Murphy USA Inc.
Form 10-Q
August 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission File Number 001-35914

MURPHY USA INC.

(Exact name of registrant as specified in its charter)

Delaware	46-2279221
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Peach Street El Dorado, Arkansas	71730-5836
(Address of principal executive offices)	(Zip Code)

(870) 875-7600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ___Accelerated filer Non-accelerated filer Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of Common Stock, $0.01 par value, outstanding at June 30, 2014 was 45,724,585.

MURPHY USA INC.

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ITEM 1. FINANCIAL STATEMENTS

Murphy USA Inc.

Consolidated Balance Sheets

(Thousands of dollars)	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 260,237	$ 294,741
Accounts receivable—trade, less allowance for doubtful accounts of $4,456 in 2014 and $4,456 in 2013	257,163	193,181
Inventories, at lower of cost or market	166,035	179,055
Prepaid expenses and other current assets	16,474	15,439
Total current assets	699,909	682,416
Property, plant and equipment, at cost less accumulated depreciation and amortization of $693,012 in 2014 and $655,360 in 2013	1,204,044	1,190,723
Deferred charges and other assets	5,882	8,103
Total assets	$ 1,909,835	$ 1,881,242
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	$ —	$ 14,000
Trade accounts payable and accrued liabilities	524,950	433,228
Income taxes payable	50,464	72,146
Deferred income taxes	8,660	7,143
Total current liabilities	584,074	526,517
Long-term debt	492,012	547,578
Deferred income taxes	103,994	114,932
Asset retirement obligations	18,077	17,130
Deferred credits and other liabilities	18,190	18,749
Total liabilities	1,216,347	1,224,906
Stockholders' Equity		
Preferred Stock, par $0.01 (authorized 20,000,000 shares, none outstanding)	—	—
Common Stock, par $0.01 (authorized 200,000,000 shares, 46,765,221 issued and 46,743,633 shares issued and outstanding at 2014 and 2013, respectively)	468	467
Treasury stock (1,040,636 shares held at June 30, 2014)	(50,021)	—
Additional paid in capital (APIC)	552,600	548,293
Retained earnings	190,441	107,576
Total stockholders' equity	693,488	656,336
Total liabilities and stockholders' equity	$ 1,909,835	$ 1,881,242

See notes to consolidated and combined financial statements.

Murphy USA Inc.

Consolidated and Combined Statements of Income and Comprehensive Income

(unaudited)

(Thousands of dollars except per share amounts)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Revenues				
Petroleum product sales (a)	$ 4,121,694	$ 4,175,882	$ 7,716,041	$ 7,938,494
Merchandise sales	548,260	553,370	1,050,982	1,068,839
Ethanol sales and other	87,995	114,213	155,260	194,123
Total revenues	4,757,949	4,843,465	8,922,283	9,201,456
Costs and operating expenses				
Petroleum product cost of goods sold (a)	3,943,134	4,005,487	7,443,480	7,646,718
Merchandise cost of goods sold	472,909	482,464	905,371	931,259
Ethanol cost of goods sold	41,767	68,909	79,537	130,614
Station and other operating expenses	133,223	124,710	255,700	245,680
Depreciation and amortization	19,685	18,536	39,346	36,606
Selling, general and administrative	29,698	28,443	57,769	60,675
Accretion of asset retirement obligations	300	278	597	547
Total costs and operating expenses	4,640,716	4,728,827	8,781,800	9,052,099
Income from operations	117,233	114,638	140,483	149,357
Other income (expense)				
Interest income	13	453	28	734
Interest expense	(10,527)	(16)	(19,622)	(142)
Gain on sale of assets	—	—	170	8
Other nonoperating income	894	8	1,006	23
Total other income (expense)	(9,620)	445	(18,418)	623
Income before income taxes	107,613	115,083	122,065	149,980
Income tax expense	34,381	44,765	39,981	59,109
Income from continuing operations	73,232	70,318	82,084	90,871
Income from discontinued operations, net of taxes	—	7,309	781	8,803
Net Income	$ 73,232	$ 77,627	$ 82,865	$ 99,674
Earnings per share - basic:				
Income from continuing operations	$ 1.58	$ 1.50	$ 1.76	$ 1.94
Income from discontinued operations	—	0.16	0.02	0.19
Net Income - basic	$ 1.58	$ 1.66	$ 1.78	$ 2.13
Earnings per share - diluted:				
Income from continuing operations	$ 1.57	$ 1.50	$ 1.75	$ 1.94
Income from discontinued operations	—	0.16	0.02	0.19
Net Income - diluted	$ 1.57	$ 1.66	$ 1.77	$ 2.13

Weighted-average shares outstanding (in thousands):				
Basic	46,233	46,743	46,490	46,743
Diluted	46,527	46,743	46,708	46,743
Supplemental information:				
(a) Includes excise taxes of:	$ 483,082	$ 492,220	$ 928,487	$ 935,497

See notes to consolidated and combined financial statements.

