ADAMS RESOURCES & ENERGY, INC.
Form 10-Q
August 08, 2013

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

x Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2013
Commission File Number 1-7908

ADAMS RESOURCES & ENERGY, INC.
(Exact name of Registrant as specified in its charter)

Delaware	74-1753147
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

17 South Briar Hollow Lane Suite 100, Houston, Texas 77027
(Address of principal executive office & Zip Code)

Registrant's telephone number, including area code (713) 881-3600

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 x NO o

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 x No o

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 definition of large accelerated filer”, accelerated filer” and smaller reporting company” in Rule 126-2 of the Exchange Act. (Check one)

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller Reporting Company o

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

A total of 4,217,596 shares of Common Stock were outstanding at August 5, 2013.

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2013	2012	2013	2012
REVENUES:				
Marketing	$1,877,561	$1,668,152	$944,619	$810,722
Transportation	34,889	33,396	17,543	17,128
Oil and natural gas	6,925	7,415	3,712	3,624
	1,919,375	1,708,963	965,874	831,474
COSTS AND EXPENSES:				
Marketing	1,849,708	1,647,938	932,127	799,957
Transportation	28,182	25,472	13,970	13,509
Oil and gas operations	2,961	3,722	1,646	1,954
General and administrative	4,969	4,697	2,703	2,465
Depreciation, depletion and amortization	10,921	9,189	5,392	5,026
	1,896,741	1,691,018	955,838	822,911
Operating earnings	22,634	17,945	10,036	8,563
Other income (expense):				
Interest income	70	42	32	21
Interest expense	(23)	(3)	(21)	(2)
Earnings from continuing operations before income taxes	22,681	17,984	10,047	8,582
Income tax (provision)	(8,312)	(6,437)	(3,705)	(3,085)
Earnings from continuing operations	14,369	11,547	6,342	5,497
Earnings (loss) from discontinued operations net of tax (provision) benefit of $13, ($223), $6 and $60, respectively	(24)	414	(12)	(111)
Net earnings	$14,345	$11,961	$6,330	$5,386
EARNINGS (LOSS) PER SHARE:				
From continuing operations	$3.41	$2.74	$1.51	$1.31
From discontinued operations	(.01)	.10	(.01)	(.03)
Basic and diluted net earnings per common share	$3.40	$2.84	$1.50	$1.28
DIVIDENDS PER COMMON SHARE	$.22	$-	$.22	$-

The accompanying notes are an integral part of these financial statements.

ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$34,214	$47,239
Accounts receivable, net of allowance for doubtful accounts of $242 and $206, respectively	259,530	239,319
Inventory	22,920	28,222
Fair value contracts	68	418
Income tax receivable	2,090	1,199
Prepayments	8,831	8,092
Current assets of discontinued operations	5	67
Total current assets	327,658	324,556
Property and Equipment		
Marketing	53,382	46,177
Transportation	57,593	59,101
Oil and gas (successful efforts method)	96,248	90,431
Other	1,406	1,406
	208,629	197,115
Less – Accumulated depreciation, depletion and amortization	(112,985)	(106,403)
	95,644	90,712
Other Assets:		
Deferred income tax asset	73	34
Cash deposits and other	3,842	4,199
	$427,217	$419,501
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$248,090	$258,310
Accounts payable – related party	16	42
Fair value contracts	64	412
Accrued and other liabilities	10,615	7,078
Current deferred income taxes	631	240
Total current liabilities	259,416	266,082
Other Liabilities:		
Asset retirement obligations	1,864	1,886
Deferred taxes and other liabilities	16,662	15,675
	277,942	283,643
Commitments and Contingencies (Note 5)		
Shareholders' Equity:		

Preferred stock - $1.00 par value, 960,000 shares		
authorized, none outstanding	-	-
Common stock - $.10 par value, 7,500,000 shares		
authorized, 4,217,596 shares outstanding	422	422
Contributed capital	11,693	11,693
Retained earnings	137,160	123,743
Total shareholders' equity	149,275	135,858
	$427,217	$419,501

The accompanying notes are an integral part of these financial statements.

