

MURPHY OIL CORP /DE  
Form 10-Q  
May 09, 2007  
Table of Contents

---

**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 March 31, 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  
(State or other jurisdiction of  
incorporation or organization)

200 Peach Street

71-0361522  
(I.R.S. Employer

Identification Number)

71731-7000

Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

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.  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  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  No

Number of shares of Common Stock, \$1.00 par value, outstanding at March 31, 2007 was **188,126,817**.

---

**Table of Contents**

**MURPHY OIL CORPORATION**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b><u>Part I</u></b> <b><u>Financial Information</u></b>	
Item 1. <b><u>Financial Statements</u></b>	
<b><u>Consolidated Balance Sheets</u></b>	2
<b><u>Consolidated Statements of Income</u></b>	3
<b><u>Consolidated Statements of Comprehensive Income</u></b>	4
<b><u>Consolidated Statements of Cash Flows</u></b>	5
<b><u>Consolidated Statements of Stockholders' Equity</u></b>	6
<b><u>Notes to Consolidated Financial Statements</u></b>	7
Item 2. <b><u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u></b>	16
Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	23
Item 4. <b><u>Controls and Procedures</u></b>	23
<b><u>Part II</u></b> <b><u>Other Information</u></b>	
Item 1. <b><u>Legal Proceedings</u></b>	24
Item 1A. <b><u>Risk Factors</u></b>	24
Item 6. <b><u>Exhibits and Reports on Form 8-K</u></b>	25
<b><u>Signature</u></b>	26

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

Murphy Oil Corporation and Consolidated Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

(Thousands of dollars)

	(Unaudited) March 31, 2007	December 31, 2006*
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 609,680	543,390
Accounts receivable, less allowance for doubtful accounts of \$7,664 in 2007 and of \$10,408 in 2006	1,110,539	995,089
Inventories, at lower of cost or market		
Crude oil and blend stocks	236,335	73,696
Finished products	188,099	224,469
Materials and supplies	137,985	112,912
Prepaid expenses	102,923	136,674
Deferred income taxes	17,823	20,861
<b>Total current assets</b>	<b>2,403,384</b>	<b>2,107,091</b>
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of \$2,994,301 in 2007 and \$2,872,293 in 2006	5,323,403	5,106,282
Goodwill	44,509	44,057
Deferred charges and other assets	305,188	225,731
<b>Total assets</b>	<b>\$ 8,076,484</b>	<b>7,483,161</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$ 4,512	4,466
Notes payable	3,617	2,659
Accounts payable and accrued liabilities	1,460,958	1,240,977
Income taxes payable	74,197	63,003
<b>Total current liabilities</b>	<b>1,543,284</b>	<b>1,311,105</b>
Notes payable	962,175	833,126
Nonrecourse debt of a subsidiary	7,222	7,149
Deferred income taxes	640,647	621,329
Asset retirement obligations	253,818	237,875
Deferred credits and other liabilities	411,295	327,964
Minority interest	23,607	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 188,393,758 shares in 2007 and 187,691,508 shares in 2006	188,394	187,692
Capital in excess of par value	482,896	454,860

Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

Retained earnings	3,427,280	3,349,832
Accumulated other comprehensive income	142,824	131,999
Treasury stock, 266,941 shares of Common Stock in 2007 and 119,308 shares in 2006, at cost	(6,958)	(3,110)
Total stockholders' equity	4,234,436	4,121,273
Total liabilities and stockholders' equity	\$ 8,076,484	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.

The Exhibit Index is on page 27.

**Table of Contents**

Murphy Oil Corporation and Consolidated Subsidiaries

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

(Thousands of dollars, except per share amounts)

	Three Months Ended	
	2007	March 31, 2006*
<b>REVENUES</b>		
Sales and other operating revenues	\$ 3,427,586	2,987,119
Gain (loss) on sale of assets	353	(1,264)
Interest and other income	6,945	5,408
<b>Total revenues</b>	<b>3,434,884</b>	<b>2,991,263</b>
<b>COSTS AND EXPENSES</b>		
Crude oil and product purchases	2,724,384	2,307,496
Operating expenses	296,483	228,867
Exploration expenses, including undeveloped lease amortization	48,336	63,163
Selling and general expenses	52,989	40,375
Depreciation, depletion and amortization	107,987	97,358
Net costs associated with hurricanes		35,722
Accretion of asset retirement obligations	3,462	2,500
Interest expense	15,489	10,563
Interest capitalized	(14,657)	(9,589)
Minority interest	26	
<b>Total costs and expenses</b>	<b>3,234,499</b>	<b>2,776,455</b>
Income before income taxes	200,385	214,808
Income tax expense	89,751	98,825
<b>NET INCOME</b>	<b>\$ 110,634</b>	<b>115,983</b>
<b>INCOME PER COMMON SHARE</b>		
Net Income Basic	\$ 0.59	0.62
Net Income Diluted	\$ 0.58	0.61
Average Common shares outstanding basic	187,147,870	185,713,673
Average Common shares outstanding diluted	189,789,397	188,636,321

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

**Table of Contents**

Murphy Oil Corporation and Consolidated Subsidiaries

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

(Thousands of dollars)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006*</b>
Net income	\$ 110,634	115,983
Other comprehensive income (loss), net of tax		
Cash flow hedges		
Net derivative losses		(11,778)
Reclassification to income		8,547
Total cash flow hedges		(3,231)
Minimum pension liability adjustment		13
Net gain (loss) from foreign currency translation	9,480	(1,318)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 120,114</b>	<b>111,447</b>

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

See Notes to Consolidated Financial Statements, page 7.

**Table of Contents**

Murphy Oil Corporation and Consolidated Subsidiaries

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

(Thousands of dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006*</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 110,634	115,983
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	107,987	97,358
Amortization of deferred major repair costs	5,550	4,271
Expenditures for asset retirements	(2,778)	(1,139)
Dry hole costs	14,447	37,081
Amortization of undeveloped leases	6,375	5,430
Accretion of asset retirement obligations	3,462	2,500
Deferred and noncurrent income tax charges	10,534	1,779
Pretax (gain) loss from disposition of assets	(353)	1,264
Net increase in noncash operating working capital	(32,445)	(79,901)
Other operating activities, net	8,591	5,382
 Net cash provided by operating activities	 232,004	 190,008
<b>INVESTING ACTIVITIES</b>		
Property additions and dry hole costs	(300,276)	(279,474)
Expenditures for major repairs	(33)	(6,218)
Proceeds from sales of assets	16,726	4,732
Other - net	(2,751)	(2,738)
 Net cash required by investing activities	 (286,334)	 (283,698)
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in notes payable	129,957	(11)
Proceeds from exercise of stock options and employee stock purchase plans	12,220	6,743
Excess tax benefits related to exercise of stock options	6,732	3,792
Cash dividends paid	(28,176)	(20,993)
 Net cash provided by (used in) financing activities	 120,733	 (10,469)
 Effect of exchange rate changes on cash and cash equivalents	 (113)	 (269)
 Net increase (decrease) in cash and cash equivalents	 66,290	 (104,428)
Cash and cash equivalents at January 1	543,390	585,333
 Cash and cash equivalents at March 31	 \$ 609,680	 480,905
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES</b>		
Cash income taxes paid	\$ 40,286	126,046
Interest capitalized in excess of amounts paid	(9,564)	(9,353)



Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

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

**Table of Contents**

Murphy Oil Corporation and Consolidated Subsidiaries

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

(Thousands of dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cumulative Preferred Stock</b> par \$100, authorized 400,000 shares, none issued		
<b>Common Stock</b> par \$1.00, authorized 450,000,000 shares, issued 188,393,758 shares at March 31, 2007 and 186,828,618 shares at March 31, 2006		
Balance at beginning of period	\$ 187,692	186,829
Exercise of stock options	669	
Issuance of time-based restricted stock	33	
Balance at end of period	188,394	186,829
<b>Capital in Excess of Par Value</b>		
Balance at beginning of period	454,860	437,963
Exercise of stock options, including income tax benefits	19,082	1,016
Restricted stock transactions and other	3,794	(7,433)
Amortization, forfeitures and other	5,160	5,150
Reclassification from Unamortized Restricted Stock Awards upon adoption of SFAS No. 123R		(16,410)
Balance at end of period	482,896	420,286
<b>Retained Earnings</b>		
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	110,634	115,983
Cash dividends	(28,176)	(20,993)
Balance at end of period	3,427,280	2,898,315
<b>Accumulated Other Comprehensive Income</b>		
Balance at beginning of period as previously reported		131,324
Cumulative effect of operating 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 gain (losses), net of taxes	9,480	(1,318)
Cash flow hedging losses, net of taxes		(3,231)
Minimum pension liability adjustment, net of taxes		13
Balance at end of period	142,824	128,817
<b>Unamortized Restricted Stock Awards</b>		
Balance at beginning of period		(16,410)
Reclassification to Capital in Excess of Par Value upon adoption of SFAS No. 123R		16,410

Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

Balance at end of period

**Treasury Stock**

Balance at beginning of period	(3,110)	(22,990)
Exercise of stock options		10,531
Sale of stock under employee stock purchase plans	213	
Awarded restricted stock, net of forfeitures		7,420
Cancellation of performance-based restricted stock and forfeitures	(4,061)	
<b>Balance at end of period</b>	<b>(6,958)</b>	<b>(5,039)</b>
<b>Total Stockholders Equity</b>	<b>\$ 4,234,436</b>	<b>3,629,208</b>

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, 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 March 31, 2007, and the results of operations and cash flows for the three-month periods ended March 31, 2007 and 2006, 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 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 ended March 31, 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 period ended March 31, 2006 has been restated to reflect the earnings for this period as if FSP AUG AIR-1 had been in effect during that period. The effect for the three-month 2006 period was an increase to net income of \$2.1 million (\$0.01 per diluted share), while the effect for the three-month period in 2007 was an increase to net income of \$1.7 million (\$0.01 per diluted share). 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 period ended March 31, 2006 were affected by this change in accounting principle.

	December 31, 2006		
	As Previously Reported	FSP AUG AIR-1 Adjustment	As Adjusted
<b>(Thousands of dollars)</b>			
<b><u>Consolidated Balance Sheet</u></b>			
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****Note B New Accounting Principles Adopted (Contd.)**

	Three Month Period March 31, 2006 FSP AUG		
	As Previously Reported	AIR-1 Adjustment	As Adjusted
<b>(Thousands of dollars)</b>			
<b>Consolidated Statement of Income</b>			
Operating expenses	\$ 232,164	(3,297)	228,867
Selling and general expenses	40,472	(97)	40,375
Income before income taxes	211,414	3,394	214,808
Income tax expense	97,542	1,283	98,825
Net income	113,872	2,111	115,983
Net income per share:			
Basic	0.61	0.01	0.62
Diluted	0.60	0.01	0.61
<b>Consolidated Statement of Cash Flows</b>			
<b>Operating Activities</b>			
Net income	113,872	2,111	115,983
Provisions for/amortization of major repair costs	7,665	(3,394)	4,271
Expenditures for major repairs and asset retirements	(7,357)	6,218	(1,139)
Deferred and noncurrent income tax charges	496	1,283	1,779
Net cash provided by operating activities	183,790	6,218	190,008
<b>Investing Activities</b>			
Expenditures for major repairs		(6,218)	(6,218)
Net cash required by investing activities	(277,480)	(6,218)	(283,698)
<b>Uncertain Income Tax Positions</b>			

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 three-month period ended March 31, 2007 is as follows:

<b>(Thousands of dollars)</b>	<b>2007</b>
Balance at January 1, 2007	\$ 21,312
Additions for tax positions of prior years	667
Additions for tax positions related to 2007	1,184
Reductions for tax positions of prior years	
Settlements	
Balance at March 31, 2007	\$ 23,163

## Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

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 March 31, 2007 includes interest and penalties of \$5.5 million and \$6.2 million, respectively. Income tax expense for the three-month period ended March 31, 2007 included interest of \$0.7 million associated with uncertain tax positions.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note B New Accounting Principles Adopted (Contd.)**

During the next year, the Company currently expects the liability for uncertain taxes to increase on a quarterly basis by amounts similar to the additions that occurred in the three-month period ended March 31, 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 March 31, 2007, the earliest years remaining open for audit and/or settlement in our major taxing jurisdictions are as follows: United States 2003; Canada 2001; 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:

	Increase
	(Decrease)
<b>(Thousands of dollars)</b>	
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**

The 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 March 31, 2007, the Company had total capitalized exploratory well costs pending the determination of proved reserves of \$321.4 million. The following table reflects the net changes in capitalized exploratory well costs during the three-month periods ended March 31, 2007 and 2006.

<b>(Thousands of dollars)</b>	<b>2007</b>	<b>2006</b>
Beginning balance at January 1	\$ 315,445	275,256
Additions pending the determination of proved reserves	13,110	60,470
Reclassifications to proved properties based on the determination of proved reserves	(7,168)	
Balance at March 31	\$ 321,387	335,726



## Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

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.

<b>(Thousands of dollars)</b>	<b>2007</b>	<b>2006</b>
Exploratory well costs capitalized for one year or less	\$ 101,384	175,008
Capitalized exploratory well costs capitalized for more than one year	220,003	160,718
<b>Balance at March 31</b>	<b>\$ 321,387</b>	<b>335,726</b>
Number of projects that have exploratory well costs that have been capitalized for more than one year	13	12

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

The table that follows provides the components of net periodic benefit expense for the three-month periods ended March 31, 2007 and 2006.

(Thousands of dollars)	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Service cost	\$ 2,684	2,659	537	566
Interest cost	6,004	5,328	1,024	1,006
Expected return on plan assets	(5,346)	(5,031)		
Amortization of prior service cost	346	367	(62)	(69)
Amortization of transitional asset	(113)	(156)		
Recognized actuarial loss	1,389	1,527	373	446
Net periodic benefit expense	\$ 4,964	4,694	1,872	1,949

Murphy previously disclosed in its financial statements for the year ended December 31, 2006, that it expected to contribute \$7.1 million to its defined benefit pension plans and \$4.3 million to its postretirement benefits plan during 2007. During the three-month period ended March 31, 2007, the Company made contributions of \$1.5 million and remaining funding in 2007 for the Company's domestic and foreign defined benefit pension and postretirement plans is anticipated to be \$9.9 million.

**Note E Incentive Plans**

SFAS No. 123R, Share Based Payment, requires that the cost resulting from all share-based payment transactions be recognized as an expense in the financial statements using a fair value-based measurement method over the periods that the awards vest. The Company adopted SFAS No. 123R on January 1, 2006. Prior to 2006, the Company used APB No. 25 to account for stock-based compensation.