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Murphy USA Inc.

Consolidated and Combined Statements of Cash Flows

(unaudited)

(Thousands of dollars)	Six Months Ended June 30, 2014	2013
Operating Activities		
Net income	$ 82,865	$ 99,674
Adjustments to reconcile net income to net cash provided by operating activities		
Income from discontinued operations, net of taxes	(781)	(8,803)
Depreciation and amortization	39,346	36,606
Amortization of deferred major repair costs	433	221
Deferred and noncurrent income tax credits	(10,938)	(6,688)
Accretion on discounted liabilities	597	547
Pretax gains from sale of assets	(170)	(8)
Net decrease in noncash operating working capital	18,866	45,522
Other operating activities-net	8,211	10,876
Net cash provided by continuing operations	138,429	177,947
Net cash provided by discontinued operations	134	6,805
Net cash provided by operating activities	138,563	184,752
Investing Activities		
Property additions	(53,054)	(95,109)
Proceeds from sale of assets	279	36
Expenditures for major repairs	(728)	(280)
Investing activities of discontinued operations		
Sales proceeds	1,097	—
Other	—	(468)
Net cash required by investing activities	(52,406)	(95,821)
Financing Activities		
Purchase of treasury stock	(50,021)	—
Repayments of long-term debt	(70,000)	(24)
Debt issuance costs	(99)	—
Amounts related to share-based compensation activities	(541)	—
Net distributions to parent	—	(86,692)
Net cash required by financing activities	(120,661)	(86,716)
Net increase (decrease) in cash and cash equivalents	(34,504)	2,215
Cash and cash equivalents at January 1	294,741	57,373
Cash and cash equivalents at June 30	$ 260,237	$ 59,588

See notes to consolidated and combined financial statements.

Murphy USA Inc.

Consolidated and Combined Statements of Changes in Equity

(unaudited)

	Common Stock						
(Thousands of dollars, except share amounts)	Shares	Par	Treasury Stock	APIC	Net Parent Investment	Retained Earnings	Total
Balance as of December 31, 2012	—	$ —	$ —	$ —	$ 1,104,451	$ —	$ 1,104,451
Net income	—	—	—	—	99,674	—	99,674
Net transfers to/between former parent	—	—	—	—	(85,245)	—	(85,245)
Share-based compensation expense	—	—	—	—	—	—	—
Balance as of June 30, 2013	—	$ —	$ —	$ —	$ 1,118,880	$ —	$ 1,118,880

	Common Stock						
(Thousands of dollars, except share amounts)	Shares	Par	Treasury Stock	APIC	Net Parent Investment	Retained Earnings	Total
Balance as of December 31, 2013	46,743,633	$ 467	$ —	$ 548,293	$ —	$ 107,576	$ 656,336
Net income	—	—	—	—	—	82,865	82,865
Purchase of treasury stock	—	—	(50,021)	—	—	—	(50,021)
Issuance of common stock	21,588	1	—	—	—	—	1
Shares withheld to satisfy tax withholdings	—	—	—	(542)	—	—	(542)

Share-based compensation expense	—	—	—	4,849	—	—	4,849
Balance as of June 30, 2014	46,765,221	$ 468	$ (50,021)	$ 552,600	$ —	$ 190,441	$ 693,488

See notes to consolidated and combined financial statements.