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ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
CASH PROVIDED BY OPERATIONS:		
Net earnings	$14,345	$11,961
Adjustments to reconcile net earnings to net cash from operating activities -		
Depreciation, depletion and amortization	10,921	9,189
Property sale (gains)	(84)	(2,982)
Dry hole costs incurred	105	41
Impairment of oil and gas properties	242	629
Provision for doubtful accounts	36	(49)
Deferred income taxes	1,352	425
Net change in fair value contracts	2	993
Decrease (increase) in accounts receivable	(20,185)	44,124
Decrease (increase) in inventories	5,302	1,642
Decrease (increase) in income tax receivable	(891)	417
Decrease (increase) in prepayments	(739)	1,568
Increase (decrease) in accounts payable	(10,086)	(52,968)
Increase (decrease) in accrued liabilities	3,328	6,362
Other changes, net	339	196
Net cash provided by operating activities	3,987	21,548
INVESTING ACTIVITIES:		
Property and equipment additions	(16,298)	(31,610)
Insurance and state collateral (deposits) refunds	(17)	257
Proceeds from property sales	231	1,406
Proceeds from the sale of discontinued operations	-	3,546
Net cash (used in) investing activities	(16,084)	(26,401)
FINANCING ACTIVITIES:		
Dividend payments	(928)	-
Net cash (used in) financing activities	(928)	-
Increase (decrease) in cash and cash equivalents	(13,025)	(4,853)
Cash and cash equivalents at beginning of period	47,239	37,066
Cash and cash equivalents at end of period	$34,214	$32,213

The accompanying notes are an integral part of these financial statements

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ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in the opinion of the Company's management, include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of its financial position at June 30, 2013, its results of operations for the six months ended June 30, 2013 and 2012 and its cash flows for the six months ended June 30, 2013 and 2012. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to Securities and Exchange Commission rules and regulations. The impact on the accompanying financial statements of events occurring after June 30, 2013, has been evaluated through the date these financial statements were issued.

Although the Company believes the disclosures made are adequate to make the information presented not misleading, it is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the financial statements, and the notes thereto, included in the Company's latest annual report on Form 10-K. The interim statement of operations is not necessarily indicative of results to be expected for a full year.

Note 2 - Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The Company is engaged in the business of crude oil and natural gas marketing, as well as tank truck transportation of liquid chemicals and oil and gas exploration and production. Its primary area of operation is within a 1,000 mile radius of Houston, Texas. The accompanying unaudited condensed consolidated financial statements include the accounts of Adams Resources & Energy, Inc., a Delaware corporation, and its wholly owned subsidiaries (the Company”) after elimination of all intercompany accounts and transactions.

Cash and Cash Equivalents

Cash and cash equivalents include any Treasury bill, commercial paper, money market fund or federal funds with maturity of 90 days or less. Depending on cash availability and market conditions, investments in corporate and municipal bonds, which are classified as investments in marketable securities, may also be made from time to time. Cash and cash equivalents are maintained with major financial institutions and such deposits may exceed the amount of federally backed insurance provided. While the Company regularly monitors the financial stability of such institutions, cash and cash equivalents ultimately remain at risk subject to the financial viability of such institutions.

Inventory

Inventory consists of crude oil held in storage tanks and at third-party pipelines as part of the Company’s crude oil marketing operations. Crude oil inventory is carried at the lower of average cost or market.

Prepayments

The components of prepayments and other are as follows (in thousands):

	June 30, 2013	December 31, 2012
Cash collateral deposits for commodity purchases	$5,186	$5,000
Insurance premiums	2,879	1,872
Commodity imbalances and futures	14	353
Rents, license and other	752	867
	$8,831	$8,092

Property and Equipment

Expenditures for major renewals and betterments are capitalized, and expenditures for maintenance and repairs are expensed as incurred. Interest costs incurred in connection with major capital expenditures are capitalized and amortized over the lives of the related assets. When properties are retired or sold, the related cost and accumulated depreciation, depletion and amortization is removed from the accounts and any gain or loss is reflected in earnings.

