3,110) |
| Total stockholders equity | 4,880,575 | 4,121,273 |
| Total liabilities and stockholders equity | $ 9,530,944 | 7,483,161 |

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; See Note B.
See Notes to Consolidated Financial Statements, page 7.

*2*

**Table of Contents**

Murphy Oil Corporation and Consolidated Subsidiaries

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

(Thousands of dollars except per share amounts)

| | Three Months Ended September 30, 2007 | Three Months Ended September 30, 2006* | Nine Months Ended September 30, 2007 | Nine Months Ended September 30, 2006* |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sales and other operating revenues | $ 4,773,039 | 4,147,706 | 12,815,223 | 10,932,857 |
| Gain (loss) on sale of assets | 224 | 432 | 1,032 | (941) |
| Interest and other income | 7,469 | 5,284 | 12,988 | 11,687 |
| Total revenues | 4,780,732 | 4,153,422 | 12,829,243 | 10,943,603 |
| **COSTS AND EXPENSES** | | | | |
| Crude oil and product purchases | 3,909,009 | 3,275,816 | 10,288,096 | 8,580,267 |
| Operating expenses | 320,037 | 282,251 | 926,472 | 790,660 |
| Exploration expenses, including undeveloped lease amortization | 42,531 | 35,970 | 121,035 | 129,406 |
| Selling and general expenses | 65,591 | 52,237 | 173,309 | 139,160 |
| Depreciation, depletion and amortization | 114,289 | 87,181 | 337,016 | 286,745 |
| Impairment of long-lived assets | | | 40,708 | |
| Accretion of asset retirement obligations | 4,197 | 2,614 | 11,461 | 7,690 |
| Net costs associated with hurricanes | | 27,160 | | 105,933 |
| Interest expense | 19,837 | 17,021 | 52,447 | 39,262 |
| Interest capitalized | (12,419) | (11,284) | (43,664) | (29,912) |
| Minority interest | (448) | | (424) | |
| Total costs and expenses | 4,462,624 | 3,768,966 | 11,906,456 | 10,049,211 |
| Income before income taxes | 318,108 | 384,456 | 922,787 | 894,392 |
| Income tax expense | 118,573 | 160,314 | 362,376 | 338,093 |
| **NET INCOME** | $ 199,535 | 224,142 | 560,411 | 556,299 |
| **NET INCOME PER COMMON SHARE** | | | | |
| BASIC | $ 1.06 | 1.20 | 2.99 | 2.99 |
| DILUTED | 1.04 | 1.18 | 2.94 | 2.94 |
| Average common shares outstanding basic | 188,239,267 | 186,211,753 | 187,716,385 | 185,948,743 |
| Average common shares outstanding diluted | 191,193,266 | 189,238,922 | 190,764,460 | 189,067,278 |

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; See Note B.

See Notes to Consolidated Financial Statements on page 7.

**Table of Contents**

Murphy Oil Corporation and Consolidated Subsidiaries

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

(Thousands of dollars)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2007** | **2006*** | **2007** | **2006*** |
| Net income | $ 199,535 | 224,142 | 560,411 | 556,299 |
| Other comprehensive income, net of tax | | | | |
| Cash flow hedges | | | | |
| Net derivative gains (losses) | | 3,329 | | (5,508) |
| Reclassification adjustments | | 6,646 | | 15,598 |
| Total cash flow hedges | | 9,975 | | 10,090 |
| Net gain from foreign currency translation | 102,088 | 1,985 | 211,845 | 73,514 |
| Retirement and postretirement benefit plan adjustments | 1,461 | | 7,089 | 13 |
| **COMPREHENSIVE INCOME** | $ 303,084 | 236,102 | 779,345 | 639,916 |

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; See Note B.

See Notes to Consolidated Financial Statements on page 7.

*4*

**Table of Contents**

Murphy Oil Corporation and Consolidated Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(Thousands of dollars)