The Company's 1992 Stock Incentive Plan (1992 Plan) authorized the Executive Compensation Committee (the Committee) to make annual grants of the Company's Common Stock to executives and other key employees in the form of stock options (nonqualified or incentive), stock appreciation rights (SAR), and/or restricted stock. Annual grants may not exceed 1% of shares outstanding at the end of the preceding year; allowed shares not granted may be granted in future years. In addition, the Stock Plan for Non-Employee Directors (2003 Director Plan) permits the issuance of restricted stock and stock options or a combination thereof to the Company's Directors.

Cash received from options exercised under all share-based payment arrangements for the three-month periods ended March 31, 2007 and 2006 was \$12.2 million and \$6.7 million, respectively. The actual income tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements totaled \$7.7 million and \$4.4 million for the three-month periods ended March 31, 2007 and 2006, respectively.

In February 2007, the Committee granted 895,500 shares of stock options at an exercise price of \$51.07 per share. The Black-Scholes valuation for these awards was \$15.02 per share. The Committee also issued 299,000 shares of performance-based restricted stock in February 2007 under the 2007 Long-Term Incentive Plan (2007 Plan) that is subject to shareholder approval at the Company's 2007 Annual Meeting to be held on May 9. For accounting purposes the shares will be considered granted and outstanding if the 2007 Plan is approved by shareholders. If the Plan is approved, the fair value of these shares will be determined at May 9, 2007. Also in February the Committee granted 32,750 shares of time-lapse restricted stock to the Company's Directors under the 2003 Director Plan. These shares vest on the third anniversary of the date of grant. The fair value of these awards was estimated based on the fair market value of the Company's stock on the date of grant, which was \$50.95 per share.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)****Note F Earnings per Share**

Net income was used as the numerator in computing both basic and diluted income per Common share for the three months ended March 31, 2007 and 2006. The following table reconciles the weighted-average shares outstanding used for these computations.

(Weighted-average shares)	Three Months Ended	
	March 31	
	2007	2006
Basic method	187,147,870	185,713,673
Dilutive stock options	2,641,527	2,922,648
Diluted method	189,789,397	188,636,321

Certain options to purchase shares of common stock were outstanding during the 2007 and 2006 periods but were not included in the computation of diluted EPS because the incremental shares from assumed conversion were antidilutive. These included 1,557,125 shares at a weighted average share price of \$53.72 in 2007 and 1,525,625 shares at a weighted average share price of \$49.91 in 2006.

**Note G Financial Instruments and Risk Management**

Murphy periodically utilizes derivative instruments to manage certain risks related to interest rates, commodity prices, and foreign currency exchange rates. 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. The Company has a risk management control system to monitor commodity price risks and any derivatives obtained to manage a portion of such risks.

*Crude Oil Purchase Price Risks* The Company purchases crude oil as feedstock at its U.S. and U.K. refineries and is therefore subject to commodity price risk. A short-term derivative instrument was outstanding at March 31, 2007 to manage the purchase price of about 1 million barrels of crude oil at the Company's Meraux, Louisiana refinery. The total impact of marking this contract to market was a charge of \$3.2 million in the three-month period ended March 31, 2007.

*Natural Gas Fuel Price Risks* The Company purchases natural gas as fuel at its Meraux, Louisiana and Superior, Wisconsin refineries, and as such, is subject to commodity price risk related to the purchase price of this gas. Murphy hedged the cash flow risk associated with the cost of a portion of the natural gas it purchased at Meraux in 2006 by entering into financial contracts known as natural gas swaps covering notional volumes of 2,000 MMBTU (million British Thermal Units) per day in 2006. Under the natural gas swaps, the Company paid a fixed rate averaging \$3.35 per MMBTU and received a floating rate in each month of settlement based on the average NYMEX price for the final three trading days of the month. The fair value of the effective portions of the natural gas swaps and changes thereto is deferred in AOCI and is subsequently reclassified into Crude Oil and Product Purchases in the income statements in the periods in which the hedged natural gas fuel purchases affect earnings. During the three-month period ended March 31, 2006, the Company received approximately \$1.0 million for maturing swap agreements. For the three-month period ended March 31, 2006, the income effect from cash flow hedging ineffectiveness for these contracts was insignificant.

*Crude Oil Sales Price Risks* The sales price of crude oil produced by the Company is subject to commodity price risk. Murphy hedged the cash flow risk associated with the sales price for a portion of its Canadian heavy oil production during 2006 by entering into forward sale contracts covering a notional volume of approximately 4,000 barrels per day in 2006. The Company paid the average of the posted price for blended heavy oil at the Hardisty terminal in Canada for each month and received at that location a fixed price of \$25.23 per barrel in

## Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

2006. The fair values of the effective portions of the crude oil hedges and changes thereto are deferred in AOCI and are subsequently reclassified into Sales and Other Operating Revenues in the income statement in the periods in which the hedged crude oil sales affect earnings. During the three-month period ended March 31, 2006, cash flow hedging ineffectiveness relating to the crude oil sales contracts was insignificant. During the three-month period ended March 31, 2006, the Company paid approximately \$12.9 million for settlement of maturing forward sale contracts. The fair value of the crude oil sales contracts are based on the average fixed price of the instruments and the published NYMEX index futures price or crude oil price quotes from counterparties.

*11*

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)****Note H Accumulated Other Comprehensive Income**

The components of Accumulated Other Comprehensive Income (AOCI) on the Consolidated Balance Sheets at March 31, 2007 and December 31, 2006 are presented in the following table.

(Thousands of dollars)	March 31, 2007	Dec. 31, 2006
Foreign currency translation gains, net of tax	\$ 234,331	224,894
Pension liability adjustments, net of tax	(91,507)	(92,895)
<b>Accumulated other comprehensive income</b>	<b>\$ 142,824</b>	<b>131,999</b>

The effect of SFAS Nos. 133/138, Accounting for Derivative Investments and Hedging Activities, decreased AOCI for the three months ended March 31, 2006 by \$3.2 million, net of \$1.9 million in income taxes, and hedging ineffectiveness was not significant.

**Note I Hurricane and Insurance Related Matters**

In the three-month period ended March 31, 2006, the Company recorded pretax expenses, net of anticipated insurance recoveries, of \$35.7 million associated with hurricanes that occurred in the United States in 2005, including \$34.8 million at the Meraux refinery. The components of these refinery costs included \$13.0 million for repair costs not expected to be recovered due to certain coverage limits for the Company's insurance policies, \$4.4 million for incremental insurance costs, \$3.4 million for other uninsured incremental expenses incurred, and \$14.0 million for depreciation and salaries for the temporarily idled refinery. The costs are reported in Net Costs Associated with Hurricanes in the Consolidated Statements of Income. See Note J for additional information regarding environmental and other contingencies relating to Hurricane Katrina. Total amounts receivable from insurers for hurricane-related matters was \$248.3 million at March 31, 2007, including \$173.3 million related to oil spill payments and \$75.0 million related to property damage incurred as a result of Hurricane Katrina. Approximately \$43 million of the amounts receivable from insurers was not anticipated to be collected in the next twelve months, and has therefore, been classified as a noncurrent asset.

