

MURPHY OIL CORP /DE
Form 10-Q
August 05, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-8590

MURPHY OIL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

200 Peach Street

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

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

71731-7000
(Zip Code)

(870) 862-6411

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of Common Stock, \$1.00 par value, outstanding at June 30, 2011 was **193,512,972**.

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MURPHY OIL CORPORATION

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars)

	(Unaudited)	
	June 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 801,246	535,825
Canadian government securities with maturities greater than 90 days at the date of acquisition	538,082	616,558
Accounts receivable, less allowance for doubtful accounts of \$7,970 in 2011 and \$7,954 in 2010	1,756,713	1,467,311
Inventories, at lower of cost or market		
Crude oil and blend stocks	258,063	147,256
Finished products	420,571	388,162
Materials and supplies	234,704	226,795
Prepaid expenses	126,160	88,241
Deferred income taxes	77,978	80,545
Total current assets	4,213,517	3,550,693
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of \$6,741,946 in 2011 and \$6,040,996 in 2010	11,062,349	10,367,847
Goodwill	44,390	42,850
Deferred charges and other assets	246,780	271,853
Total assets	\$ 15,567,036	14,233,243
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 349,946	41
Accounts payable and accrued liabilities	2,600,956	2,572,105
Income taxes payable	392,166	358,764
Total current liabilities	3,343,068	2,930,910
Long-term debt	1,184,529	939,350
Deferred income taxes	1,244,882	1,212,213
Asset retirement obligations	576,513	555,248
Deferred credits and other liabilities	388,878	395,972
Stockholders equity		
Cumulative Preferred Stock, par \$100, authorized 400,000 shares, none issued	0	0
Common Stock, par \$1.00, authorized 450,000,000 shares, issued 193,714,102 shares in 2011 and 193,293,526 shares in 2010	193,714	193,294
Capital in excess of par value	788,673	767,762
Retained earnings	7,275,196	6,800,992
Accumulated other comprehensive income	576,826	449,428

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Treasury stock, 201,130 shares of Common Stock in 2011 and 457,518 shares of Common Stock in 2010, at cost	(5,243)	(11,926)
Total stockholders' equity	8,829,166	8,199,550
Total liabilities and stockholders' equity	\$ 15,567,036	14,233,243

See Notes to Consolidated Financial Statements, page 7.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Thousands of dollars, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUES				
Sales and other operating revenues	\$ 8,690,140	5,592,353	16,036,143	10,821,028
Gain on sale of assets	23,079	113	23,132	789
Interest and other income (expense)	8,272	(535)	13,883	(49,726)
Total revenues	8,721,491	5,591,931	16,073,158	10,772,091
COSTS AND EXPENSES				
Crude oil and product purchases	7,068,906	4,253,167	12,948,722	8,232,126
Operating expenses	600,918	460,244	1,153,902	925,851
Exploration expenses, including undeveloped lease amortization	122,538	53,093	218,812	119,457
Selling and general expenses	86,033	68,851	161,500	133,982
Depreciation, depletion and amortization	270,816	288,212	548,156	580,892
Accretion of asset retirement obligations	9,658	7,844	19,145	15,457
Redetermination of Terra Nova working interest	0	5,346	(5,351)	10,862
Interest expense	12,600	13,893	24,319	28,702
Interest capitalized	(2,639)	(3,696)	(9,072)	(6,361)
Total costs and expenses	8,168,830	5,146,954	15,060,133	10,040,968
Income before income taxes	552,661	444,977	1,013,025	731,123
Income tax expense	241,048	172,688	432,509	309,943
NET INCOME	\$ 311,613	272,289	580,516	421,180
NET INCOME PER COMMON SHARE				
Basic	\$ 1.61	1.42	3.00	2.20
Diluted	1.60	1.41	2.98	2.18
Average common shares outstanding				
Basic	193,481,601	191,585,996	193,267,154	191,394,728
Diluted	194,916,194	193,169,099	194,642,191	192,821,487

See Notes to Consolidated Financial Statements, page 7.

The Exhibit Index is on page 33.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(Thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income	\$ 311,613	272,289	580,516	421,180
Other comprehensive income (loss), net of tax				
Net gain (loss) from foreign currency translation	23,371	(132,045)	123,025	(40,385)
Retirement and postretirement benefit plan adjustments	2,216	2,333	4,373	4,527
COMPREHENSIVE INCOME	\$ 337,200	142,577	707,914	385,322

See Notes to Consolidated Financial Statements, page 7.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Thousands of dollars)