Oil and gas exploration and development expenditures are accounted for in accordance with the successful efforts method of accounting. Direct costs of acquiring developed or undeveloped leasehold acreage, including lease bonus, brokerage and other fees, are capitalized. Exploratory drilling costs are initially capitalized until the properties are evaluated and determined to be either productive or nonproductive. Such evaluations are made on a quarterly basis. If an exploratory well is determined to be nonproductive, the costs of drilling the well are charged to expense. Costs incurred to drill and complete development wells, including dry holes, are capitalized. As of June 30, 2013, the Company had no unevaluated or suspended exploratory drilling costs.

Depreciation, depletion and amortization of the cost of proved oil and gas properties are calculated using the unit-of-production method. The reserve base used to calculate depreciation, depletion and amortization for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped reserves. For lease and well equipment, development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves. All other property and equipment is depreciated using the straight-line method over the estimated average useful lives of three to twenty years.

The Company reviews its long-lived assets for impairment whenever there is evidence that the carrying value of such assets may not be recoverable. Any impairment recognized is permanent and may not be restored. Producing oil and gas properties are reviewed on a field-by-field basis. For properties requiring impairment, the fair value is estimated based on an internal discounted cash flow model. The fair value of each oil and gas property is estimated based on an internal discontinued cash flow model. Cash flows are developed based on estimated future production and prices and then discounted using a market based rate of return consistent with that used by the Company in evaluating cash flows for other assets of a similar nature. For the six-month periods ended June 30, 2013 and 2012, there were $142,000 and $71,000, respectively, of impairment provisions on producing oil and gas properties.

On a quarterly basis, management evaluates the carrying value of non-producing oil and gas leasehold properties and may deem them impaired based on remaining lease term, area drilling activity and the Company's plans for the property. This fair value measure depends highly on management's assessment of the likelihood of continued exploration efforts in a given area and, as such, data inputs are categorized as unobservable or Level 3 inputs. Importantly, this fair value measure only applies to the write-down of capitalized costs and will never result in an increase to reported earnings. Accordingly, impairment provisions on non-producing properties totaling $100,000 and $558,000 were recorded for the six-month periods ended June 30, 2013 and 2012, respectively. Capitalized costs for non-producing oil and gas leasehold interests currently represent approximately four percent of total oil and gas property costs and are categorized as follows (in thousands):

	June 30, 2013	December 31, 2012
South Texas Project acreage	$3,630	$3,263
West Texas Project acreage	154	180
Napoleonville, Louisiana acreage	323	323
Other acreage areas	357	329
Total Non-producing Leasehold Costs	$4,464	$4,095

The South Texas, West Texas and Napoleonville acreage areas have active or scheduled drilling operations underway and holding the underlying acreage is essential to the ongoing exploration effort. The other acreage areas" category consists of smaller onshore interests dispersed over a wide geographical area. Since the Company is generally not the operator of its oil and gas property interest, it does not maintain the underlying detail acreage data and the Company is dependent on the operator when determining which specific acreage will ultimately be drilled. The capitalized cost detail on a property-by-property basis is reviewed however, by management, and deemed impaired if development is not anticipated prior to lease expiration. Onshore leasehold periods are normally three years and may contain renewal options. Capitalized cost activity on the other acreage areas" was as follows (in thousands):

Balance December 31, 2012	$329
Property additions	128
Impairments	(100)
Balance June 30, 2013	$357

During the first quarter of 2012, the Company sold certain used trucks and equipment from its transportation segment and recorded pre-tax gains totaling $1,269,000. Such sales did not recur during 2013.

Cash Deposits and Other Assets

The Company has established certain deposits to support participation in its liability insurance program and remittance of state crude oil severance taxes and other state collateral deposits. Insurance collateral deposits are invested at the discretion of the Company's insurance carrier and such investments primarily consist of intermediate term federal government bonds and bonds backed by federal agencies. Components of cash deposits and other assets are as follows (in thousands):

	June 30,

		December 31,
	2013	2012
Insurance collateral deposits	$3,078	$3,413
State collateral deposits	170	170
Materials and supplies	594	616
	$3,842	$4,199

Revenue Recognition

Certain commodity purchase and sale contracts utilized by the Company's marketing businesses qualify as derivative instruments. Further, all natural gas, as well as certain specifically identified crude oil contracts, are designated as trading activities. From the time of contract origination, such trading activity contracts are marked-to-market and recorded on a net revenue basis in the accompanying financial statements.