The Company maintains insurance coverage related to losses of production and profits for occurrences such as storms, fires and other issues. During the three months ended March 31, 2006, the Company received insurance proceeds of \$15.7 million related to loss of production in the Gulf of Mexico associated with Hurricane Katrina in 2005. This amount was recorded in Sales and Other Operating Revenues in the 2006 Consolidated Statement of Income.

**Note J Environmental and Other Contingencies**

The Company's operations and earnings have been and may be affected by various forms of governmental action both in the United States and throughout the world. 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; currency controls; allocation of supplies of crude oil and petroleum products and other goods; expropriation of property; restrictions and preferences affecting the issuance of oil and gas or mineral leases; restrictions on drilling and/or production; 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 and 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.

In addition to being subject to numerous laws and regulations intended to protect the environment and/or impose remedial obligations, the Company is also involved in personal injury and property damage claims, allegedly caused by exposure to or by the release or disposal of materials manufactured or used in the Company's operations. The Company operates or has previously operated certain sites and facilities, including three refineries, five terminals, and approximately 70 service stations for which known or potential obligations for environmental remediation exist. In addition the Company operates or has operated numerous oil and gas fields that may require some form of remediation, which is generally provided for by the Company's asset retirement obligation.



---

**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)***

**Note J Environmental and Other Contingencies (Contd.)**

The Company's liability for remedial obligations includes certain amounts that are based on anticipated regulatory approval for proposed remediation of former refinery waste sites. Although regulatory authorities may require more costly alternatives than the proposed processes, the cost of such potential alternative processes is not expected to exceed the accrued liability by a material amount.

The U.S. Environmental Protection Agency (EPA) currently considers the Company a Potentially Responsible Party (PRP) at two Superfund sites. The potential total cost to all parties to perform necessary remedial work at these sites may be substantial. Based on currently available information, the Company believes that it is a de minimis party as to ultimate responsibility at both Superfund sites. The Company has not recorded a liability for remedial costs on Superfund sites. 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 the two sites or other Superfund sites. The Company believes that its share of the ultimate costs to clean-up the two Superfund sites will be immaterial and will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

There is the possibility that environmental expenditures could be required at currently unidentified sites, and new or revised regulations could require additional expenditures at known sites. However, based on information currently available to the Company, the amount of future remediation costs incurred at known or currently unidentified sites is not expected to have a material adverse effect on the Company's future net income, cash flows or liquidity.

On September 9, 2005, a class action lawsuit was filed in federal court in the Eastern District of Louisiana seeking unspecified damages to the class comprised of residents of St. Bernard Parish caused by a release of crude oil at Murphy Oil USA, Inc.'s (a wholly-owned subsidiary of Murphy Oil Corporation) Meraux, Louisiana, refinery as a result of flood damage to a crude oil storage tank following Hurricane Katrina. Additional class action lawsuits were consolidated with the first suit into a single action in the U.S. District Court for the Eastern District of Louisiana. In September 2006, the Company reached a settlement with class counsel and on October 10, 2006, the court granted preliminary approval of a class action Settlement Agreement. A Fairness Hearing was held January 4, 2007 and the court entered its ruling on January 30, 2007 approving the class settlement. The majority of the settlement of \$330 million will be paid by insurance. The Company recorded an expense of \$18 million in the second half of 2006 related to settlement costs not expected to be covered by insurance. As part of the settlement, all properties in the class area will receive a fair and equitable cash payment and will have residual oil removed. As part of the settlement, the Company will offer to purchase all properties in an agreed area adjacent to the west side of the Meraux refinery; these property purchases and associated remediation will be paid by the Company and are expected to total \$55 million. Approximately 75 non-class action suits regarding the oil spill have been filed and remain pending; however, as part of its October 10, 2006 order, the court stayed these actions pending the settlement proceedings and further orders of the court. The Company believes that insurance coverage exists and it does not expect to incur significant costs associated with this litigation. Accordingly, the Company believes the ultimate resolution of the remaining litigation will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

On June 10, 2003, a fire severely damaged the Residual Oil Supercritical Extraction (ROSE) unit at the Company's Meraux, Louisiana refinery. The ROSE unit recovers feedstock from the heavy fuel oil stream for conversion into gasoline and diesel. Subsequent to the fire, numerous class action lawsuits have been filed seeking damages for area residents. All the lawsuits have been administratively consolidated into a single legal action in St. Bernard Parish, Louisiana, except for one such action which was filed in federal court. Additionally, individual residents of Orleans Parish, Louisiana, have filed an action in that venue. On May 5, 2004, plaintiffs in the consolidated action in St. Bernard Parish amended their petition to include a direct action against certain of the Company's liability insurers. The St. Bernard Parish action has since been removed to federal court where a class certification hearing is scheduled for August 28, 2007. In responding to this direct action, one of the Company's insurers, AEGIS, has raised lack of coverage as a defense. The Company believes that this contention lacks merit and has been advised by counsel that the applicable policy does provide coverage for the underlying incident. Because the Company believes that insurance coverage exists for this matter, it does not expect to incur any significant costs associated with the class action lawsuits. Accordingly, the Company continues to believe that the ultimate resolution of the June 2003 ROSE fire litigation will not have a material adverse effect on its net income, financial condition or liquidity in a future period.



---

**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)***

**Note J Environmental and Other Contingencies (Contd.)**

Murphy and its subsidiaries are engaged in a number of other legal proceedings, all of which Murphy considers routine and incidental to its business. Based on information currently available to the Company, the ultimate resolution of environmental and legal matters referred to in this note is not expected to have a material adverse effect on the Company's net income, financial condition or liquidity in a future period.

In the normal course of its business, the Company is required under certain contracts with various governmental authorities and others to provide financial guarantees or letters of credit that may be drawn upon if the Company fails to perform under those contracts. At March 31, 2007, the Company had contingent liabilities of \$8.5 million under a financial guarantee and \$103.1 million on outstanding letters of credit. The Company has not accrued a liability in its balance sheet related to these letters of credit because it is believed that the likelihood of having these drawn is remote.

**Note K Accounting Matters**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This pronouncement permits companies with eligible financial assets and financial liabilities to measure these items at fair value in the financial statements. This option to measure at fair value is both instrument specific and irrevocable. If the fair value option is elected, certain additional disclosures are required. This pronouncement is effective in fiscal years beginning after November 15, 2007, but early adoption at the beginning of an earlier fiscal year is permitted as long as adoption occurs before any interim financial statements have been issued for the earlier fiscal year. If the fair value option is elected, financial statements for periods prior to the adoption may not be restated. The Company is in the early stages of considering SFAS No. 159, and the Company is unable to predict at this time whether the fair value option will be elected, and if so, how this decision would effect its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, and where applicable simplifies and codifies related guidance within GAAP and does not require any new fair value measurements. The Statement is effective for fiscal years beginning January 1, 2008. Provisions of the Statement are to be applied prospectively except in limited situations. The Company does not expect the initial adoption of this Statement to have a material impact on its financial statements.

In October 2004, the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the Act) became law. The FASB issued FSP 109-1 in December 2004 to provide guidance on the application of SFAS No. 109, Accounting for Income Taxes, to the provision within the Act that provides a tax deduction on qualified production activities. The tax deduction phased in at 3% beginning in 2005, increased to 6% in 2007 and increases again to 9% in 2010. FSP 109-1 concluded that the tax benefits for the deduction should be recognized as realized. This FSP was effective upon issuance and the Company applied it in computing U.S. income tax beginning in 2005. The Company recorded tax benefits of approximately \$0.2 million and \$0.3 million in the three-month periods ended March 31, 2007 and 2006, respectively, related to the Act.

