
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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 is 000-4197

UNITED STATES LIME & MINERALS, INC.

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of
incorporation or organization)

75-0789226

(I.R.S. Employer
Identification No.)

5429 LBJ Freeway, Suite 230, Dallas, TX

(Address of principal executive offices)

75240

(Zip Code)

(972) 991-8400

(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 Website, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: As of October 26, 2017, 5,576,676 shares of common stock, \$0.10 par value, were outstanding.

PART I. FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS
UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands)
(Unaudited)

| | <u>September 30,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|---|-------------------------------------|------------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 82,245 | \$ 74,712 |
| Trade receivables, net | 18,242 | 16,781 |
| Inventories, net | 12,531 | 12,433 |
| Prepaid expenses and other current assets | 1,576 | 1,110 |
| Total current assets | <u>114,594</u> | <u>105,036</u> |
| Property, plant and equipment | | |
| Property, plant and equipment | 297,813 | 285,594 |
| Less accumulated depreciation and depletion | (190,216) | (180,613) |
| Property, plant and equipment, net | <u>107,597</u> | <u>104,981</u> |
| Other assets, net | 168 | 142 |
| Total assets | <u>\$ 222,359</u> | <u>\$ 210,159</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 4,921 | \$ 5,587 |
| Accrued expenses | 2,925 | 3,521 |
| Total current liabilities | <u>7,846</u> | <u>9,108</u> |
| Deferred tax liabilities, net | 18,784 | 19,832 |
| Other liabilities | 1,496 | 1,580 |
| Total liabilities | <u>28,126</u> | <u>30,520</u> |
| Stockholders' equity | | |
| Common stock | 657 | 657 |
| Additional paid-in capital | 23,975 | 22,831 |
| Accumulated other comprehensive income (loss) | 114 | (223) |
| Retained earnings | 223,076 | 209,770 |
| Less treasury stock, at cost | (53,589) | (53,396) |
| Total stockholders' equity | <u>194,233</u> | <u>179,639</u> |
| Total liabilities and stockholders' equity | <u>\$ 222,359</u> | <u>\$ 210,159</u> |

See accompanying notes to condensed consolidated financial statements.

UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)

(Unaudited)

| | <u>Three Months Ended September 30,</u> | | | | <u>Nine Months Ended September 30,</u> | | | |
|---|---|----------------|-----------------|----------------|--|----------------|------------------|----------------|
| | <u>2017</u> | | <u>2016</u> | | <u>2017</u> | | <u>2016</u> | |
| Revenues | | | | | | | | |
| Lime and limestone operations | \$ 36,428 | 98.6 % | \$ 38,096 | 98.6 % | \$ 107,910 | 98.5 % | \$ 103,626 | 98.6 % |
| Natural gas interests | 506 | 1.4 % | 554 | 1.4 % | 1,695 | 1.5 % | 1,490 | 1.4 % |
| | <u>36,934</u> | <u>100.0 %</u> | <u>38,650</u> | <u>100.0 %</u> | <u>109,605</u> | <u>100.0 %</u> | <u>105,116</u> | <u>100.0 %</u> |
| Cost of revenues | | | | | | | | |
| Labor and other operating expenses | 23,142 | 62.7 % | 24,064 | 62.3 % | 70,447 | 64.3 % | 67,603 | 64.3 % |
| Depreciation, depletion and amortization | 4,240 | 11.5 % | 4,017 | 10.4 % | 12,530 | 11.4 % | 11,855 | 11.3 % |
| | <u>27,382</u> | <u>74.2 %</u> | <u>28,081</u> | <u>72.7 %</u> | <u>82,977</u> | <u>75.7 %</u> | <u>79,458</u> | <u>75.6 %</u> |
| Gross profit | 9,552 | 25.8 % | 10,569 | 27.3 % | 26,628 | 24.3 % | 25,658 | 24.4 % |
| Selling, general and administrative expenses | 2,657 | 7.2 % | 2,482 | 6.4 % | 7,595 | 6.9 % | 7,213 | 6.9 % |
| Operating profit | <u>6,895</u> | <u>18.6 %</u> | <u>8,087</u> | <u>20.9 %</u> | <u>19,033</u> | <u>17.4 %</u> | <u>18,445</u> | <u>17.5 %</u> |
| Other expense (income) | | | | | | | | |
| Interest expense | 56 | 0.1 % | 63 | 0.2 % | 174 | 0.2 % | 185 | 0.1 % |
| Other income, net | (261) | (0.7)% | (115) | (0.3)% | (665) | (0.6)% | (238) | (0.2)% |
| | <u>(205)</u> | <u>(0.6)%</u> | <u>(52)</u> | <u>(0.1)%</u> | <u>(491)</u> | <u>(0.4)%</u> | <u>(53)</u> | <u>(0.1)%</u> |
| Income before income taxes | 7,100 | 19.2 % | 8,139 | 21.0 % | 19,524 | 17.8 % | 18,498 | 17.6 % |
| Income tax expense | 1,433 | 3.9 % | 2,058 | 5.3 % | 3,959 | 3.6 % | 4,664 | 4.4 % |
| Net income | <u>\$ 5,667</u> | <u>15.3 %</u> | <u>\$ 6,081</u> | <u>15.7 %</u> | <u>\$ 15,565</u> | <u>14.2 %</u> | <u>\$ 13,834</u> | <u>13.2 %</u> |
| Net income per share of common stock | | | | | | | | |
| Basic | <u>\$ 1.02</u> | | <u>\$ 1.09</u> | | <u>\$ 2.79</u> | | <u>\$ 2.48</u> | |
| Diluted | <u>\$ 1.01</u> | | <u>\$ 1.09</u> | | <u>\$ 2.79</u> | | <u>\$ 2.48</u> | |
| Cash dividends per share of common stock | <u>\$ 0.135</u> | | <u>\$ 0.125</u> | | <u>\$ 0.405</u> | | <u>\$ 0.375</u> | |