	Six Months Ended June 30,	
	2011	2010
OPERATING ACTIVITIES		
Net income	\$ 580,516	421,180
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	548,156	580,892
Amortization of deferred major repair costs	23,520	16,150
Expenditures for asset retirements	(16,441)	(25,280)
Dry hole costs	105,307	29,841
Amortization of undeveloped leases	60,530	48,378
Accretion of asset retirement obligations	19,145	15,457
Deferred and noncurrent income tax charges	6,220	33,233
Pretax gain from disposition of assets	(23,132)	(789)
Net decrease (increase) in noncash operating working capital	(455,655)	249,780
Other operating activities, net	69,776	78,901
 Net cash provided by operating activities	 917,942	 1,447,743
INVESTING ACTIVITIES		
Property additions and dry hole costs	(1,258,731)	(992,256)
Proceeds from sales of assets	27,538	1,792
Purchase of investment securities*	(675,606)	(1,263,026)
Proceeds from maturity of investment securities*	754,082	1,239,290
Expenditures for major repairs	(680)	(89,102)
Other net	6,753	(23,110)
 Net cash required by investing activities	 (1,146,644)	 (1,126,412)
FINANCING ACTIVITIES		
Borrowings (repayments) of notes payable	594,980	(122,019)
Repayment of nonrecourse debt of a subsidiary	0	(2,269)
Proceeds from exercise of stock options and employee stock purchase plans	7,900	14,798
Excess tax benefits related to exercise of stock options	4,068	483
Withholding tax on stock-based incentive awards	(8,014)	(5,170)
Issue cost of debt facility	(7,672)	0
Cash dividends paid	(106,312)	(95,700)
 Net cash provided (required) by financing activities	 484,950	 (209,877)
 Effect of exchange rate changes on cash and cash equivalents	 9,173	 (13,778)
 Net increase in cash and cash equivalents	 265,421	 97,676
Cash and cash equivalents at January 1	535,825	301,144

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Cash and cash equivalents at June 30	\$ 801,246	398,820
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* Investments are Canadian government securities with maturities greater than 90 days at the date of acquisition. See Notes to Consolidated Financial Statements, page 7.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)

(Thousands of dollars)

	Six Months Ended June 30,	
	2011	2010
Cumulative Preferred Stock par \$100, authorized 400,000 shares, none issued	0	0
Common Stock par \$1.00, authorized 450,000,000 shares, issued 193,714,102 shares at June 30, 2011 and 192,280,606 shares at June 30, 2010		
Balance at beginning of period	\$ 193,294	191,798
Exercise of stock options	420	483
Balance at end of period	193,714	192,281
Capital in Excess of Par Value		
Balance at beginning of period	767,762	680,509
Exercise of stock options, including income tax benefits	13,591	14,668
Restricted stock transactions and other	(15,119)	(9,688)
Stock-based compensation	21,661	20,299
Sale of stock under employee stock purchase plans	778	477
Balance at end of period	788,673	706,265
Retained Earnings		
Balance at beginning of period	6,800,992	6,204,316
Net income for the period	580,516	421,180
Cash dividends	(106,312)	(95,700)
Balance at end of period	7,275,196	6,529,796
Accumulated Other Comprehensive Income		
Balance at beginning of period	449,428	287,187
Foreign currency translation gains (losses), net of income taxes	123,025	(40,385)
Retirement and postretirement benefit plan adjustments, net of income taxes	4,373	4,527
Balance at end of period	576,826	251,329
Treasury Stock		
Balance at beginning of period	(11,926)	(17,784)
Sale of stock under employee stock purchase plans	0	518
Awarded restricted stock, net of forfeitures	6,208	4,305
Cancellation of performance-based restricted stock and forfeitures	475	258
Balance at end of period	(5,243)	(12,703)

Total Stockholders	Equity	\$ 8,829,166	7,666,968
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See notes to consolidated financial statements, page 7

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

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

Note A Interim Financial Statements

The consolidated financial statements of the Company presented herein have not been audited by independent auditors, except for the Consolidated Balance Sheet at December 31, 2010. In the opinion of Murphy's management, the unaudited financial statements presented herein include all accruals necessary to present fairly the Company's financial position at June 30, 2011, and the results of operations, cash flows and changes in stockholders' equity for the three-month and six-month periods ended June 30, 2011 and 2010, in conformity with accounting principles generally accepted in the United States. In preparing the financial statements of the Company 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, 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 2010 Form 10-K report, as certain notes and other pertinent information have been abbreviated or omitted in this report. Financial results for the three-month and six-month periods ended June 30, 2011 are not necessarily indicative of future results.

Note B Property, Plant and Equipment

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

At June 30, 2011, the Company had total capitalized exploratory well costs pending the determination of proved reserves of \$532.9 million. The following table reflects the net changes in capitalized exploratory well costs during the six-month periods ended June 30, 2011 and 2010.