Most crude oil purchase contracts and sale contracts qualify and are designated as non-trading activities and the Company considers such contracts as normal purchases and sales activity. For normal purchases and sales, the Company's customers are invoiced monthly based upon contractually agreed upon terms with revenue recognized in the month in which the physical product is delivered to the customer. Such sales are recorded gross in the financial statements because the Company takes title, has risk of loss for the products, is the primary obligor for the purchase, establishes the sale price independently with a third party and maintains credit risk associated with the sale of the product.

Certain crude oil contracts may be with a single counterparty to provide for similar quantities of crude oil to be bought and sold at different locations. These contracts are entered into for a variety of reasons, including effecting the transportation of the commodity, to minimize credit exposure, and/or to meet the competitive demands of the customer. Such buy/sell arrangements are reflected on a net revenue basis in the accompanying unaudited condensed consolidated financial statements. Reporting such crude oil contracts on a gross revenue basis would increase the Company's reported revenues by $714,489,000 and $717,826,000 for the six months ended June 30, 2013 and 2012, respectively.

Transportation segment customers are invoiced, and the related revenue is recognized, as the service is provided. Oil and gas revenue from the Company's interests in producing wells is recognized as title and physical possession of the oil and gas passes to the purchaser.

Concentration of Credit Risk

The Company's largest customers consist of large multinational integrated oil companies and utilities. In addition, the Company transacts business with independent oil producers, major chemical concerns, crude oil and natural gas trading companies and a variety of commercial energy users. Within this group of customers the Company generally derives up to 50 percent of its revenues from two to three large crude oil refining concerns. While the Company has ongoing established relationships with certain domestic refiners of crude oil, alternative markets are readily available since the Company supplies less than one percent of U.S. domestic refiner demand. As a fungible commodity delivered to major Gulf Coast supply points, the Company's crude oil sales can be readily delivered to alternative end markets. Management believes that a loss of any of those customers where the Company currently derives more than 10 percent of its revenues would not have a material adverse effect on the Company's operations.

Accounts receivable associated with crude oil and natural gas marketing activities comprise approximately 95 percent of the Company's total receivables and industry practice requires payment for such sales to occur within 25 days of the end of the month following a transaction. The Company's customer makeup, credit policies and the relatively short duration of receivables mitigate the uncertainty typically associated with receivables management.

Letter of Credit Facility

The Company maintains a Credit and Security Agreement with Wells Fargo Bank to provide a $60 million stand-by letter of credit facility that is used to support the Company's crude oil and natural gas purchases within the marketing segment. This facility is collateralized by the eligible accounts receivable within those operations and certain marketing and transportation equipment. Stand-by letters of credit issued totaled $15.4 million and $21.9 million as of June 30, 2013 and December 31, 2012, respectively. The issued stand-by letters of credit are cancelled as the underlying purchase obligations are satisfied by cash payment when due. The letter of credit facility places certain restrictions on the Company's Gulfmark Energy, Inc. and Adams Resources Marketing, Ltd. subsidiaries. Such restrictions included the maintenance of a combined 1.1 to 1.0 current ratio and the maintenance of positive net earnings excluding inventory valuation changes, as defined, among other restrictions. The Company is currently in compliance with all such financial covenants.

Statement of Cash Flows

Interest paid totaled $23,000 and $3,000 during the six-month periods ended June 30, 2013 and 2012, respectively, while taxes paid during these same periods totaled $7,739,000 and $3,301,000, respectively. Non-cash investing activities for property and equipment were $2,468,000 and $2,419,000 as of June 30, 2013 and December 31, 2012, respectively and $2,627,000 and $4,070,000 as of June 30, 2012 and December 31, 2011, respectively. There were no significant non-cash financing activities in any of the periods reported.