See accompanying notes to condensed consolidated financial statements.

UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(Unaudited)

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---|---|-----------------|--|------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Net income | \$ 5,667 | \$ 6,081 | \$ 15,565 | \$ 13,834 |
| Other comprehensive income | | | | |
| Mark to market of foreign exchange hedges, net of tax expense of \$34 and \$195 for the three months and nine months ended September 30, 2017, respectively | 58 | — | 337 | — |
| Total other comprehensive income | 58 | — | 337 | — |
| Comprehensive income | <u>\$ 5,725</u> | <u>\$ 6,081</u> | <u>\$ 15,902</u> | <u>\$ 13,834</u> |

See accompanying notes to condensed consolidated financial statements.

UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(Unaudited)

| | <u>Nine Months Ended September 30,</u> | |
|---|--|------------------|
| | <u>2017</u> | <u>2016</u> |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 15,565 | \$ 13,834 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 12,711 | 12,032 |
| Amortization of deferred financing costs | 11 | 11 |
| Deferred income taxes | (1,243) | 311 |
| Loss on disposition of property, plant and equipment | 78 | 107 |
| Stock-based compensation | 1,073 | 778 |
| Changes in operating assets and liabilities: | | |
| Trade receivables, net | (1,461) | (3,496) |
| Inventories, net | (448) | 2,015 |
| Prepaid expenses and other current assets | (325) | 700 |
| Other assets | 2 | 5 |
| Accounts payable and accrued expenses | (1,963) | (341) |
| Other liabilities | (42) | (86) |
| Net cash provided by operating activities | <u>23,958</u> | <u>25,870</u> |
| INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (14,504) | (12,230) |
| Proceeds from sale of property, plant and equipment | 459 | 126 |
| Net cash used in investing activities | <u>(14,045)</u> | <u>(12,104)</u> |
| FINANCING ACTIVITIES: | | |
| Cash dividends paid | (2,259) | (2,087) |
| Proceeds from exercise of stock options | 72 | 153 |
| Purchase of treasury shares | (193) | (2,818) |
| Net cash used in financing activities | <u>(2,380)</u> | <u>(4,752)</u> |
| Net increase in cash and cash equivalents | 7,533 | 9,014 |
| Cash and cash equivalents at beginning of period | 74,712 | 59,926 |
| Cash and cash equivalents at end of period | <u>\$ 82,245</u> | <u>\$ 68,940</u> |

See accompanying notes to condensed consolidated financial statements.

UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by United States Lime & Minerals, Inc. (the “Company”) without independent audit. In the opinion of the Company’s management, all adjustments of a normal and recurring nature necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for the periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the period ended December 31, 2016. The results of operations for the three- and nine-month periods ended September 30, 2017 are not necessarily indicative of operating results for the full year.