**Note L Commitments**

In the first quarter 2007, the Company entered into a contract for a drilling rig and associated equipment for periods beyond March 31, 2007. The rig is to be utilized for drilling operations in Malaysia. The commitment, which expires in 2010, totals \$115.0 million. A portion of these costs will be borne by other working interest owners when the wells are drilled. These drilling costs are expected to be accounted for as capital expenditures as incurred during the contract periods.

**Table of Contents****Note M Business Segments**

(Millions of dollars)	Total Assets at March 31, 2007	Three Mos. Ended March External Revenues	Three Mos. Ended March 31, 2007 Interseg. Revenues	Income (Loss)	Three Mos. Ended March 31, 2006 <sup>1</sup> External Revenues	Interseg. Revenues	Income (Loss)
Exploration and production <sup>2</sup>							
United States	\$ 942.6	93.9		10.7	197.9		86.4
Canada	1,777.7	179.4	23.1	65.5	177.8	15.1	68.3
United Kingdom	181.7	37.5		12.1	52.8		24.2
Malaysia	1,571.4	44.1		9.8	54.0		(16.9)
Ecuador	141.1	25.4		4.1	26.4		7.7
Other	185.3	1.1		(13.4)	1.2		(7.8)
Total	4,799.8	381.4	23.1	88.8	510.1	15.1	161.9
Refining and marketing							
North America	2,167.0	2,820.5		34.5	2,261.7		(35.6)
United Kingdom	399.0	226.1		1.2	215.3		
Total	2,566.0	3,046.6		35.7	2,477.0		(35.6)
Total operating segments	7,365.8	3,428.0	23.1	124.5	2,987.1	15.1	126.3
Corporate and other	710.7	6.9		(13.9)	4.2		(10.3)
Total	\$ 8,076.5	3,434.9	23.1	110.6	2,991.3	15.1	116.0

<sup>1</sup> Results for 2006 have been adjusted to reflect the adoption of FSP AUG AIR-1, Accounting for Planned Major Maintenance Activities.

<sup>2</sup> Additional details about results of oil and gas operations are presented in the tables on page 19.

**Note N Subsequent Event**

On April 30, 2007, the Company entered into an agreement with Wal-Mart Stores, Inc. to purchase parcels of property currently leased from Wal-Mart for its Murphy USA retail gasoline stations. The purchases will occur during 2007 and 2008 with expected capital expenditures of approximately \$315 million. In conjunction with this agreement, the Company plans to close up to 47 existing stations and will incur after-tax impairment and restoration charges of approximately \$18 million in the second quarter 2007.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION****Results of Operations**

Murphy's net income in the first quarter of 2007 was \$110.6 million, \$.58 per diluted share, down slightly from adjusted net income of \$116.0 million, \$.61 per diluted share, in same quarter of 2006. In 2007, substantially higher income from the Company's refining and marketing business was offset by lower income in the exploration and production operations. Murphy's net income by operating segment is presented below.

(Millions of dollars)	Income (Loss)	
	Three Months Ended	
	March 31,	
	2007	2006
Exploration and production	\$ 88.8	161.9
Refining and marketing	35.7	(35.6)
Corporate	(13.9)	(10.3)
Net income	\$ 110.6	116.0

Murphy's income from exploration and production operations was \$88.8 million in the first quarter of 2007 compared to \$161.9 million in the same quarter of 2006. Lower production volumes and lower realized sales prices for crude oil and natural gas were the primary reasons for reduced earnings in the 2007 period. In addition, the 2006 period included a pretax benefit of \$15.7 million for insurance proceeds related to Gulf of Mexico production lost in the fourth quarter 2005 following Hurricane Katrina. Exploration expense in the 2007 period was \$48.4 million, down from \$63.2 million in 2006. Dry hole expense was lower by \$22.7 million in the 2007 period mostly in deepwater Malaysia. Geological and geophysical expense increased \$6.1 million in 2007 compared to 2006 due to greater activity in the Republic of Congo. Murphy's refining and marketing operations generated income of \$35.7 million in the 2007 quarter compared to a loss of \$35.6 million in the 2006 quarter. Earnings improved in North America mostly due to favorable results at the Meraux refinery, which was operational during the 2007 quarter, while in the 2006 quarter, the refinery was shut-down and incurred significant repairs costs as a result of Hurricane Katrina. Corporate functions reflected a loss of \$13.9 million in the 2007 first quarter compared to a loss of \$10.3 million in 2006.

**Exploration and Production**

Results of exploration and production operations are presented by geographic segment below.

(Millions of dollars)	Income (Loss)	
	Three Months Ended	
	March 31,	
	2007	2006
Exploration and production		
United States	\$ 10.7	86.4
Canada	65.5	68.3
United Kingdom	12.1	24.2
Malaysia	9.8	(16.9)
Ecuador	4.1	7.7
Other International	(13.4)	(7.8)
Total	\$ 88.8	161.9

Exploration and production operations in the United States reported quarterly earnings of \$10.7 million in the first quarter of 2007 compared to \$86.4 million in the 2006 quarter. This decrease was primarily due to lower oil and natural gas sales volumes and lower oil and natural gas sales

## Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

prices in the 2007 quarter, higher production and dry hole expenses in the 2007 quarter, and insurance proceeds of \$15.7 million in the 2006 quarter related to Gulf of Mexico production lost in the fourth quarter 2005 after Hurricane Katrina. Oil production was lower at the Medusa and Front Runner fields in the deepwater Gulf of Mexico, while natural gas sales volumes were lower at Medusa and in Vermilion Parish, Louisiana. Production expense increased due to higher workover, maintenance and insurance expenses, while depreciation expense was lower in association with the reduction in crude oil and natural gas sales volumes. Exploration expense increased \$14.8 million primarily due to higher dry hole costs in the Gulf of Mexico and onshore U.S.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)**

**Results of Operations (Contd.)**

**Exploration and Production** (Contd.)

Earnings from operations in Canada were \$65.5 million in the 2007 quarter versus \$68.3 million in the 2006 quarter. Canadian operations realized lower crude oil and natural gas sales prices and slightly lower overall oil and natural gas sales volumes in the current period. Depreciation expense increased in the most recent period compared to the 2006 period due to higher heavy oil development costs and start up of a new coker unit at Syncrude in mid-2006. Exploration expenses in Canada were \$4.3 million higher in 2007 due to more unsuccessful drilling and geophysical costs in western Canada.

U.K. operations earned \$12.1 million in the 2007 period versus \$24.2 million in the same quarter a year ago due to a combination of lower oil and natural gas sales volumes, lower oil and natural gas sales prices and a 10% higher income tax rate in 2007. The higher tax rate became effective in July 2006 retroactive to the beginning of 2006.

Malaysia reported a profit of \$9.8 million in the first quarter of 2007 compared to a loss of \$16.9 million in the same period in 2006. The current period's results were favorable to 2006 due to significantly lower exploration expenses, primarily related to no dry hole costs in the 2007 quarter while the 2006 period included dry hole costs of \$29.9 million, mostly in deepwater Sabah. Certain exploration expenses in Malaysia do not receive income tax benefits at the present time. The 2007 quarter had lower oil sales volumes and slightly lower oil sales prices, but also had lower associated production and depreciation expenses.