Earnings Per Share

Earnings per share are based on the weighted average number of shares of common stock and potentially dilutive common stock shares outstanding during the period presented herein. The weighted average number of shares outstanding was 4,217,596 for 2013 and 2012. There were no potentially dilutive securities during those periods.

Share-Based Payments

During the periods presented herein, the Company had no stock-based employee compensation plans, nor any other share-based payment arrangements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Examples of significant estimates used in the accompanying consolidated financial statements include oil and gas reserve volumes forming the foundation for calculating depreciation, depletion and amortization and for estimating cash flows when assessing impairment triggers and when estimating values associated with oil and gas properties. Other examples include revenue accruals, the provision for bad debts, insurance related accruals, income tax permanent and timing differences, contingencies and valuation of fair value contracts.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax basis.

Use of Derivative Instruments

The Company's marketing segment is involved in the purchase and sale of crude oil and natural gas. The Company seeks to make a profit by procuring such commodities as they are produced and then delivering such products to the end users or intermediate use marketplace. As is typical for the industry, such transactions are made pursuant to the terms of forward month commodity purchase and/or sale contracts. Certain of these contracts meet the definition of a derivative instrument, and therefore, the Company accounts for such contracts at fair value, unless the normal purchase and sale exception is applicable. Such underlying contracts are standard for the industry and are the governing document for the Company's crude oil and natural gas wholesale distribution businesses. The accounting methodology utilized by the Company for its commodity contracts is further discussed below under the caption Fair Value Measurements".

None of the Company's derivative instruments have been designated as hedging instruments and the estimated fair value of forward month commodity contracts (derivatives) is reflected in the accompanying Unaudited Condensed Consolidated Balance Sheet as of June 30, 2013 as follows (in thousands):

	Balance Sheet Location and Amount			
	Current Assets	Other Assets	Current Liabilities	Other Liabilities
Asset Derivatives				
- Fair Value Forward Hydrocarbon Commodity				
Contracts at Gross Valuation	$68	$-	$-	$-
Liability Derivatives				
- Fair Value Forward Hydrocarbon Commodity				
Contracts at Gross Valuation	-	-	(64)	-
Less Counterparty Offsets	-	-	-	-
As Reported Fair Value Contracts	$68	$-	$(64)	$-

As of June 30, 2013, twenty-five commodity purchase and sales contracts comprised all of the Company's derivative valuations. Such contracts encompass the purchase and sale of approximately 170 barrels of crude oil per day in each of July and August 2013, plus the purchase and sale of 7,841,000 and 930,000 mmbtu's of natural gas during July and August 2013, respectively.

Forward month commodity contracts (derivatives) are reflected in the accompanying Unaudited Condensed Consolidated Balance Sheet as of December 31, 2012 as follows (in thousands):

	Balance Sheet Location and Amount			
	Current Assets	Other Assets	Current Liabilities	Other Liabilities
Asset Derivatives				
- Fair Value Forward Hydrocarbon Commodity				
Contracts at Gross Valuation	$688	$-	$-	$-
Liability Derivatives				
- Fair Value Forward Hydrocarbon Commodity				
Contracts at Gross Valuation	-	-	682	-
Less Counterparty Offsets	(270)	-	(270)	-

As Reported Fair Value Contracts	$418	$-	$412	$-

As of December 31, 2012, twenty-four commodity purchase and sales contracts comprise all of the Company's derivative valuations. Such contracts encompass the purchase and sale of approximately 900 barrels of crude oil per day and 172,000 mmbtu of natural gas per day during January 2013 with crude oil volumes continuing at the rate of 200 barrels per day through June 2013 together with natural gas volumes of 1,000 mmbtu and 41,000 mmbtu per day in February 2013 and March 2013, respectively.

The Company only enters into commodity contracts with credit worthy counterparties or obtains collateral support for such activities. As of June 30, 2013 and December 31, 2012, the Company was not holding nor has it posted any collateral to support its forward month fair value derivative activity. The Company is not subject to any credit-risk related trigger events. The Company has no other financial investment arrangements that would serve to offset its derivative contracts.