| | Nine Months Ended September 30, 2007 | Nine Months Ended September 30, 2006* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 560,411 | 556,299 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 337,016 | 286,745 |
| Impairment of long-lived assets | 40,708 | |
| Amortization of deferred major repair costs | 15,894 | 13,465 |
| Expenditures for asset retirements | (4,642) | (3,137) |
| Dry hole costs | 37,570 | 41,885 |
| Amortization of undeveloped leases | 20,811 | 16,717 |
| Accretion of asset retirement obligations | 11,461 | 7,690 |
| Deferred and noncurrent income tax charges | 31,599 | 17,226 |
| Pretax losses (gains) from disposition of assets | (1,032) | 941 |
| Net increase in noncash operating working capital | (199,639) | (306,331) |
| Other | 64,867 | (7,084) |
| Net cash provided by operating activities | 915,024 | 624,416 |
| **INVESTING ACTIVITIES** | | |
| Property additions and dry hole costs | (1,279,470) | (884,144) |
| Proceeds from sales of assets | 18,751 | 19,796 |
| Purchases of marketable securities | (59,821) | |
| Expenditures for major repairs | (9,304) | (10,005) |
| Other net | (9,069) | (8,417) |
| Net cash required by investing activities | (1,338,913) | (882,770) |
| **FINANCING ACTIVITIES** | | |
| Increase in notes payable | 668,323 | 183,989 |
| Decrease in nonrecourse debt of a subsidiary | (4,886) | (4,667) |
| Proceeds from exercise of stock options and employee stock purchase plans | 33,837 | 15,354 |
| Excess tax benefits related to exercise of stock options | 21,069 | 7,057 |
| Cash dividends paid | (91,802) | (70,056) |
| Other | (759) | |
| Net cash provided by financing activities | 625,782 | 131,677 |
| Effect of exchange rate changes on cash and cash equivalents | 44,382 | 10,697 |
| Net increase (decrease) in cash and cash equivalents | 246,275 | (115,980) |
| Cash and cash equivalents at January 1 | 543,390 | 585,333 |
| Cash and cash equivalents at September 30 | $ 789,665 | 469,353 |

| | | |
|---|---|---|
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES** | | |
| Cash income taxes paid, net of refunds | $ 249,057 | 372,277 |
| Interest capitalized in excess of interest paid | 5,090 | 3,066 |

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; See Note B.

See Notes to Consolidated Financial Statements on page 7.

Table of Contents

Murphy Oil Corporation and Consolidated Subsidiaries

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)**

(Thousands of dollars)

| | Nine Months Ended September 30, 2007 | 2006 |
|---|---|---|
| **Cumulative Preferred Stock par** $100, authorized 400,000 shares, none issued | | |
| **Common Stock par** $1.00, authorized 450,000,000 shares, issued 189,522,070 shares in 2007 and 187,150,783 shares in 2006 | | |
| Balance at beginning of period | $ 187,692 | 186,829 |
| Exercise of stock options | 1,798 | 322 |
| Issuance of time-based restricted stock | 32 | |
| Balance at end of period | 189,522 | 187,151 |
| **Capital in Excess of Par Value** | | |
| Balance at beginning of period | 454,860 | 437,963 |
| Exercise of stock options, including income tax benefits | 55,038 | 9,720 |
| Restricted stock transactions and other | 3,794 | (7,464) |
| Amortization, forfeitures and other | 17,759 | 17,169 |
| Sale of stock under employee stock purchase plans | 785 | 409 |
| Reclassification from Unamortized Restricted Stock Awards upon adoption of SFAS No. 123R | | (16,410) |
| Balance at end of period | 532,236 | 441,387 |
| **Retained Earnings** | | |
| Balance at beginning of period as previously reported | | 2,744,274 |
| Cumulative effect of adopting FASB Staff Position No. AUG AIR-1 | | 59,051 |
| Balance at beginning of period as adjusted | 3,349,832 | 2,803,325 |
| Cumulative effect of changes in accounting principles | (5,010) | |
| Net income for the period | 560,411 | 556,299 |
| Cash dividends | (91,802) | (70,056) |
| Balance at end of period | 3,813,431 | 3,289,568 |
| **Accumulated Other Comprehensive Income** | | |
| Balance at beginning of period as previously reported | | 131,324 |
| Cumulative effect of adopting FASB Staff Position No. AUG AIR-1 | | 2,029 |
| Balance at beginning of period as adjusted | 131,999 | 133,353 |
| Cumulative effect of change in accounting principle | 1,345 | |
| Foreign currency translation gains, net of taxes | 211,845 | 73,514 |
| Cash flow hedging gains, net of taxes | | 10,090 |
| Retirement and postretirement benefit plan adjustments, net of taxes | 7,089 | 13 |
| Balance at end of period | 352,278 | 216,970 |

| | | |
|---|---|---|
| **Unamortized Restricted Stock Awards** | | |
| Balance at beginning of period | | (16,410) |
| Reclassification to Capital in Excess of Par upon adoption of SFAS No. 123R | | 16,410 |
| Balance at end of period | | |
| **Treasury Stock** | | |
| Balance at beginning of period | (3,110) | (22,990) |
| Exercise of stock options | | 13,345 |
| Sale of stock under employee stock purchase plans | 812 | 501 |
| Awarded restricted stock, net of forfeitures | | 6,712 |
| Cancellation and forfeitures of performance-based restricted stock | (4,594) | |
| Balance at end of period | (6,892) | (2,432) |
| **Total Stockholders Equity** | $ 4,880,575 | 4,132,644 |

See notes to consolidated financial statements on page 7.