Operations in Ecuador earned \$4.1 million in 2007 compared to \$7.7 million a year ago. The weaker earnings in 2007 were primarily due to lower oil sales prices mostly due to the 2007 impact of revenue sharing with the Ecuadorian government that became effective in the second quarter of 2006, partially offset by higher sales volumes. Production expense increased in 2007 in association with higher sales volumes and higher field expenses, while depreciation expense increased due to higher sales volumes and higher unit rates. But these higher expenses in 2007 were partially offset by lower exploration expense in the current period.

Other international operations reported a loss of \$13.4 million in the 2007 period versus a loss of \$7.8 million in the same period a year ago. The higher loss in the 2007 period was primarily due to more geophysical expense in the Republic of Congo and more administrative expense in various areas, partially offset by less dry hole expense in the Republic of Congo compared to the 2006 period.

On a worldwide basis, the Company's crude oil and condensate sales price averaged \$47.86 per barrel for the 2007 first quarter compared to \$49.11 per barrel in the first quarter of 2006. Average crude oil and liquids production was 84,555 barrels per day in the 2007 quarter, down from 98,074 barrels per day in the 2006 period. Average oil sales volumes decreased from 100,809 barrels per day in 2006 to 84,468 barrels per day in 2007. The decrease in crude oil production volumes was mostly attributable to lower production at the Medusa and Front Runner fields in the deepwater Gulf of Mexico. Heavy oil production in western Canada was lower in the 2007 first quarter compared to the 2006 period due to lower volumes produced from nonoperated fields in the Seal area of Alberta. Synthetic oil production at Syncrude in northern Alberta was higher in 2007 than 2006 due to start-up of a third coker unit in mid-2006. Production in the U.K. was down in 2007 due to lower volumes produced at the Mungo/Monan and Schiehallion fields. North American natural gas sales prices averaged \$7.28 per thousand cubic feet (MCF) in the 2007 first quarter compared to \$9.38 per MCF in the same quarter of 2006. Total natural gas sales volumes averaged 61 million cubic feet per day in 2007, down from 84 million cubic feet per day in the same period last year. The decrease in 2007 was primarily attributable to lower production at the Medusa field and onshore in Vermilion Parish, Louisiana.

Additional details about results of oil and gas operations are presented in the tables on page 19.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)****Results of Operations (Contd.)**Exploration and Production (Contd.)

Selected operating statistics for the three-month periods ended March 31, 2007 and 2006 follow.

	Three Months Ended	
	March 31, 2007	2006
Net crude oil, condensate and gas liquids produced    barrels per day	84,555	98,074
United States	14,096	26,499
Canada    light	527	413
heavy	12,913	15,181
offshore	18,477	18,481
synthetic	12,725	10,137
United Kingdom	6,315	8,098
Malaysia	10,405	10,942
Ecuador	9,097	8,323
Net crude oil, condensate and gas liquids sold    barrels per day	84,468	100,809
United States	14,096	26,499
Canada    light	527	413
heavy	12,913	15,181
offshore	18,580	19,566
synthetic	12,725	10,137
United Kingdom	6,489	7,801
Malaysia	9,912	13,594
Ecuador	9,226	7,618
Net natural gas sold    thousands of cubic feet per day	61,119	83,590
United States	43,321	59,577
Canada	9,457	10,101
United Kingdom	8,341	13,912
Total net hydrocarbons produced    equivalent barrels per day (1)	94,742	112,006
Total net hydrocarbons sold    equivalent barrels per day (1)	94,655	114,741
<b>Weighted average sales prices</b>		
Crude oil and condensate    dollars per barrel (2)		
United States	\$ 50.52	54.09
Canada (3)    light	49.25	55.72
heavy (4)	32.32	17.67
offshore	54.62	59.64
synthetic	58.46	60.03
United Kingdom	55.84	60.86
Malaysia (5)	49.25	50.39
Ecuador (6)	30.43	38.50
Natural gas    dollars per thousand cubic feet		
United States (2)	\$ 7.35	9.53
Canada (3)	6.96	8.52

United Kingdom (3)	6.89	7.92
--------------------	------	------

---

(1) Natural gas converted on an energy equivalent basis of 6:1  
(2) Includes intracompany transfers at market prices.  
(3) U.S. dollar equivalent.  
(4) Includes the effects of the Company's hedging program in 2006.  
(5) Price is net of a payment under the terms of the production sharing contract for Block SK 309.  
(6) The three-month price in 2007 is adversely affected by revenue sharing with the Ecuadorian government that became effective in April 2006.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)****Results of Operations (Contd.)****OIL AND GAS OPERATING RESULTS (unaudited)**

(Millions of dollars)	United States	Canada	United Kingdom	Malaysia	Ecuador	Other	Synthetic	
							Oil Canada	Total
<b>Three Months Ended March 31, 2007</b>								
Oil and gas sales and other operating revenues	\$ 93.9	135.5	37.5	44.1	25.4	1.1	67.0	404.5
Production expenses	26.2	20.2	5.9	7.1	9.1		31.5	100.0
Depreciation, depletion and amortization	16.7	35.4	5.8	8.3	8.5	.1	5.8	80.6
Accretion of asset retirement obligations	.8	1.0	.5	.7		.2	.2	3.4
Exploration expenses								
Dry holes	13.2	1.0			.2			14.4
Geological and geophysical	9.8	2.8		4.8		7.4		24.8
Other	.5	.1	.1			2.1		2.8
	23.5	3.9	.1	4.8	.2	9.5		42.0
Undeveloped lease amortization	4.5	1.5				.4		6.4
Total exploration expenses	28.0	5.4	.1	4.8	.2	9.9		48.4
Selling and general expenses	5.5	4.1	1.0	3.8	.2	4.0	.2	18.8
Results of operations before taxes	16.7	69.4	24.2	19.4	7.4	(13.1)	29.3	153.3
Income tax provisions	6.0	23.5	12.1	9.6	3.3	.3	9.7	64.5
Results of operations (excluding corporate overhead and interest)	\$ 10.7	45.9	12.1	9.8	4.1	(13.4)	19.6	88.8
<b>Three Months Ended March 31, 2006*</b>								
Oil and gas sales and other operating revenues	\$ 197.9	138.1	52.8	54.0	26.4	1.2	54.8	525.2
Production expenses	15.6	19.8	4.5	8.3	6.6		30.2	85.0
Depreciation, depletion and amortization	23.4	29.4	6.7	12.7	5.5	.1	3.5	81.3
Accretion of asset retirement obligations	.7	1.0	.4	.1		.2	.1	2.5
Exploration expenses								
Dry holes	2.6			29.9	1.1	3.5		37.1
Geological and geophysical	11.7	.1		6.3		.6		18.7
Other	.5	.1		.2		1.2		2.0
	14.8	.2		36.4	1.1	5.3		57.8
Undeveloped lease amortization	4.1	.9				.4		5.4
Total exploration expenses	18.9	1.1		36.4	1.1	5.7		63.2
Net costs associated with hurricanes	.5							.5
Selling and general expenses	5.5	2.5	.9	2.6	.2	2.8	.2	14.7



Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

Results of operations before taxes	133.3	84.3	40.3	(6.1)	13.0	(7.6)	20.8	278.0
Income tax provisions	46.9	29.8	16.1	10.8	5.3	.2	7.0	116.1
Results of operations (excluding corporate overhead and interest)	\$ 86.4	54.5	24.2	(16.9)	7.7	(7.8)	13.8	161.9