2. Organization

The Company is headquartered in Dallas, Texas, and operates through two business segments. Through its Lime and Limestone Operations, the Company is a manufacturer of lime and limestone products, supplying primarily the construction (including highway, road and building contractors), environmental (including municipal sanitation and water treatment facilities and flue gas treatment processes), industrial (including paper and glass manufacturers), metals (including steel producers), roof shingle, oil and gas services and agriculture (including poultry and cattle feed producers) industries. The Company operates lime and limestone plants and distribution facilities in Arkansas, Colorado, Louisiana, Oklahoma and Texas through its wholly owned subsidiaries, Arkansas Lime Company, Colorado Lime Company, Texas Lime Company, U.S. Lime Company, U.S. Lime Company – Shreveport, U.S. Lime Company – St. Clair and U.S. Lime Company – Transportation.

The Company’s Natural Gas Interests segment is held in its wholly owned subsidiary, U.S. Lime Company – O & G, LLC (“U.S. Lime O & G”). Under a lease agreement (the “O & G Lease”), U.S. Lime O & G has royalty interests ranging from 15.4% to 20% and a 20% non-operating working interest, resulting in an overall average revenue interest of 34.7%, with respect to oil and gas rights in 33 wells drilled and currently producing on the Company’s approximately 3,800 acres of land located in Johnson County, Texas, in the Barnett Shale Formation. Through U. S. Lime O & G, the Company also has a drillsite and production facility lease agreement and subsurface easement (the “Drillsite Agreement”) relating to approximately 538 acres of land contiguous to the Company’s Johnson County, Texas property. Pursuant to the Drillsite Agreement, the Company receives a 3% royalty interest and a 12.5% non-operating working interest, resulting in a 12.4% revenue interest, in the six wells drilled and currently producing from pad sites located on the Company’s property.

3. Accounting Policies

Revenue Recognition. The Company recognizes revenue for its Lime and Limestone Operations in accordance with the terms of its purchase orders, contracts or purchase agreements, which are generally upon shipment, and when payment is considered probable. Revenues include external freight billed to customers with related costs in cost of revenues. The Company’s returns and allowances are minimal. External freight billed to customers included in 2017 and 2016 revenues was \$5.8 million and \$6.7 million for the three-month periods, and \$17.8 million and \$17.6 million for the nine-month periods, respectively, which approximates the amount of external freight included in cost of revenues. Sales taxes billed to customers are not included in revenues. For its Natural Gas Interests, the Company recognizes revenue in the month of production and delivery.

Successful-Efforts Method Used for Natural Gas Interests. The Company uses the successful-efforts method to account for oil and gas exploration and development expenditures. Under this method, drilling, completion and workover costs for successful exploratory wells and all development well costs are capitalized and depleted using the units-of-production method. Costs to drill exploratory wells that do not find proved reserves are expensed.

Comprehensive Income. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as mark-to-market gains or losses on interest rate and foreign exchange derivative instruments designated as hedges, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

Fair Values of Financial Instruments. Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” The Company uses a three-tier fair value hierarchy, which classifies the inputs used in measuring fair values, in determining the fair value of its financial assets and liabilities. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Specific inputs used to value the Company’s foreign exchange hedges were Euro to U.S. Dollar exchange rates for the expected future payment dates for the Company’s commitments denominated in Euros. See Note 6. There were no changes in the methods and assumptions used in measuring fair value.

The Company’s financial assets and liabilities measured at fair value on a recurring basis at September 30, 2017 and December 31, 2016, respectively, are summarized below (in thousands):

| | | | Significant Other Observable Inputs (Level 2) | | Valuation Technique |
|-------------------------|-----------------------|----------------------|---|----------------------|---------------------|
| | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 | |
| Foreign exchange hedges | \$ 181 | \$ (352) | \$ 181 | \$ (352) | Cash flows approach |

New Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers,” which stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract(s); (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract(s); and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will be effective for the Company beginning January 1, 2018, with early adoption permitted for annual periods beginning after December 15, 2016. Almost all of the Company’s purchase orders, contracts or purchase agreements do not contain performance obligations other than delivery of the agreed upon product, which is primarily FOB shipping point. Thus, the Company generally recognizes revenue upon shipment of the product. While the Company is still in the process of completing an analysis of all of its revenue generating activities and the contracts which might impact its revenue generating activities in light of the new standard, the Company does not believe that any of its revenue streams will be materially affected by the adoption of ASU 2014-09, and therefore it does not expect its Consolidated Statements of Operations will be materially affected. The Company plans to adopt ASU 2014-09 beginning January 1, 2018 using the modified retrospective approach and recognize a cumulative effect of the change, if any, to opening retained earnings in the year of adoption.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), “Leases,” which requires the recognition of lease assets and lease liabilities by lessees for all leases greater than one year in duration and classified as operating leases under previous guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those periods, with early adoption permitted. ASU 2016-02 must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. As of December 31, 2016, the Company’s undiscounted minimum contractual commitments under long-term leases, which were not recorded on the Company’s December 31, 2016 Consolidated Balance Sheet, was \$6.8 million, which is an estimate of the effect on total assets and total liabilities that the new

accounting standard could have on that date. The Company is currently evaluating the effect that this standard will have on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 ("ASU 2016-09"), "Compensation – Stock Compensation," which requires that excess tax benefits (which represent the excess of actual tax benefits received at the date of vesting or settlement over the vesting period or upon issuance of share-based payments) and tax deficiencies (which represents the amount by which actual tax benefits received at the date of vesting or settlement is lower than the benefits recognized over the vesting period or upon issuance of share-based payments) be recorded in the income statement as a reduction or increase of income taxes when an award vests. It also requires excess tax benefits to be classified as an operating activity in the statement of cash flows rather than a financing activity. In addition, it simplifies other aspects of share-based payment transactions, including classification of awards that permit repurchase to satisfy statutory tax withholding requirements and classification of tax payments on behalf of employees on the statement of cash flows. The Company adopted this guidance in the first quarter 2017, and it did not have a material effect on the Company's Condensed Consolidated Financial Statements.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12 ("ASU 2017-12"), "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This standard better aligns an entity's risk management activities and financial reporting for hedging relationships and enhances the transparency and understandability of hedge results through improved disclosures. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company is currently assessing the effect that this standard will have on the Company's Consolidated Financial Statements.

4. Business Segments

The Company has identified two business segments based on the distinctness of their activities and products: Lime and Limestone Operations and Natural Gas Interests. All operations are in the United States. In evaluating the operating results of the Company's segments, management primarily reviews revenues and gross profit. The Company does not allocate corporate overhead or interest costs to its business segments.

The following table sets forth operating results and certain other financial data for the Company's two business segments (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | |
| Lime and limestone operations | \$ 36,428 | \$ 38,096 | \$ 107,910 | \$ 103,626 |
| Natural gas interests | 506 | 554 | 1,695 | 1,490 |
| Total revenues | <u>\$ 36,934</u> | <u>\$ 38,650</u> | <u>\$ 109,605</u> | <u>\$ 105,116</u> |
| Depreciation, depletion and amortization | | | | |
| Lime and limestone operations | \$ 4,048 | \$ 3,827 | \$ 11,935 | \$ 11,279 |
| Natural gas interests | 192 | 190 | 595 | 576 |
| Total depreciation, depletion and amortization | <u>\$ 4,240</u> | <u>\$ 4,017</u> | <u>\$ 12,530</u> | <u>\$ 11,855</u> |
| Gross profit (loss) | | | | |
| Lime and limestone operations | \$ 9,476 | \$ 10,503 | \$ 26,218 | \$ 25,677 |
| Natural gas interests | 76 | 66 | 410 | (19) |
| Total gross profit | <u>\$ 9,552</u> | <u>\$ 10,569</u> | <u>\$ 26,628</u> | <u>\$ 25,658</u> |
| Capital expenditures | | | | |
| Lime and limestone operations | \$ 6,362 | \$ 4,320 | \$ 14,502 | \$ 12,216 |
| Natural gas interests | — | 10 | 2 | 14 |
| Total capital expenditures | <u>\$ 6,362</u> | <u>\$ 4,330</u> | <u>\$ 14,504</u> | <u>\$ 12,230</u> |