Note 1 — Description of Business and Basis of Presentation

Description of business — The business of Murphy USA Inc. (“Murphy USA” or the “Company”) and its subsidiaries primarily consists of the U.S. retail marketing business that was separated from its former parent company, Murphy Oil Corporation (“Murphy Oil” or “Parent”), plus an ethanol production facility and other assets, liabilities and operating expenses of Murphy Oil that were associated with supporting the activities of the U.S. retail marketing operations. The separation was approved by the Murphy Oil board of directors on August 7, 2013, and was completed on August 30, 2013 through the distribution of 100% of the outstanding capital stock of Murphy USA to holders of Murphy Oil common stock on the record date of August 21, 2013. Murphy Oil stockholders of record received one share of Murphy USA common stock for every four shares of Murphy Oil common stock. The spin-off was completed in accordance with a separation and distribution agreement entered into between Murphy Oil and Murphy USA. Following the separation, Murphy USA is an independent, publicly traded company, and Murphy Oil retains no ownership interest in Murphy USA.

Murphy USA markets refined products through a network of retail gasoline stations and unbranded wholesale customers. Murphy USA’s owned retail stations are almost all located in close proximity to Walmart stores in 23 states and use the brand name Murphy USA®. Murphy USA also markets gasoline and other products at standalone stations under the Murphy Express brand. At June 30, 2014, Murphy USA had a total of 1,223 Company stations. In October 2009, Murphy USA acquired an ethanol production facility located in Hankinson, North Dakota, which was subsequently sold in December 2013 and is reflected as discontinued operations for all periods presented. The Company also acquired a partially constructed ethanol production facility in Hereford, Texas, in late 2010. The Hereford facility is designed to produce 105 million gallons of corn-based ethanol per year, and it began operations near the end of the first quarter of 2011.

The contributed assets of Murphy Oil included in the Company’s financial statements also include buildings, real estate, an airplane and computer equipment and software that are used to support the operating activities of Murphy USA.

Basis of Presentation — Murphy USA was incorporated in March 2013 and, in connection with its incorporation, Murphy USA issued 100 shares of common stock, par value $0.01 per share, to Murphy Oil for $1.00. Murphy USA was formed solely in contemplation of the separation and until the separation was completed on August 30, 2013, it had not commenced operations and had no material assets, liabilities, or commitments. Accordingly the accompanying consolidated and combined financial statements reflect the combined historical results of operations, financial position and cash flows of the Murphy Oil subsidiaries and certain assets, liabilities and operating expenses of Murphy Oil that comprise Murphy USA, as described above, as if such companies and accounts had been combined for all periods presented prior to August 30, 2013. All significant intercompany transactions and accounts within the combined financial statements have been eliminated.

The assets and liabilities in these consolidated and combined financial statements at June 30, 2014 have been reflected on a historical basis. Any periods presented that include dates prior to August 30, 2013 are periods when all of the assets and liabilities shown were 100 percent owned by Murphy Oil and represented operations of Murphy USA prior to the separation. For the period prior to separation, the consolidated and combined statements of income also include expense allocations for certain corporate functions historically performed by Murphy Oil, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, procurement and information technology. These allocations are based primarily on specific identification, headcount or computer utilization. Murphy USA's management believes the assumptions underlying the consolidated and combined financial statements, including the assumptions regarding the allocation of general corporate expenses from Murphy Oil, are reasonable. However, these consolidated and combined financial statements may not include all of the actual expenses that would have been incurred had the Company been a stand-alone company during the

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period prior to separation and may not reflect the combined results of operations, financial position and cash flows had the Company been a stand-alone company during the entirety of the periods presented.

Actual costs that would have been incurred if Murphy USA had been a stand-alone company for the period prior to separation would depend upon multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

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

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

These interim consolidated and combined financial statements should be read together with our audited financial statements for the years ended December 31, 2013, 2012 and 2011, included in our Annual Report on Form 10-K (File No. 001-35914), as filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934 on February 28, 2014.

Recently Issued Accounting Standards— In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the requirements for reporting discontinued operations under Accounting Standards Codification Topic 205. Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity’s operations and financial results. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment or (iv) other major parts of an entity. ASU No. 2014-08 no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity’s ongoing operations or (ii) there is significant continuing involvement with a component after its disposal. Additional disclosures about discontinued operations will also be required. The guidance is effective for annual periods beginning on or after December 15, 2014, and is to be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The Company expects to adopt ASU No. 2014-08 on a prospective basis beginning January 1, 2015.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the Accounting Standards Codification ("Codification") Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption prohibited. The Company expects to adopt ASU No. 2014-09 beginning January 1, 2017 and is in the process of assessing the impact that the new guidance will have on the Company's results of operations, financial condition and disclosures.