Forward month commodity contracts (derivatives) are reflected in the accompanying Unaudited Condensed Consolidated Statement of Operations for the six months ended June 30, 2013 and 2012 as follows (in thousands):

	Earnings (Loss) Six Months Ended June 30,		Earnings (Loss) Three Months Ended June 30,	
	2013	2012	2013	2012
Revenues – marketing	$(2)	$(993)	$(256)	$1,889

Fair Value Measurements

The carrying amount reported in the balance sheet for cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments. Marketable securities are recorded at fair value based on market quotations from actively traded liquid markets.

Fair value contracts consist of derivative financial instruments and are recorded as either an asset or liability measured at its fair value. Changes in fair value are recognized immediately in earnings unless the derivatives qualify for, and the Company elects, cash flow hedge accounting. The Company had no contracts designated for hedge accounting during any current reporting periods.

Fair value estimates are based on assumptions that market participants would use when pricing an asset or liability and the Company uses a fair value hierarchy of three levels that prioritizes the information used to develop those assumptions. Currently, for all items presented herein, the Company utilizes a market approach to valuing its contracts. On a contract by contract, forward month by forward month basis, the Company obtains observable market data for valuing its contracts. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is summarized as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities that may be accessed at the measurement date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. For Level 1 valuation of marketable securities, the Company utilizes market quotations provided by its primary financial institution and for the valuation of derivative financial instruments the Company utilizes the New York Mercantile Exchange NYMEX for such valuations.

Level 2 – (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical assets or liabilities but in markets that are not actively traded or in which little information is released to the public, (c) observable inputs other than quoted prices and (d) inputs derived from observable market data. Source data for Level 2 inputs include information provided by the NYMEX, the Intercontinental Exchange (ICE), published price data and indices, third party price survey data and broker provided forward price statistics.

Level 3 – unobservable market data inputs for assets or liabilities.

As of June 30, 2013, the Company's fair value assets and liabilities are summarized and categorized as follows (in thousands):

	Market Data Inputs				
	Gross Level 1	Gross Level 2	Gross Level 3	Counterparty	
	Quoted Prices	Observable	Unobservable	Offsets	Total
Derivatives					
- Current assets	$-	$68	$ -	$ -	$68
- Current liabilities	(36)	(28)	-	-	(64)
Net Value	$(36)	$40	$ -	$ -	$4

As of December 31, 2012, the Company's fair value assets and liabilities are summarized and categorized as follows (in thousands):

	Market Data Inputs				
	Gross Level 1	Gross Level 2	Gross Level 3	Counterparty	
	Quoted Prices	Observable	Unobservable	Offsets	Total
Derivatives					
- Current assets	$299	$389	$ -	$ (270)	$418
- Current liabilities	-	(682)	-	270	(412)
Net Value	$299	$(293)	$ -	$ -	$6

When determining fair value measurements, the Company makes credit valuation adjustments to reflect both its own nonperformance risk and its counterparty's nonperformance risk. When adjusting the fair value of derivative contracts for the effect of nonperformance risk, the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, and guarantees are considered. Credit valuation adjustments utilize Level 3 inputs, such as credit scores to evaluate the likelihood of default by the Company or its counterparties. As of June 30, 2013 and December 31, 2012, credit valuation adjustments were not significant to the overall valuation of the Company's fair value contracts. As a result, applicable fair value assets and liabilities are included in their entirety in the fair value hierarchy.

Recent Accounting Pronouncement

In December 2011, the FASB issued ASU 2011-11. This update requires additional disclosures about an entity's right of setoff and related arrangements associated with its financial and derivative instruments. The ASU requires a tabular presentation that reflects the gross, net and setoff amounts associated with such assets and liabilities among other requirements. The Company adopted ASU 2011-11 effective January 1, 2013 and the adoption of ASU 2011-11 did not have a material impact on the Company’s consolidated financial statements, but additional disclosures regarding fair value measurements resulted.

Management believes the impact of other recently issued standards and updates, which are not yet effective, will not have a material impact on the Company’s consolidated financial position, results of operations or cash flows upon adoption.