5. Income Per Share of Common Stock

The following table sets forth the computation of basic and diluted income per common share (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income for basic and diluted income per common share | \$ 5,667 | \$ 6,081 | \$ 15,565 | \$ 13,834 |
| Weighted-average shares for basic income per common share | 5,577 | 5,565 | 5,577 | 5,569 |
| Effect of dilutive securities: | | | | |
| Employee and director stock options ⁽¹⁾ | 10 | 4 | 9 | 3 |
| Adjusted weighted-average shares and assumed exercises for diluted income per common share | 5,587 | 5,569 | 5,586 | 5,572 |
| Basic net income per common share | \$ 1.02 | \$ 1.09 | \$ 2.79 | \$ 2.48 |
| Diluted net income per common share | \$ 1.01 | \$ 1.09 | \$ 2.79 | \$ 2.48 |

(1) Excludes 7.5 stock options for the 2016 periods as anti-dilutive because the exercise price exceeded the average per share market price for the period.

6. Accumulated Other Comprehensive Income (Loss)

The following table presents the components of comprehensive income (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|----------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$ 5,667 | \$ 6,081 | \$ 15,565 | \$ 13,834 |
| Mark to market of foreign exchange hedges | 92 | — | 532 | — |
| Deferred income tax expense | (34) | — | (195) | — |
| Comprehensive income | \$ 5,725 | \$ 6,081 | \$ 15,902 | \$ 13,834 |

In November 2016, to hedge against potential losses due to changes in the Euro to U.S. Dollar exchange rates, the Company entered into foreign exchange (“FX”) hedges with Wells Fargo Bank, N.A. as the counterparty to the FX hedges to fix the exchange rate for 5.5 million Euros in connection with a contractual obligation related to the St. Clair kiln project. The Company will be exposed to credit losses in the event of non-performance by the counterparty to the FX hedges. The FX hedges have been effective as defined under applicable accounting rules. Therefore, changes in fair value of the FX hedges are reflected in comprehensive income. Due to the weakening of the U.S. Dollar, compared to the Euro, in the 2017 periods, the change in the fair value of the remaining 3.7 million Euro FX hedges resulted in an asset of \$181 thousand at September 30, 2017, which is included in prepaid expenses and other current assets (\$142 thousand) and other assets, net (\$39 thousand) at September 30, 2017. Due to the strengthening of the U.S. Dollar, compared to the Euro, in the period from when the Company entered into the FX hedges through December 31, 2016, the fair value of the FX hedges resulted in a liability of \$352 thousand at December 31, 2016, which is included in accrued expenses (\$309 thousand) and other liabilities (\$43 thousand) at December 31, 2016.

7. Inventories, Net

Inventories are valued principally at the lower of cost, determined using the average cost method, or market. Costs for raw materials and finished goods include materials, labor, and production overhead. Inventories, net consisted of the following (in thousands):

| | <u>September 30,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|---------------------------------|-------------------------------------|------------------------------------|
| Lime and limestone inventories: | | |
| Raw materials | \$ 4,502 | \$ 4,811 |
| Finished goods | 1,852 | 2,070 |
| | \$ 6,354 | \$ 6,881 |
| Service parts inventories | 6,177 | 5,552 |
| | <u>\$ 12,531</u> | <u>\$ 12,433</u> |

8. Banking Facilities and Debt

The Company's credit agreement with Wells Fargo Bank, N.A. (the "Lender") provides for a \$75 million revolving credit facility (the "Revolving Facility") and an incremental four-year accordion feature to borrow up to an additional \$50 million on the same terms, subject to approval by the Lender or another lender selected by the Company. The Revolving Facility and any incremental loan mature on May 7, 2020. Interest rates are, at the Company's option, LIBOR plus a margin of 1.000% to 2.000%, or the Lender's Prime Rate plus a margin of 0.000% to 1.000%; and a commitment fee range of 0.200% to 0.350% on the undrawn portion of the Revolving Facility. The Revolving Facility interest rate margins and commitment fee are determined quarterly in accordance with a pricing grid based upon the Company's Cash Flow Leverage Ratio, defined as the ratio of the Company's total funded senior indebtedness to earnings before interest, taxes, depreciation, depletion, amortization and stock-based compensation expense ("EBITDA") for the 12 months ended on the last day of the most recent calendar quarter, plus pro forma EBITDA from any businesses acquired during the period. Pursuant to a security agreement, dated August 25, 2004, the Revolving Facility is secured by the Company's existing and hereafter acquired tangible assets, intangible assets and real property. The maturity of the Revolving Facility and any incremental loans can be accelerated if any event of default, as defined under the credit agreement, occurs. The Company's maximum Cash Flow Leverage Ratio is 3.50 to 1. As of October 27, 2016, the Company amended its credit agreement to increase the letter of credit sublimit under the Revolving Facility from \$5 million to \$10 million.

