Murphy USA Inc.
Form 10-Q
November 08, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

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. __YesR 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). R 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 RSmaller reporting company __

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

YesR No

Number of shares of Common Stock, $0.01 par value, outstanding at September 30, 2013 was 46,743,316.

MURPHY USA INC.

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ITEM 1. FINANCIAL STATEMENTS

Murphy USA Inc.

Consolidated and Combined Balance Sheets

(Thousands of dollars)	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 64,347	$ 57,373
Marketable securities	198,152	-
Accounts receivable—trade, less allowance for doubtful accounts of $4,548 in 2013 and $4,576 in 2012	225,736	529,023
Inventories, at lower of cost or market	114,894	217,394
Prepaid expenses	12,941	18,172
Total current assets	616,070	821,962
Property, plant and equipment, at cost less accumulated depreciation and amortization of $656,604 in 2013 and $590,568 in 2012	1,248,632	1,169,960
Deferred charges and other assets	7,307	543
Total assets	$ 1,872,009	$ 1,992,465
Liabilities and Stockholders' Equity/Net Investment		
Current liabilities		
Current maturities of long-term debt	$ 48	$ 46
Trade accounts payable and accrued liabilities	459,246	705,487
Income taxes payable	35,486	15,605
Deferred income taxes	11,618	12,771
Total current liabilities	506,398	733,909
Long-term debt	642,449	1,124
Deferred income taxes	123,958	129,825
Asset retirement obligations	16,713	15,401
Deferred credits and other liabilities	19,023	7,755
Total liabilities	1,308,541	888,014
Stockholders' Equity/Net Investment		
Preferred Stock, par $0.01, (authorized 20,000,000 shares, none outstanding)	-	-
Common Stock, par $0.01, (authorized 200,000,000 shares at September 30, 2013, 46,743,316 shares issued and outstanding at September 30, 2013)	467	-
Additional paid in capital (APIC)	549,054	-
Net investment by parent	-	1,104,451
Retained earnings	13,947	-
Total stockholders' equity/net investment	563,468	1,104,451
Total liabilities and stockholders' equity/net investment	$ 1,872,009	$ 1,992,465

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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenues				
Petroleum product sales (a)	$ 4,032,651	$ 4,234,876	$ 11,971,146	$ 12,572,305
Merchandise sales	556,835	547,648	1,625,673	1,607,525
Ethanol sales and other	196,254	183,465	588,689	478,115
Total revenues	4,785,740	4,965,989	14,185,508	14,657,945
Costs and operating expenses				
Petroleum product cost of goods sold (a)	3,903,042	4,126,372	11,549,760	12,196,894
Merchandise cost of goods sold	483,513	468,736	1,414,772	1,388,818
Ethanol cost of goods sold	132,215	169,137	417,660	423,219
Station and other operating expenses	135,317	134,609	406,375	391,565
Depreciation and amortization	19,387	19,319	58,502	56,800
Selling, general and administrative	46,133	27,824	108,790	89,525
Accretion of asset retirement obligations	274	245	821	736
Total costs and operating expenses	4,719,881	4,946,242	13,956,680	14,547,557
Income from operations	65,859	19,747	228,828	110,388
Other income (expense)				
Interest income	354	30	1,088	68
Interest expense	(4,715)	(66)	(4,926)	(351)
Gain on sale of assets	5,972	89	5,980	163
Other nonoperating income	50	1	74	22
Total other income (expense)	1,661	54	2,216	(98)
Income before income taxes	67,520	19,801	231,044	110,290
Income tax expense	25,791	8,800	89,640	45,780
Net Income and Comprehensive Income	$ 41,729	$ 11,001	$ 141,404	$ 64,510
Earnings per share:				
Basic	$ 0.89	$ 0.24	$ 3.03	$ 1.38
Diluted	$ 0.89	$ 0.24	$ 3.02	$ 1.38
Weighted-average shares outstanding:				
Basic	46,743	46,743	46,743	46,743
Diluted	46,759	46,743	46,759	46,743
Supplemental information:				
(a) Includes excise taxes of:	$	$	$	$

	483,576	497,379	1,419,073	1,431,148

See notes to consolidated and combined financial statements.

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Murphy USA Inc.

Consolidated and Combined Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30,	
(Thousands of dollars)	2013	2012
Operating Activities		
Net income	$ 141,404	$ 64,510
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	58,502	56,800
Amortization of deferred major repair costs	813	510
Deferred and noncurrent income tax charges (credits)	(12,472)	(7,166)
Accretion on discounted liabilities	821	736
Pretax gains from sale of assets	(5,980)	(163)
Net decrease in noncash operating working capital	174,971	12,763
Other operating activities-net	11,897	603
Net cash provided by operating activities	369,956	128,593
Investing Activities		
Property additions	(122,071)	(75,469)
Proceeds from sale of assets	6,074	194
Expenditures for major repairs	(1,058)	(859)
Net (purchases) maturities of marketable securities	(198,152)	-
Other inventory activities-net	52	50
Net cash required by investing activities	(315,155)	(76,084)
Financing Activities		
Repayments of long-term debt	(34)	(31)
Additions to long-term debt	641,250	-
Cash dividend to former parent	(650,000)	-
Debt issuance costs	(6,649)	-
Net distributions to parent	(32,394)	(25,049)
Net cash required by financing activities	(47,827)	(25,080)
Net increase in cash and cash equivalents	6,974	27,429
Cash and cash equivalents at January 1	57,373	36,887
Cash and cash equivalents at September 30	$ 64,347	$ 64,316

See notes to consolidated and combined financial statements.

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Murphy USA Inc.