(Thousands of dollars)	2011	2010
Beginning balance at January 1	\$ 497,765	369,862
Additions pending the determination of proved reserves	35,138	60,562
Reclassifications to proved properties based on the determination of proved reserves	0	0
Balance at June 30	\$ 532,903	430,424

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

(Thousands of dollars)	Amount	2011		June 30,		2010	
		No. of Wells	No. of Projects	Amount	No. of Wells	No. of Projects	
Aging of capitalized well costs:							
Zero to one year	\$ 116,514	16	5	\$ 103,705	14	5	
One to two years	96,709	11	2	102,446	10	4	
Two to three years	104,420	8	4	17,946	2	2	
Three years or more	215,260	32	5	206,327	32	4	
	\$ 532,903	67	16	\$ 430,424	58	15	

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Of the \$416.4 million of exploratory well costs capitalized more than one year at June 30, 2011, \$252.9 million is in Malaysia, \$136.9 million is in the U.S., \$15.2 million is in Republic of the Congo, and \$11.4 million is in Canada. In Malaysia either further appraisal or development drilling is planned and/or development studies/plans are in various stages of completion. In the U.S. drilling and development operations are planned. In Republic of the Congo further appraisal drilling is planned. In Canada a drilling and development program continues.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)****Note B Property, Plant and Equipment (Contd.)**

In July 2010, the Company announced that its Board of Directors had approved plans to exit the U.S. refining and U.K. refining and marketing businesses. These operations are encompassed within the U.S. manufacturing and U.K. refining and marketing segments presented in Note P. On July 25, 2011, the Company announced that it had entered into an agreement to sell the Superior, Wisconsin refinery and related assets for \$214 million. As part of this agreement, liquid inventories at these locations will also be sold at fair value. The Company expects to report a gain on this transaction, but the gain will vary based primarily on the level and price of liquid inventories held in storage at the time the sale is completed, which is expected to occur late in the third quarter or early in the fourth quarter. The sale process for the Meraux, Louisiana refinery and U.K. downstream assets continues. Based on current market conditions, it is possible that the Company could incur a loss on future sales of the Meraux refinery and U.K. downstream assets. The Company expects that the results of these operations will be presented as discontinued operations in future periods when the criteria for held for sale under U.S. generally accepted accounting principles have been met.

Note C Inventories

Inventories are carried at the lower of cost or market. The cost of crude oil and finished products is predominantly determined on the last-in, first-out (LIFO) method. At June 30, 2011 and December 31, 2010, the carrying value of inventories under the LIFO method was \$974.3 million and \$735.1 million, respectively, less than such inventories would have been valued using the first-in, first-out (FIFO) method.

Note D Financing Arrangements

In June 2011, the Company replaced its \$1.9 billion committed credit facility that was scheduled to expire in July 2012 with a new five-year \$1.5 billion credit facility. Borrowings under the new facility bear interest at 1.5% above LIBOR based on the Company's current credit rating as of June 30, 2011. The new committed facility did not alter the ability of the Company to borrow under other existing credit facilities, nor did it impact its shelf registration statement on file with the U.S. Securities and Exchange Commission that permits the offer and sale of debt and/or equity securities through September 2012.

Ten year notes totalling \$350 million, which mature in May 2012, have been reclassified from Long-term debt to Current maturities of long-term debt as of June 30, 2011.

Note E Cash Flow Disclosures

Additional disclosures regarding cash flow activities are provided below.

	Six Months Ended June 30,	
	2011	2010
Net (increase) decrease in operating working capital other than cash and cash equivalents:		
(Increase) decrease in accounts receivable	\$ (289,404)	138,577
(Increase) in inventories	(151,125)	(287,653)
(Increase) in prepaid expenses	(37,919)	(11,347)
(Increase) decrease in deferred income tax assets	2,567	(55,625)
Increase in accounts payable and accrued liabilities	4,140	375,159
Increase in current income tax liabilities	16,086	90,669
Total	\$ (455,655)	249,780

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Supplementary disclosures:		
Cash income taxes paid	\$ 375,666	243,648
Interest paid, net of amounts capitalized	14,896	20,408

Note F Employee and Retiree Benefit 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 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 health care and life insurance benefit plans, which are not funded, that cover most retired U.S. employees. The health care benefits are contributory; the life insurance benefits are noncontributory.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)****Note F Employee and Retiree Benefit Plans (Contd.)**

The table that follows provides the components of net periodic benefit expense for the three-month and six-month periods ended June 30, 2011 and 2010.

(Thousands of dollars)	Three Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
Service cost	\$ 5,952	5,197	1,290	920
Interest cost	7,943	7,433	1,718	1,474
Expected return on plan assets	(6,869)	(5,891)	0	0
Amortization of prior service cost	339	384	(66)	(66)
Amortization of transitional asset	(53)	(129)	2	0
Recognized actuarial loss	2,542	2,988	787	596
Net periodic benefit expense	\$ 9,854	9,982	3,731	2,924

(Thousands of dollars)	Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
Service cost	\$ 11,848	10,456	2,514	1,808
Interest cost	15,936	14,881	3,365	2,905
Expected return on plan assets	(13,794)	(11,742)	0	0
Amortization of prior service cost	683	771	(130)	(130)
Amortization of transitional asset	(104)	(256)	4	0
Recognized actuarial loss	5,118	5,953	1,540	1,174
Net periodic benefit expense	\$ 19,687	20,063	7,293	5,757