Note 3 – Segment Reporting

The Company is engaged in the business of crude oil and natural gas marketing as well as tank truck transportation of liquid chemicals, and oil and gas exploration and production. Information concerning the Company's various business activities is summarized as follows (in thousands):

- Six Month Comparison

	Revenues	Segment Operating Earnings	Depreciation Depletion and Amortization	Property and Equipment Additions
Period Ended June 30, 2013				
Marketing				
- Crude Oil	$1,875,719	$24,115	$ 3,578	$8,580
- Natural gas	1,842	13	147	-
Marketing Total	1,877,561	24,128	3,725	8,580
Transportation	34,889	3,231	3,476	1,573
Oil and gas	6,925	244	3,720	6,145
	$1,919,375	$27,603	$ 10,921	$16,298
Period Ended June 30, 2012				
Marketing				
- Crude Oil	$1,665,204	$16,602	$ 2,728	$7,406
- Natural gas	2,948	883	1	-
Marketing Total	1,668,152	17,485	2,729	7,406
Transportation	33,396	5,312	2,612	10,744
Oil and gas	7,415	(155)	3,848	13,460
	$1,708,963	$22,642	$ 9,189	$31,610

- Three Month Comparison

	Revenues	Segment Operating Earnings	Depreciation Depletion and Amortization	Property and Equipment Additions
Period Ended June 30, 2013				
Marketing				
- Crude Oil	$943,843	$10,681	$ 1,814	$7,219
- Natural gas	776	(135)	132	-
Marketing Total	944,619	10,546	1,946	7,219
Transportation	17,543	1,833	1,740	1,428
Oil and gas	3,712	360	1,706	3,748
	$965,874	$12,739	$ 5,392	$12,395
Period Ended June 30, 2012				
Marketing				
- Crude Oil	$809,358	$8,837	$ 1,438	$3,207
- Natural gas	1,364	490	-	-

Marketing Total	810,722	9,327	1,438	3,207
Transportation	17,128	2,258	1,361	6,056
Oil and gas	3,624	(557)	2,227	7,125
	$831,474	$11,028	$ 5,026	$16,388

Segment operating earnings reflect revenues net of operating costs and depreciation, depletion and amortization and are reconciled to earnings from continuing operations before income taxes, as follows (in thousands):

	Six months ended June 30,		Three months ended June 30,	
	2013	2012	2013	2012
Segment operating earnings (loss)	$27,603	$22,642	$12,739	$11,028
- General and administrative	(4,969)	(4,697)	(2,703)	(2,465)
Operating earnings	22,634	17,945	10,036	8,563
- Interest income	70	42	32	21
- Interest expense	(23)	(3)	(21)	(2)
Earnings from continuing operations before income taxes and discontinued operations	$22,681	$17,984	$10,047	$8,582

Identifiable assets by industry segment are as follows (in thousands):

	June 30, 2013	December 31, 2012
Marketing		
- Crude oil	$298,293	$277,920
- Natural gas	11,143	11,764
Marketing Total	309,436	289,684
Transportation	37,393	38,940
Oil and gas	37,644	35,788
Other	42,744	55,089
	$427,217	$419,501

Intersegment sales are insignificant and all sales occurred in the United States. Other identifiable assets are primarily corporate cash, corporate accounts receivable and properties not identified with any specific segment of the Company's business. Accounting policies for transactions between reportable segments are consistent with applicable accounting policies as disclosed herein.