Consolidated and Combined Statements of Changes in Equity

(unaudited)

	Common Stock										
(Thousands of dollars, except share amounts)	Shares		Par		APIC		Net Parent Investment		Retained Earnings		Total
Balance as of December 31, 2012	-	$	-	$	-	$	1,104,451	$	-	$	1,104,451
Net income	-		-		-		127,457		13,947		141,404
Dividend paid to former parent	-		-		-		(650,000)		-		(650,000)
Net transfers to/between former parent	-		-		-		(32,847)		-		(32,847)
Issuance of stock at the separation and distribution	46,743,316		467		(467)		-		-		-
Reclassification of net parent investment to APIC	-		-		549,061		(549,061)		-		-
Share-based compensation expense	-		-		460		-		-		460
Balance as of September 30, 2013	46,743,316	$	467	$	549,054	$	-	$	13,947	$	563,468

See notes to consolidated and combined financial statements.

Murphy USA Inc.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note A — 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 certain ethanol production facilities 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 September 30, 2013, Murphy USA had a total of 1,185 Company stations. In October 2009, Murphy USA acquired an ethanol production facility located in Hankinson, North Dakota. The facility was originally designed to produce 110 million gallons of corn-based ethanol per year. Expansion of the plant occurred during 2012, bringing the overall ethanol production capacity to 135 million gallons per year. The Company 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 December 31, 2012 have been reflected on a historical basis, as all of the assets and liabilities presented were 100 percent owned by Murphy Oil at December 31, 2012 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 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. As a result, the combined results of operations for the three and nine months ended September 30, 2013 and 2012 are not necessarily indicative of the results that may be experienced in the future.

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 2010, 2011 and 2012, included in our Registration Statement on Form 10 (File No. 001-35914), as amended (the “Form 10”) filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Note B — 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 payment of interest expense to Murphy Oil for intercompany payables balances.

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

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and its other subsidiaries for these services of $16,421,000 and $17,306,000 for the three months ended September 30, 2013 and 2012, and $53,161,000 and $53,109,000 for the nine months ended September 30, 2013 and 2012, respectively. Included in the charges above are amounts recognized for stock-based compensation expense (Note G), as well as net periodic benefit expense associated with the Parent's retirement plans (Note H).

Included in Interest income in the Consolidated and Combined Statements of Income for the three months ended September 30, 2013 and 2012 was interest income from affiliates of $353,000 and $28,000, respectively. For the nine months ended September 30, 2013 and 2012, interest income from affiliates was $1,080,000 and $52,000, 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 and distribution, 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 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 September 30, 2013 Murphy USA had a receivable from Murphy Oil of $455,000 and a payable to Murphy Oil of $1,622,000 related to the Transition Services Agreement.

Note C — Inventories

Inventories consisted of the following:

(Thousands of dollars)	September 30, 2013	December 31, 2012
Crude oil and blendstocks	$ -	1,191
Refined products and blendstocks	10,223	75,128
Store merchandise for resale	88,160	96,473
Corn based products	9,357	38,923
Materials and supplies	7,154	5,679
	$ 114,894	217,394

At September 30, 2013 and December 31, 2012, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by $304,646,000 and $303,344,000, 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.

Note D — Long-Term Debt

Long-term debt consisted of the following:

(Thousands of dollars)	September 30, 2013	December 31, 2012
Loan for electrical facilities at the Hankinson, North Dakota ethanol plant, 6%, due through 2028	$ 1,136	$ 1,170
6% senior notes due 2023 (net of unamortized discount of $8,639)	491,361	-
Term loan due 2016 (effective rate of 3.71% at September 30, 2013)	150,000	-
Less current maturities	(48)	(46)
Total long-term debt	$ 642,449	$ 1,124

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 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain subsidiary guarantors 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 to Murphy Oil paid in connection with the separation.

In addition, we have entered into a registration rights agreement, which requires us to exchange the Senior Notes for notes eligible for public resale within 360 days of the issuance of the Senior Notes, or alternatively under certain circumstances, to file a shelf registration statement for public resale of the Senior Notes.

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. The term facility is scheduled to mature on August 30, 2016. 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 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 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 are 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 are 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

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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 well as a maximum secured debt to EBITDA ratio of 4.5 to 1.0 at any time when term facility commitments or term loans thereunder are outstanding. As of September 30, 2013, our secured leverage ratio and the fixed charge coverage ratio were 0.39 and 2.48, respectively.

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 E — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at September 30, 2013 and December 31, 2012 related to the estimated costs to dismantle and abandon certain of its retail gasoline stations. The Company has not recorded an ARO for certain of its marketing assets because sufficient information is presently not available to estimate a range of potential settlement dates for the obligation. These assets are consistently being upgraded and are expected to be operational into the foreseeable future. In these cases, the obligation will be initially recognized in the period in which sufficient information exists to estimate the obligation.

A reconciliation of the beginning and ending aggregate carrying amount of the ARO is shown in the following table.

(Thousands of dollars)	September 30, 2013	December 31, 2012
Balance at beginning of period	$ 15,401	13,190
Accretion expense	821	980
Liabilities incurred	491	1,231
Balance at end of period	$ 16,713	15,401

The estimation of future ARO is based on a number of assumptions requiring professional judgment. The Company cannot predict the type of revisions to these assumptions that may be required in future periods due to the availability of additional information.

Note F — Income Taxes

The Company's effective income tax rate generally exceeds the U.S. Federal statutory tax rate of 35%. The effective tax rate is calculated as the amount of income tax expense divided by income before income tax expense. For the three-month and nine-month periods ended September 30, 2013 and 2012, the Company's effective tax rates were as follows:

2013