---

\* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note B to the financial statements.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)****Results of Operations (Contd.)****Refining and Marketing**

Refining and marketing operations in North America reported income of \$34.5 million in the 2007 period compared to a loss of \$35.6 million during the first quarter of 2006. The improvement in 2007 earnings was mostly due to the Meraux, Louisiana refinery operating throughout the latest period, while during the 2006 period, this refinery was shut down for repairs after Hurricane Katrina. The overall loss in 2006 in North America was primarily caused by foregone refining margins, coupled with expenses for ongoing costs and \$13.0 million of unrecoverable Hurricane Katrina-related repairs at the Meraux refinery. The Company's Superior, Wisconsin refinery ran well during the first quarter of each year, but had improved margins in 2007 compared to the 2006 period. Margins for North American retail marketing operations in 2007 were slightly improved compared to the 2006 period, but were hurt by generally rising wholesale prices. Refining and marketing operations in the United Kingdom generated income of \$1.2 million in the first quarter of 2007, compared to break-even results in the same quarter of 2006.

Worldwide refinery inputs were 179,928 barrels per day in the first quarter of 2007 compared to 64,059 barrels per day in the 2006 quarter; refinery inputs were significantly higher in 2007 primarily due to the Company's Meraux refinery being operational in 2007, while it was shut down for the entire 2006 quarter. Petroleum product sales were 422,001 barrels per day, up from 336,378 barrels per day a year ago, with 2007 affected by a higher number of operating retail stations and the Meraux refinery being operational in the current period, but down for repairs in the 2006 period. The Company operated 97 more gasoline stations, primarily at Wal-Mart stores, in the United States at March 31, 2007 compared to one year earlier.

Selected operating statistics for the three-month periods ended March 31, 2007 and 2006 follow.

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Refinery inputs barrels per day	179,928	64,059
North America	150,166	33,443
United Kingdom	29,762	30,616
Petroleum products sold barrels per day	422,001	336,378
North America	387,430	304,389
Gasoline	274,719	246,794
Kerosine	3,425	4,243
Diesel and home heating oils	88,235	47,189
Residuals	15,355	2,691
Asphalt, LPG and other	5,696	3,472
United Kingdom	34,571	31,989
Gasoline	12,165	11,832
Kerosine	3,154	3,301
Diesel and home heating oils	12,401	9,557
Residuals	3,069	3,135
LPG and other	3,782	4,164

**Corporate**

Corporate activities, which include interest income and expense, foreign exchange effects, and corporate overhead not allocated to operating functions, reported a loss of \$13.9 million in the 2007 first quarter compared to a loss of \$10.3 million in the first quarter of 2006. Higher net cost in the 2007 period was mostly due to higher various administrative costs and less income tax benefits, essentially caused by a larger portion of interest expense incurred in foreign jurisdictions where no tax benefit is presently recognized by the Company. The Company capitalized most of its interest expense to oil and natural gas development projects in the first quarter of both years.



**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)****Financial Condition**

Net cash provided by operating activities was \$232.0 million for the first three months of 2007 compared to \$190.0 million during the same period in 2006. Changes in operating working capital other than cash and cash equivalents used cash of \$32.4 million in the first quarter of 2007 and \$79.9 million in the 2006 period. The use of cash in the 2006 period was mostly attributable to higher accounts receivable from insurance companies related to hurricane-related repairs and clean up at the Meraux refinery.

Other predominant uses of cash in both years were for dividends, which totaled \$28.2 million in 2007 and \$21.0 million in 2006, and for property additions and dry holes, which, including amounts expensed, were \$300.3 million and \$279.5 million in the three month periods ended March 31, 2007 and 2006, respectively. Total capital expenditures were as follows:

(Millions of dollars)	Three Months Ended	
	March 31,	
	2007	2006
Capital expenditures		
Exploration and production	\$ 321.7	267.8
Refining and marketing	37.8	30.6
Corporate and other	1.4	1.8
<b>Total capital expenditures</b>	<b>\$ 360.9</b>	<b>300.2</b>

Working capital (total current assets less total current liabilities) at March 31, 2007 was \$860.1 million, up \$64.1 million from December 31, 2006. This level of working capital does not fully reflect the Company's liquidity position, because the lower historical costs assigned to inventories under last-in first-out accounting were \$418.3 million below fair value at March 31, 2007.

At March 31, 2007, long-term notes payable of \$962.2 million and long-term nonrecourse debt of a subsidiary of \$7.2 million had increased by \$129.1 million in total compared to December 31, 2006. A summary of capital employed at March 31, 2007 and December 31, 2006 follows.

(Millions of dollars)	March 31, 2007		Dec. 31, 2006	
	Amount	%	Amount	%
Capital employed				
Notes payable	\$ 962.2	18.5	\$ 833.1	16.8
Nonrecourse debt of a subsidiary	7.2	0.1	7.2	0.1
Stockholders' equity	4,234.4	81.4	4,121.3	83.1
<b>Total capital employed</b>	<b>\$ 5,203.8</b>	<b>100.0</b>	<b>\$ 4,961.6</b>	<b>100.0</b>

The Company's ratio of earnings to fixed charges was 10.7 to 1 for the three-month period ended March 31, 2007.

**Accounting and Other Matters**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This pronouncement permits companies with eligible financial assets and financial liabilities to measure these items at fair value in the financial statements. This option to measure at fair value is both instrument specific and irrevocable. If the fair value option is elected, certain additional disclosures are required. This pronouncement is effective in fiscal years beginning after November 15, 2007, but early adoption at the beginning of an earlier fiscal year is permitted as long as adoption occurs before any interim financial statements have been issued for the earlier fiscal year. If the fair

## Edgar Filing: MURPHY OIL CORP /DE - Form 10-Q

value option is elected, financial statements for periods prior to the adoption may not be restated. The Company is in the early stages of considering SFAS No. 159, and the Company is unable to predict at this time whether the fair value option will be elected, and if so, how this decision would effect its consolidated financial statements.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)**

**Accounting and Other Matters (Contd.)**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, and where applicable simplifies and codifies related guidance within GAAP and does not require any new fair value measurements. The Statement is effective for fiscal years beginning January 1, 2008. Provisions of the Statement are to be applied prospectively except in limited situations. The Company does not expect the initial adoption of this Statement to have a material impact on its financial statements.

In October 2004, the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the Act) became law. The FASB issued FSP 109-1 in December 2004 to provide guidance on the application of SFAS No. 109, Accounting for Income Taxes, to the provision within the Act that provides a tax deduction on qualified production activities. The tax deduction phased in at 3% beginning in 2005, increased to 6% in 2007 and increases again to 9% in 2010. FSP 109-1 concluded that the tax benefits for the deduction should be recognized as realized. This FSP was effective upon issuance and the Company applied it in computing U.S. income tax beginning in 2005. The Company recorded tax benefits of approximately \$0.2 million and \$0.3 million in the three-month periods ended March 31, 2007 and 2006, respectively, related to the Act.