The Company may pay dividends so long as it remains in compliance with the provisions of the Company's credit agreement, and may purchase, redeem or otherwise acquire shares of its common stock so long as its pro forma Cash Flow Leverage Ratio is less than 3.00 to 1.00 and no default or event of default exists or would exist after giving effect to such stock repurchase.

As of September 30, 2017, the Company had no debt outstanding and no draws on the Revolving Facility other than \$7.0 million of letters of credit, including \$6.5 million related to the St. Clair kiln project, which count as draws against the available commitment under the Revolving Facility.

9. Income Taxes

The Company has estimated that its effective income tax rate for 2017 will be 20.3%. The primary reasons for the effective rate being below the federal statutory rate is due to statutory depletion, which is allowed for income tax purposes and is a permanent difference between net income for financial reporting purposes and taxable income, and income tax credits associated with the ongoing construction of the St. Clair kiln project.

10. Dividends

On September 15, 2017, the Company paid \$0.8 million in cash dividends, based on a dividend of \$0.135 (13.5 cents) per share on its common stock, to shareholders of record at the close of business on August 25, 2017. On June 16, 2017, the Company paid \$0.8 million in cash dividends, based on a dividend of \$0.135 (13.5 cents) per share on its

common stock, to shareholders of record at the close of business on May 26, 2017. On March 17, 2017, the Company paid \$0.8 million in cash dividends, based on a dividend of \$0.135 (13.5 cents) per share on its common stock, to shareholders of record at the close of business on February 24, 2017.

11. Subsequent Event

On October 26, 2017, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.135 (13.5 cents) per share on the Company's common stock. This dividend is payable on December 15, 2017 to shareholders of record at the close of business on November 24, 2017.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements. Any statements contained in this Report that are not statements of historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report, including without limitation statements relating to the Company's plans, strategies, objectives, expectations, intentions, and adequacy of resources, are identified by such words as "will," "could," "should," "would," "believe," "possible," "potential," "expect," "intend," "plan," "schedule," "estimate," "anticipate," and "project." The Company undertakes no obligation to publicly update or revise any forward-looking statements. The Company cautions that forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from expectations, including without limitation the following: (i) the Company's plans, strategies, objectives, expectations, and intentions are subject to change at any time at the Company's discretion; (ii) the Company's plans and results of operations will be affected by its ability to maintain and increase its revenues and manage its growth; (iii) the Company's ability to meet short-term and long-term liquidity demands, including meeting the Company's operating and capital needs, including for the modernization and expansion and development project at St. Clair and possible acquisitions, repurchasing the Company's common stock and paying dividends, and conditions in the credit and equity markets, including the ability of the Company's customers to meet their obligations; (iv) interruptions to operations and increased expenses at the Company's facilities resulting from changes in mining methods or conditions, variability of chemical or physical properties of the Company's limestone and its impact on process equipment and product quality, inclement weather conditions, natural disasters, accidents, IT systems failures or disruptions, including due to cybersecurity incidents, or regulatory requirements; (v) volatile coal, petroleum coke, diesel, natural gas, electricity, transportation and freight costs and the consistent availability of trucks, truck drivers, and rail cars to deliver the Company's products to its customers and solid fuels to its plants on a timely basis; (vi) unanticipated delays or cost overruns in completing modernization and expansion and development projects, including the Company's St. Clair kiln project that is estimated to cost approximately \$50 million through 2018; (vii) the Company's ability to expand its Lime and Limestone Operations through projects and acquisitions of businesses with related or similar operations, including obtaining financing for such projects and acquisitions, and to sell any resulting increased production at acceptable prices; (viii) inadequate demand and/or prices for the Company's lime and limestone products due to conditions in the U.S. economy, recessionary pressures in particular industries, including construction, steel, industrial and oil and gas services, reduced demand from utility plants, increased competition from competitors, effects of governmental fiscal and budgetary constraints, including the level and timing of highway construction funding, tax reform efforts, legislative impasses, and economic and regulatory uncertainties under state governments and the United States Administration and Congress, and inability to continue to maintain or increase prices for the Company's products; (ix) uncertainties of prices and regulations with respect to the Company's Natural Gas Interests, including the absence of drilling activities on the Company's O & G Properties, the change in the operator of the wells drilled on the O & G Properties, inability to explore for new reserves, unitization of existing wells, declines in production rates and plugging and abandoning of existing wells; (x) ongoing and possible new regulations, investigations, enforcement actions and costs, legal expenses, penalties, fines, assessments, litigation, judgments and settlements, taxes and disruptions and limitations of operations, including those related to climate change and health and safety and those that could impact the Company's ability to continue or renew its operating permits or successfully secure new permits in connection with its modernization and expansion and development projects; and (xi) other risks and uncertainties set forth in this Report or indicated from time to time in the Company's filings with the Securities and Exchange Commission (the "SEC"), including the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Overview.