Note 2 — Related Party Transactions

Related party transactions of the Company include the allocation of certain general and administrative costs from Murphy Oil to the Company and receipt of interest income from Murphy Oil for intercompany payables balances for the periods prior to separation from Murphy Oil.

General and administrative costs were charged by Murphy Oil to the Company based on management's determination of such costs attributable to the operations of the Company. However, such related-party transactions cannot be presumed to be carried out on an arm's length basis as the requisite conditions of competitive, free-market dealings may not exist.

Prior to the separation Murphy Oil provided cash management services to the Company. As a result, the Company generally remitted funds received to Murphy Oil, and Murphy Oil paid all operating and capital expenditures on behalf of the Company. Such cash transactions were reflected in the change in the Net Investment by Parent.

The Consolidated and Combined Statements of Income include expense allocations for certain functions provided to the Company by Murphy Oil prior to the separation. If possible, these allocations were made on a specific identification basis. Otherwise, the expenses related to services provided to the Company by Murphy Oil were allocated to Murphy USA based on relative percentages, as compared to Murphy Oil's other businesses, of headcount or other appropriate methods depending on the nature of each item of cost to be allocated.

Charges for functions historically provided to the Company by Murphy Oil were primarily attributable to Murphy Oil's performance of many shared services that the Company benefitted from, such as treasury, tax, accounting, risk management, legal, internal audit, procurement, human resources, investor relations and information technology. Murphy USA also participated in certain Murphy Oil insurance, benefit and incentive plans. The Consolidated and Combined Statements of Income reflect charges from Murphy Oil and its other subsidiaries for these services of $0 and $16,091,000 for the three months ended June 30, 2014 and 2013, respectively, and $0 and $36,740,000 for the six months ended June 30, 2014 and 2013, respectively. Included in the charges above are amounts recognized for stock-based compensation expense (Note 8), as well as net periodic benefit expense associated with the Parent's retirement plans (Note 9).

Included in Interest income in the Consolidated and Combined Statements of Income for the three months ended June 30, 2014 and 2013 was interest income from affiliates of $0 and $453,000, respectively. For the six months ended June 30, 2014 and 2013 interest income from affiliates was $0 and $727,000, respectively. These amounts were paid on balances that were previously intercompany prior to the separation from Murphy Oil and were settled in full at the separation date.

Transition Services Agreement

In conjunction with the separation, we entered into a Transition Services Agreement with Murphy Oil on August 30, 2013. This Transition Services Agreement sets forth the terms on which Murphy Oil provides to us, and we provide to Murphy Oil, on a temporary basis, certain services or functions that the companies have historically shared. Transition services include administrative, payroll, human resources, information technology and network transition services, tax, treasury and other support and corporate services. The Transition Services Agreement provides for the provision of specified transition services generally for a period of up to eighteen months, with a possible extension of six months, on a cost basis. We record the fee Murphy Oil charges us for these services as a component of general and administrative expenses.

We believe that the operating expenses and general and administrative expenses allocated to us prior to the separation and included in the accompanying consolidated and combined statements of income were a reasonable approximation of the costs related to Murphy USA's operations. However, such related-party transactions cannot be presumed to be carried out on an arm's-length basis as the terms were

negotiated while Murphy USA was still a subsidiary of Murphy Oil. At June 30, 2014, Murphy USA had a current receivable from Murphy Oil of $70,000 and a payable to Murphy Oil of $988,000 related to the Transition Services Agreement.

Note 3 – Discontinued Operations

In November 2013, the Company announced that it had entered into negotiations to sell its Hankinson, North Dakota ethanol production facility as part of management’s strategic plan to exit non-core businesses. On December 19, 2013, the Company sold its wholly-owned subsidiary Hankinson Renewable Energy, LLC which owned and operated an ethanol manufacturing facility in Hankinson, North Dakota, and its related assets for $170,000,000 plus working capital adjustments of approximately $3,118,000. During January 2014, the final adjustments to working capital were made and the Company received an additional $1.1 million in sales proceeds which has been included in discontinued operations for the period. The Company has accounted for all operations related to Hankinson Renewable, LLC as discontinued operations for all periods presented. The after-tax gain from disposal of the subsidiary (including associated inventories) was $52,542,000 in 2013 with an additional $781,000 in 2014 related to the final working capital adjustment.

The results of operations associated with the Hankinson discontinued operations for the 2013 period are presented in the following table.