Murphy holds a 20% interest in Block 16 Ecuador, where the Company and its partners produce oil for export. In 2001, the local tax authorities announced that Value Added Taxes (VAT) paid on goods and services related to Block 16 and many oil fields held by other companies will no longer be reimbursed. In response to this announcement, the operator of Block 16 filed numerous actions in the Ecuador Tax Court seeking determination that the VAT in question is reimbursable. In July 2004, international arbitrators ruled that VAT was recoverable by another oil company, but the State of Ecuador responded that it was not bound by this arbitral decision. As of March 31, 2007, the Company has a receivable of approximately \$9.9 million related to VAT. In early 2007, Ecuadorian authorities settled this issue with the Company by agreeing to assign a portion of the government's future oil volumes to the Block 16 partners. The settlement had no material impact on the Company's financial position or net income.

**Outlook**

The Kikeh field development project offshore Sabah Malaysia continues on pace with a target production start-up during the third quarter 2007. Average crude oil prices in April 2007 were higher than during the first quarter 2007, and the Company expects its oil and natural gas production to average about 88,000 barrels of oil equivalent per day in the quarter. U.S. refining margins have been particularly strong during April 2007 due to tight refining capacity, lower product inventories and strong fuel demand. The effect of higher wholesale fuel prices have resulted in tight retail fuel margins in the U.S. early in the second quarter. The Company currently anticipates total capital expenditures for the full year 2007 to be approximately \$2.2 billion, including Wal-Mart site purchases addressed in Note N of the consolidated financial statements.

**Table of Contents**

***ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)***

**Forward-Looking Statements**

This Form 10-Q report contains statements of the Company's expectations, intentions, plans and beliefs that are forward-looking and are dependent on certain events, risks and uncertainties that may be outside of the Company's control. These forward-looking statements are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results and developments could differ materially from those expressed or implied by such statements due to a number of factors including those described in the context of such forward-looking statements as well as those contained in the Company's January 15, 1997 Form 8-K report on file with the U.S. Securities and Exchange Commission.

***ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

The Company is exposed to market risks associated with interest rates, prices of crude oil, natural gas and petroleum products, and foreign currency exchange rates. As described in Note G to this Form 10-Q report, Murphy periodically makes use of derivative financial and commodity instruments to manage risks associated with existing or anticipated transactions. There was a short-term derivative contract in place at March 31, 2007 to hedge the purchase price of about 1 million barrels of crude oil at the Meraux refinery. A 10% increase in the price of West Texas Intermediate crude oil would have increased the liability associated with this derivative contract by approximately \$6.9 million, while a 10% decrease would have reduced the liability by a similar amount.

***ITEM 4. CONTROLS AND PROCEDURES***

Under the direction of its principal executive officer and principal financial officer, controls and procedures have been established by the Company to ensure that material information relating to the Company and its consolidated subsidiaries is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on the Company's evaluation as of the end of the period covered by the filing of this Quarterly Report on Form 10-Q, the principal executive officer and principal financial officer of Murphy Oil Corporation have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by Murphy Oil Corporation in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

During the first quarter of 2007, the Company instituted a new accounting system for U.S. refined product inventories and customer billing. The Company's internal control over financial reporting has been altered accordingly for this change in accounting system. There have been no other significant changes in the Company's internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents****PART II OTHER INFORMATION*****ITEM 1. LEGAL PROCEEDINGS***

On September 9, 2005, a class action lawsuit was filed in federal court in the Eastern District of Louisiana seeking unspecified damages to the class comprised of residents of St. Bernard Parish caused by a release of crude oil at Murphy Oil USA, Inc.'s (a wholly-owned subsidiary of Murphy Oil Corporation) Meraux, Louisiana, refinery as a result of flood damage to a crude oil storage tank following Hurricane Katrina. Additional class action lawsuits were consolidated with the first suit into a single action in the U.S. District Court for the Eastern District of Louisiana. In September 2006, the Company reached a settlement with class counsel and on October 10, 2006, the court granted preliminary approval of a class action Settlement Agreement. A Fairness Hearing was held January 4, 2007 and the court entered its ruling on January 30, 2007 approving the class settlement. The majority of the settlement of \$330 million will be paid by insurance. The Company recorded an expense of \$18 million in the second half of 2006 related to settlement costs not expected to be covered by insurance. As part of the settlement, all properties in the class area will receive a fair and equitable cash payment and will have residual oil cleaned. As part of the settlement, the Company will offer to purchase all properties in an agreed area adjacent to the west side of the Meraux refinery; these property purchases and associated remediation will be paid by the Company and are expected to total \$55 million. Approximately 75 non-class action suits regarding the oil spill have been filed and remain pending; however, as part of its October 10, 2006 order, the court stayed these actions pending the settlement proceedings and further orders of the court. The Company believes that insurance coverage exists and it does not expect to incur significant costs associated with this litigation. Accordingly, the Company believes the ultimate resolution of the remaining litigation will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

On June 10, 2003, a fire severely damaged the Residual Oil Supercritical Extraction (ROSE) unit at the Company's Meraux, Louisiana refinery. The ROSE unit recovers feedstock from the heavy fuel oil stream for conversion into gasoline and diesel. Subsequent to the fire, numerous class action lawsuits have been filed seeking damages for area residents. All the lawsuits have been administratively consolidated into a single legal action in St. Bernard Parish, Louisiana, except for one such action which was filed in federal court. Additionally, individual residents of Orleans Parish, Louisiana, have filed an action in that venue. On May 5, 2004, plaintiffs in the consolidated action in St. Bernard Parish amended their petition to include a direct action against certain of the Company's liability insurers. The St. Bernard Parish action has since been removed to federal court where a class certification hearing is scheduled for August 28, 2007. In responding to this direct action, one of the Company's insurers, AEGIS, has raised lack of coverage as a defense. The Company believes that this contention lacks merit and has been advised by counsel that the applicable policy does provide coverage for the underlying incident. Because the Company believes that insurance coverage exists for this matter, it does not expect to incur any significant costs associated with the class action lawsuits. Accordingly, the Company continues to believe that the ultimate resolution of the June 2003 ROSE fire litigation will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

Murphy and its subsidiaries are engaged in a number of other legal proceedings, all of which Murphy considers routine and incidental to its business. Based on information currently available to the Company, the ultimate resolution of 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***

The Company has not identified any additional risk factors not previously disclosed in its Form 10-K filed on March 1, 2007.



**Table of Contents**

***ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K***

- (a) The Exhibit Index on page 27 of this Form 10-Q report lists the exhibits that are hereby filed or incorporated by reference.
- (b) A report on Form 8-K was filed on January 11, 2007 that included a News Release regarding the Company's expected results of operations for the quarter ended December 31, 2006 and announcing results of exploration drilling offshore Malaysia.
- (c) A report on Form 8-K was filed on January 31, 2007 that included a News Release announcing the Company's earnings and certain other financial information for the three-month and twelve-month periods ended December 31, 2006.
- (d) A report on Form 8-K was filed on February 12, 2007 to disclose a change in the target bonus for the Company's President and Chief Executive Officer and to file the amended By-Laws of Murphy Oil Corporation to change the number of directors from eleven to ten effective May 9, 2007.

**Table of Contents**

**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 OIL CORPORATION***

(Registrant)

By /s/ JOHN W. ECKART  
John W. Eckart, Vice President and Controller  
(Chief Accounting Officer and Duly Authorized  
Officer)

May 9, 2007

*(Date)*

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit No.**

12.1*	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
31.2*	Certification required by Rule 13a-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

---

\* This exhibit is incorporated by reference within this Form 10-Q.

Exhibits other than those listed above have been omitted since they are either not required or not applicable.