Note 4 - Transactions with Affiliates

Mr. K. S. Adams, Jr., the former Chairman of the Board of the Company and certain of his family partnerships and affiliates have participated as working interest owners with the Company's subsidiary, Adams Resources Exploration Corporation. Mr. Adams and such affiliates participate on terms similar to those afforded other non-affiliated working interest owners. In recent years, such related party transactions generally result after the Company has first identified oil and gas prospects of interest. Typically the available dollar commitment to participate in such transactions is greater than the amount management is comfortable putting at risk. In such event, the Company first determines the percentage of the transaction it wants to obtain, which allows a related party to participate in the investment to the extent there is excess available. In those instances where there was no excess availability there has been no related party participation. Similarly, related parties are not required to participate, nor is the Company obligated to offer any such participation to a related or other party. When such related party transactions occur, they are individually reviewed and approved by the Audit Committee comprised of the independent directors on the Company's Board of Directors. For the first six months of 2013 and 2012, the Company's investment commitments totaled approximately $6 million and $13.5 million, respectively, in those oil and gas projects where a related party was also participating in such investments. As of June 30, 2013 and December 31, 2012, the Company owed a combined net total of $16,000 and $42,000, respectively, to these related parties. In connection with the operation of certain oil and gas properties, the Company also charges such related parties for administrative overhead primarily as prescribed by the Council of Petroleum Accountants Society Bulletin 5. Such overhead recoveries totaled $78,000 and $75,000 for the six-month periods ended June 30, 2013 and 2012, respectively.

The Company also enters into certain transactions in the normal course of business with other affiliated entities including direct cost reimbursement for shared phone and secretarial services. For the six-month periods ended June 30, 2013 and 2012, the affiliated entities charged the Company $40,000 and $44,000, respectively, of expense reimbursement and the Company charged the affiliates $50,000 and $49,000, respectively, for such expense reimbursements. In January 2012, the Company relocated its primary office lease space to a building operated by an affiliated entity. Estimated annual rental expense, including pro rata building operating expense are $480,000 per year under a seven year lease term. The lease rental rate was determined by an independent appraisal. Rental expense paid to such related party for the six months ended June 30, 2013 and 2012 totaled $240,000 and $202,000, respectively.

Note 5 - Commitments and Contingencies

Under the Company's automobile and workers' compensation insurance policies, the Company can either receive a return of premium paid or be assessed for additional premiums up to pre-established limits. Additionally, in certain instances the risk of insured losses is shared with a group of similarly situated entities. The Company has appropriately recognized estimated expenses and related liabilities for losses incurred but not reported to the Company or its insurance carrier of $1,450,000 and $1,545,000 as of June 30, 2013 and December 31, 2012, respectively.

Effective January 1, 2012, the Company began a self-insurance program for managing employee medical claims. On a monthly basis, the Company establishes a liability for expected claims incurred. As claims are paid, the liability is relieved. As of June 30, 2013 and December 31, 2012, accrued medical claims totaled $911,000 and $506,000, respectively. The Company maintains third party insurance stop-loss coverage for annual individual medical claims exceeding $100,000. In addition, the Company maintains $2 million of umbrella insurance coverage for aggregate medical claims exceeding approximately $4.5 million for the calendar year 2013.

From time to time as incidental to its operations, the Company may become involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, the Company is a party to motor vehicle accidents, worker compensation claims and other items of general liability as would be typical for the industry. Management of the Company is presently unaware of any claims against the Company that are either outside the scope of insurance coverage or that may exceed the level of insurance coverage and could potentially represent a material adverse effect on the Company's financial position or results of operations.

Note 6 – Discontinued Operation

On February 27, 2012, the Company completed the sale of contracts, inventory and certain equipment associated with the refined products segment of its marketing business. Revenues from this segment included in net earnings from discontinued operations totaled $25,633,000 for the three-month period ended March 31, 2012. The Company received $2 million in cash proceeds plus a cash payment of $1,546,000 for the agreed value of refined product inventories on the date of sale. The net gain recognized upon this sale totaled $1,622,000. The Company conducted an orderly wind-down of the operation which primarily consisted of collecting outstanding accounts receivable and satisfying all existing obligations. The Company's fee interest in certain parcels of real estate was retained and the estimated fair value of such properties exceeded the Company's cost basis in the properties. Therefore, an impairment assessment of long-lived assets was not necessary. The proceeds secured from this transaction exceeded the sum of carrying costs of the assets sold plus severance and other wind-down costs and as a result, the first quarter 2012 pre-tax earnings from this former segment totaled $808,000. Retained accounts receivable and payable obligations were substantially collected or satisfied as of the date of this report.

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

Results of Operations

- Marketing

Marketing segment revenues, operating earnings and depreciation and certain costs are as follows (in thousands):

	Six Months Ended	&#16