Table of Contents

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

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

**Note A Interim Financial Statements**

The consolidated financial statements of the Company presented herein have not been audited by independent auditors, except for the Consolidated Balance Sheet at December 31, 2006. In the opinion of Murphy s management, the unaudited financial statements presented herein include all accruals necessary to present fairly the Company s financial position at September 30, 2007, and the results of operations, cash flows and changes in stockholders equity for the three-month and nine-month periods ended September 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements of the Company in conformity with accounting principles generally accepted in the United States of America, management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates.

Financial statements and notes to consolidated financial statements included in this Form 10-Q report should be read in conjunction with the Company s 2006 Form 10-K report, as certain notes and other pertinent information have been abbreviated or omitted in this report. Financial results for the three months and nine months ended September 30, 2007 are not necessarily indicative of future results.

**Note B New Accounting Principles Adopted**

Turnaround Accounting

Effective January 1, 2007, the Financial Accounting Standards Board s (FASB) Staff Position No. AUG AIR-1 (FSP AUG AIR-1), Accounting for Planned Major Maintenance Activities, became effective for the Company. FSP AUG AIR-1 no longer permits the Company to use the accrue-in-advance method of accounting for planned major maintenance activities such as refinery turnarounds. The Company has chosen to use the permitted deferral method for such planned major maintenance activity. All prior period financial statements have been adjusted to reflect the adoption of FSP AUG AIR-1 as if the deferral method was in effect in prior periods. A cumulative after-tax adjustment of $61.1 million has been recorded as of January 1, 2006 as an increase to Stockholders Equity to effect the adoption of FSP AUG AIR-1. Net income for the three-month and nine-month periods ended September 30, 2006 has been restated to reflect the earnings for the periods as if FSP AUG AIR-1 had been in effect during the periods. The effect for the three-month and nine-month periods ended September 30, 2006 was an increase to net income of $1.3 million (nil per diluted share) and $5.6 million ($0.03 per diluted share), respectively. As presented on the consolidated balance sheet as of December 31, 2006, the previously reported liability for Accrued Major Repair Costs of $71.2 million has been removed and a noncurrent asset of $37.4 million, representing the unamortized deferred costs of planned major maintenance activities as of that date, has been added to Deferred Charges and Other Assets. In association with the adoption of FSP AUG AIR-1, the Company will present expenditures for major repairs as an investing activity in the Consolidated Statement of Cash Flows. The following consolidated financial statement items as of December 31, 2006 and for the three-month and nine-month periods ended September 30, 2006 were affected by this change in accounting principle.

| | December 31, 2006 | | |
|---|---|---|---|
| **(Thousands of dollars)** | **As Previously Reported** | **FSP AUG AIR-1 Adjustment** | **As Adjusted** |
| Consolidated Balance Sheet | | | |
| Deferred charges and other assets | $ 188,297 | 37,434 | 225,731 |
| Deferred income tax liabilities | 581,920 | 39,409 | 621,329 |
| Accrued major repair costs | 71,229 | (71,229) | |
| Deferred credits and other liabilities | 327,307 | 657 | 327,964 |
| Retained earnings | 3,284,391 | 65,441 | 3,349,832 |
| Accumulated other comprehensive income | 128,843 | 3,156 | 131,999 |
| Total stockholders equity | 4,052,676 | 68,597 | 4,121,273 |