The Company has two operating segments: Lime and Limestone Operations and Natural Gas Interests. Revenues and gross profit are the primary items utilized to evaluate the operating results of the Company's segments and to allocate resources.

Through its Lime and Limestone Operations, the Company is a manufacturer of lime and limestone products, supplying primarily the construction (including highway, road and building contractors), environmental (including municipal sanitation and water treatment facilities and flue gas treatment processes), industrial (including paper and glass manufacturers), metals (including steel producers), roof shingle, oil and gas services and agriculture (including poultry

and cattle feed producers) industries. The Company is headquartered in Dallas, Texas and operates lime and limestone plants and distribution facilities in Arkansas, Colorado, Louisiana, Oklahoma and Texas through its wholly owned subsidiaries, Arkansas Lime Company, Colorado Lime Company, Texas Lime Company, U.S. Lime Company, U.S. Lime Company – Shreveport, U.S. Lime Company – St. Clair and U.S. Lime Company – Transportation. The Lime and Limestone Operations represent the Company’s principal business.

The Company’s Natural Gas Interests are held in its wholly owned subsidiary, U.S. Lime Company – O & G, LLC, and consist of royalty and non-operating working interests under the O & G Lease with EOG Resources, Inc. (“EOG”) and the Drillsite Agreement with XTO Energy, Inc. related to the Company’s Johnson County, Texas property, located in the Barnett Shale Formation, on which Texas Lime Company conducts its lime and limestone operations. Affiliated companies of Enervest, Ltd. have purchased EOG’s interests in the O & G Lease, and an affiliate of Enervest, Ltd. is now the successor operator of the wells drilled under the O & G Lease. No new wells have been drilled or completed on the O&G Properties since 2011. The Company cannot predict if any additional wells will be drilled on the O & G Properties, or their results.

Revenues from the Company’s Lime and Limestone Operations decreased 4.4% in the third quarter 2017, compared to the third quarter 2016, and increased 4.1% in the first nine months 2017, compared to the first nine months 2016. The decrease in revenues in the third quarter 2017 resulted from decreased sales volumes of 4.4% for the Company’s lime and limestone products, principally from its environmental and construction customers, offset in part by increased demand from its oil and gas services customers. The Company’s facilities in the affected region suffered only minor damages due to Hurricane Harvey, but demand from certain of its construction customers during the third quarter was adversely impacted by the storm.

The increase in the Company’s lime and limestone revenues in the first nine months 2017 resulted primarily from increased sales volumes of 3.1%, due to increased demand from its oil and gas services and construction customers, partially offset by reduced demand from its environmental customers. Prices realized for the Company’s lime and limestone products were flat in the third quarter 2017, compared to the third quarter 2016, and 0.2% higher in the first nine months 2017, compared to the comparable 2016 period.

The Company’s gross profit from its Lime and Limestone Operations decreased by 9.8% in the third quarter 2017 and increased by 2.1% in the first nine months 2017, compared to the comparable 2016 periods. The decreased gross profit for the Company’s Lime and Limestone Operations in the third quarter 2017, compared to the third quarter 2016, resulted primarily from the decreased revenues in the third quarter 2017 discussed above. The increased gross profit in the first nine months 2017, compared to the comparable 2016 period, resulted primarily from the increased revenues in the first nine months 2017 discussed above.