(Thousands of dollars)	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Revenues	$ 100,490	$ 198,312
Income (loss) from operations before income taxes	11,243	13,543
Gain on sale before income taxes	—	—
Total income (loss) from discontinued operations before taxes	11,243	13,543
Provision for income taxes	3,934	4,740
Income (loss) from discontinued operations	$ 7,309	$ 8,803

Note 4 — Inventories

Inventories consisted of the following:

(Thousands of dollars)	June 30, 2014	December 31, 2013
Refined products and blendstocks - FIFO basis	$ 373,705	$ 372,531
Less LIFO reserve - refined products and blendstocks	(318,135)	(307,706)
Refined products and blendstocks - LIFO basis	55,570	64,825
Store merchandise for resale	93,649	97,058
Corn based products	11,782	12,447
Materials and supplies	5,034	4,725
Total inventories	$ 166,035	$ 179,055

At June 30, 2014 and December 31, 2013, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by $318,135,000 and $307,706,000, respectively. Corn based products consisted primarily of corn, dried distillers' grains with solubles (DDGS) and wet distillers' grains with solubles (WDGS), and were all valued on a first-in, first-out (FIFO) basis.

In the first quarter of 2014, the Company recognized a benefit of $17,781,000 related to a LIFO decrement that existed at that date that is not expected to be restored at year-end.

Note 5 — Long-Term Debt

Long-term debt consisted of the following:

(Thousands of dollars)	June 30, 2014	December 31, 2013
6% senior notes due 2023 (net of unamortized discount of $7,988)	$ 492,012	$ 491,578
Term loan due 2016 (effective rate of 3.71% at December 31, 2013)	—	70,000
Less current maturities	—	(14,000)
Total long-term debt	$ 492,012	$ 547,578

Senior Notes

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

The Senior Notes and the guarantees rank equally with all of our and the guarantors’ existing and future senior unsecured indebtedness and effectively junior to our and the guarantors’ existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets securing such indebtedness. The Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

We used the net proceeds of the Senior Notes, together with borrowings under the credit facilities, to finance a cash dividend of $650 million from Murphy Oil USA, Inc. to Murphy Oil paid in connection with the separation.

On June 17, 2014, we closed an exchange offer for our Senior Notes to make them eligible for public resale, as required by a registration rights agreement entered into in connection with the issuance of the Senior Notes. Approximately 99.96% of the Senior Notes were tendered for exchange.

Credit Facilities

On August 30, 2013, we entered into a credit agreement in connection with the separation from Murphy Oil. The credit agreement provides for a committed $450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a $150 million term facility. It also provides for a $200 million uncommitted incremental facility. The ABL facility is scheduled to mature on August 30, 2018, subject to the ability to extend for two additional one-year periods with the consent of the extending lenders. On August 30, 2013, Murphy Oil USA, Inc. borrowed $150 million under the term facility, together with the net proceeds of the offering of the Senior Notes, to finance a $650 million cash dividend from Murphy Oil USA, Inc. to Murphy Oil. The term facility was scheduled to mature on August 30, 2016, but was repaid in full in May 2014.

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

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

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

The ABL facility includes a $75 million sublimit on swingline loans and a $200 million sublimit for the issuance of letters of credit. Swingline loans and letters of credit issued under the ABL facility reduce availability under the ABL facility.

Interest payable on the credit facilities is based on either:

- the London interbank offered rate, adjusted for statutory reserve requirements (the “Adjusted LIBO Rate”); or

•the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum,

plus, (A) in the case of Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 2.75% to 3.00% per annum depending on a secured debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on the average availability under the ABL facility or (ii) with respect to the term facility, spreads ranging from 1.75% to 2.00% per annum depending on a secured debt to EBITDA ratio.

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

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

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a fixed charge coverage

ratio of a minimum of 1.0 to 1.0 when availability for at least three consecutive business days is less than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) $70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount). As of June 30, 2014, our fixed charge coverage ratio was 1.03. Prior to the repayment of the term loan, we were also subject to a maximum secured debt to EBITDA ratio of 4.5 to 1.0 at any time when term facility commitments or term loans thereunder were outstanding.

After giving effect to the applicable restrictions on certain payments, which could include dividends under the credit agreement and the indenture, and subject to compliance with applicable law, as of December 31, 2013, the Company had approximately $26.7 million of its net income and retained earnings free of such restrictions.

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

Note 6 — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at June 30, 2014 and December 31,