Table of Contents

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)*

**Note B New Accounting Principles Adopted *(Contd.)***

| (Thousands of dollars) | Three-Month Period September 30, 2006 As Previously Reported | FSP AUG AIR-1 Adjustment | As Adjusted | Nine-Month Period September 30, 2006 As Previously Reported | FSP AUG AIR-1 Adjustment | As Adjusted |
|---|---|---|---|---|---|---|
| Consolidated Statements of Income | | | | | | |
| Operating expenses | $ 284,375 | (2,124) | 282,251 | 799,369 | (8,709) | 790,660 |
| Selling and general expenses | 52,251 | (14) | 52,237 | 139,282 | (122) | 139,160 |
| Income before income taxes | 382,318 | 2,138 | 384,456 | 885,561 | 8,831 | 894,392 |
| Income tax expense | 159,543 | 771 | 160,314 | 334,839 | 3,254 | 338,093 |
| Net income | 222,775 | 1,367 | 224,142 | 550,722 | 5,577 | 556,299 |
| Net income per share: | | | | | | |
| Basic | 1.20 | | 1.20 | 2.96 | .03 | 2.99 |
| Diluted | 1.18 | | 1.18 | 2.91 | .03 | 2.94 |
| Consolidated Statement of Cash Flows | | | | | | |
| **Operating Activities** | | | | | | |
| Net income | | | | 550,722 | 5,577 | 556,299 |
| Provisions for/amortization of major repair costs | | | | 22,296 | (8,831) | 13,465 |
| Expenditures for major repairs and asset retirements | | | | (13,142) | 10,005 | (3,137) |
| Deferred and noncurrent income tax charge | | | | 13,972 | 3,254 | 17,226 |
| Net cash provided by operating activities | | | | 614,411 | 10,005 | 624,416 |
| **Investing Activities** | | | | | | |
| Expenditures for major repairs | | | | | (10,005) | (10,005) |
| Net cash required by investing activities | | | | (872,765) | (10,005) | (882,770) |

Uncertain Income Tax Positions

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation clarifies the criteria for recognizing income tax benefits under FASB Statement No. 109, Accounting for Income Taxes, and requires additional disclosures about uncertain tax positions. Under FIN 48 the financial statement recognition of the benefit for a tax position is dependent upon the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. Upon adoption of FIN 48 on January 1, 2007, the Company recognized a $0.7 million increase in its liability for unrecognized income tax benefits, which is included in Deferred Credits and Other Liabilities in the Consolidated Balance Sheet, and it recognized a similar decrease to Retained Earnings. A reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits during the nine-month period ended September 30, 2007 is as follows:

| (Thousands of dollars) | 2007 |
|---|---|
| Balance at January 1, 2007 | $ 21,998 |
| Additions for tax positions of prior years | 1,818 |
| Additions for tax positions related to 2007 | 2,651 |
| Settlements | (2,129) |
| Changes due to translation of foreign currencies | 765 |
| Balance at September 30, 2007 | $ 25,103 |

All additions or reductions to the above liability affect the Company s effective income tax rate in the respective period of change. The Company accounts for any applicable interest and penalties on uncertain tax positions as a component of income tax expense. The liability for uncertain income taxes as of the date of adoption (January 1, 2007) and September 30, 2007 includes interest and penalties of $5.5 million and $6.0 million, respectively. Income tax expense for the nine-month period ended September 30, 2007 included a benefit for interest and penalties of $0.3 million associated with uncertain tax positions.

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)*

**Note B New Accounting Principles Adopted *(Contd.)***

During the next year, the Company currently expects the liability for uncertain taxes to increase by amounts that are consistent with the increase that occurred during the nine-month period ended September 30, 2007. The Company s tax returns in multiple jurisdictions are subject to audit by taxing authorities. These audits often take years to complete and settle. As of September 30, 2007, the earliest years remaining open for audit and/or settlement in our major taxing jurisdictions are as follows: United States 2003; Canada 2002; United Kingdom 2005; Malaysia 2004; and Ecuador 2000.

Retirement and Postretirement Plans Measurement

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of SFAS Nos. 87, 88, 106 and 132R. This statement requires the Company to recognize in its consolidated balance sheet the overfunded or underfunded status of its defined benefit plans as an asset or liability and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires that the Company measure the funded status of all plans as of December 31 rather than September 30 as previously permitted. The Company recognized the funded status position portion of this statement in its Consolidated Balance Sheet as of December 31, 2006. The Company has decided to adopt the requirement to use a December 31 measurement date for defined benefit plan measurement beginning in 2007. The transition from a measurement date as of September 30 to December 31 beginning in 2007 required the Company to reduce its consolidated Retained Earnings as of January 1, 2007 by $4.3 million to recognize the one-time after-tax effect of an additional three months of net periodic benefit expense for its retirement and postretirement benefit plans. The balance sheet adjustments as of January 1, 2007 were as follows:

| **(Thousands of dollars)** | **Increase (Decrease)** |
|---|---|
| Deferred income taxes payable | $ (1,708) |
| Deferred credits and other liabilities | 4,664 |
| Retained earnings | (4,301) |
| Accumulated other comprehensive income | 1,345 |

**Note C Property, Plant and Equipment**

FASB Staff Position (FSP) 19-1 applies to companies that use the successful efforts method of accounting and it clarifies that exploratory well costs should continue to be capitalized when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the company is making sufficient progress assessing the reserves and the economic and operating viability of the project.

At September 30, 2007, the Company had total capitalized exploratory well costs pending the determination of proved reserves of $317.0 million. The following table reflects the net changes in capitalized exploratory well costs during the nine-month periods ended September 30, 2007 and 2006.

| **(Thousands of dollars)** | **2007** | **2006** |
|---|---|---|
| Beginning balance at January 1 | $ 315,445 | 275,256 |
| Additions pending the determination of proved reserves | 8,700 | 155,381 |
| Reclassification to proved properties based on the determination of proved reserves | (7,168) | (77,683) |
| Capitalized costs charged to expense | | (3,431) |
| Ending balance at September 30 | $ 316,977 | 349,523 |

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of drilling.

| **(Thousands of dollars)** | **2007** | **2006** |
|---|---|---|
| Capitalized exploratory well costs capitalized for one year or less | $ 16,235 | 161,635 |
| Capitalized exploratory well costs capitalized for more than one year | 300,742 | 187,888 |
| Balance at September 30 | $ 316,977 | 349,523 |
| Number of projects that have exploratory well costs that have been capitalized for more than one year | 11 | 11 |

Table of Contents

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)*

**Note C Property, Plant and Equipment** ***(Contd.)***

Of the $300.7 million of exploratory well costs capitalized for more than one year, $34.3 million is in the U.S., $198.5 million is in Malaysia, $7.7 million is in Canada and $60.2 million is in the Republic of Congo. The U.S. amount relates to deepwater Gulf of Mexico wells that are pending development. In Malaysia and the Republic of Congo, development plans are in various stages of completion or additional drilling is planned. In Canada, these costs are for stratigraphic wells that will be used for locating near-term horizontal heavy oil wells.

On April 30, 2007, the Company entered into an agreement with Wal-Mart Stores, Inc. to purchase parcels of property leased from Wal-Mart for its Murphy USA retail gasoline stations. The site purchases began in 2007 and will continue into 2008 with expected total capital expenditures of approximately $315 million. In conjunction with this agreement, the Company closed 55 stations in the U.S. and Canada. In the Consolidated Statements of Income for the nine-month period ended September 30, 2007, the Company recorded noncash charges of $40.7 million primarily for impairment of these retail gasoline stations in the U.S. and Canada. The charge includes writedown of remaining undepreciated book value of the station improvements as well as costs of abandonment.

On October 18, 2007, the government of Ecuador enacted into law a levy that increases from 50% to 99% its share of oil sales prices that exceed a threshold reference price level that currently is about $23.25 per barrel. The Company and its partners in Block 16 are considering alternatives, including dispute resolution procedures, for a response to this government action. Under this new price sharing arrangement for Block 16, the Company is evaluating whether its investment is impaired, and if so determined, the Company could have to record an impairment charge to reduce its investment in fixed assets in a future period. The Company s investment in fixed assets in Ecuador at September 30, 2007 amounted to approximately $109 million.

**Note D Employee and Retiree Pension and Postretirement Plans**

The Company has defined benefit pension plans that are principally noncontributory and cover most full-time employees. All pension plans are funded except for the U.S. and Canadian nonqualified supplemental plans and the frozen U.S. directors plan. All U.S. tax qualified plans meet the funding requirements of federal laws and regulations. Contributions to foreign plans are based on local laws and tax regulations. The Company also sponsors unfunded health care and life insurance benefit plans that cover most retired U.S. employees. The health care benefits are contributory; the life insurance benefits are noncontributory.

The table that follows provides the components of net periodic benefit expense for the three-month and nine-month periods ended September 30, 2007 and 2006.

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| (Thousands of dollars) | Pension Benefits | | Postretirement Benefits | |
| Service cost | $ 2,865 | 2,519 | 560 | 566 |
| Interest cost | 6,440 | 5,314 | 1,092 | 1,006 |
| Expected return on plan assets | (5,702) | (4,959) | | |
| Amortization of prior service cost | 398 | 380 | (67) | (69) |
| Amortization of transitional asset | (164) | (163) | | |
| Recognized actuarial loss | 1,510 | 1,606 | 399 | 446 |
| Net periodic benefit expense | $ 5,347 | 4,697 | 1,984 | 1,949 |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| (Thousands of dollars) | Pension Benefits | | Postretirement Benefits | |

| | | | | |
|---|---|---|---|---|
| Service cost | $ 8,308 | 7,991 | 1,634 | 1,698 |
| Interest cost | 18,712 | 16,332 | 3,140 | 3,018 |
| Expected return on plan assets | (16,653) | (15,411) | | |
| Amortization of prior service cost | 1,094 | 1,142 | (191) | (207) |
| Amortization of transitional asset | (398) | (481) | | |