Revenues from the Company’s Natural Gas Interests decreased 8.7% in the third quarter 2017, compared to the third quarter 2016. The decrease in revenues from Natural Gas Interests in the third quarter 2017 resulted primarily from a 12.5% decrease in production volumes due to the normal declines in production rates on the Company’s 39 existing wells, partially offset by 3.8% higher natural gas and natural gas liquids prices. Revenues from the Company’s Natural Gas Interests increased 13.8% in the first nine months 2017, compared to the comparable 2016 period, primarily from 26.6% higher natural gas and natural gas liquids prices, partially offset by a 12.8% decrease in production volumes due to the normal declines in production rates on the Company’s 39 existing wells. The Company’s gross profit from its Natural Gas Interests was flat at \$0.1 million in each of the third quarters 2017 and 2016 and increased to \$0.4 million in the first nine months 2017, compared to a loss of \$19 thousand in the comparable 2016 period, which resulted primarily from the increase in revenues in the first nine months 2017 discussed above.

In the fourth quarter 2016, the Company began a modernization and expansion and development project at its St. Clair plant in Oklahoma, including construction of a new, more fuel-efficient vertical kiln and related plant improvements. Work on the St. Clair kiln project is moving forward. Through September 30, 2017, the Company had incurred approximately \$10.3 million of costs on the St. Clair kiln project, and had remaining outstanding commitments of approximately \$20.0 million related to the project as of such date. The Company estimates that the St. Clair kiln project will cost approximately \$50 million and be completed by the end of 2018.

In December 2015, the Company commenced a publicly announced share repurchase program to purchase up to \$10 million of its common stock. In November 2016, the Company announced a 12-month extension of the repurchase program to repurchase up to the \$7.2 million of its common stock remaining under the program. No shares have been repurchased under the program since the first quarter 2016, when the Company repurchased 50,068 shares at a weighted-average price of \$53.52 per share. Since the commencement of the share repurchase program through the date of this Report, the Company has repurchased 53,154 shares at a weighted-average price of \$53.59 per share.

The Company paid its regular quarterly cash dividend of \$0.135 (13.5 cents) per share on its common stock in each of the first three quarters 2017. On October 26, 2017, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.135 (13.5 cents) per share on the Company's common stock. This dividend is payable on December 15, 2017 to shareholders of record at the close of business on November 24, 2017.

Liquidity and Capital Resources.

Net cash provided by operating activities was \$24.0 million in the first nine months 2017, compared to \$25.9 million in the comparable 2016 period, a decrease of \$1.9 million, or 7.4%. Net cash provided by operating activities is composed of net income, depreciation, depletion and amortization ("DD&A"), deferred income taxes and other non-cash items included in net income, and changes in working capital. In the first nine months 2017, cash provided by operating activities was principally composed of \$15.6 million net income and \$12.7 million DD&A, partially offset by a \$1.2 million decrease in deferred income taxes, compared to \$13.8 million net income and \$12.0 million DD&A in the first nine months 2016. The most significant changes in working capital items in the first nine months 2017 were an increase in trade receivables, net of \$1.5 million, an increase in inventories, net, of \$0.4 million, an increase in prepaid expenses and other current assets of \$0.3 million and a decrease in accounts payable and accrued expenses of \$2.0 million. The most significant changes in working capital items in the first nine months 2016 were an increase in trade receivables, net, of \$3.5 million, a decrease in inventories of \$2.0 million and a decrease in prepaid expenses and other current assets of \$0.7 million. The increase in trade receivables, net in the 2017 and 2016 first nine-month periods primarily resulted from increased revenues in the third quarter 2017, compared to the fourth quarter 2016, and increased revenues in the third quarter 2016, compared to the fourth quarter 2015, respectively.

The Company had \$14.5 million in capital expenditures in the first nine months 2017, including approximately \$6.4 million on the St. Clair kiln project, compared to \$12.2 million in the comparable period last year.

Net cash used in financing activities was \$2.4 million and \$4.8 million in the 2017 and 2016 first nine months, respectively, consisting of purchase of treasury shares of \$0.2 million and \$2.8 million in the first nine months 2017 and 2016, respectively. Additionally, the Company paid \$2.3 million and \$2.1 million in dividends during the first nine months 2017 and 2016, respectively.

Cash and cash equivalents increased \$7.5 million to \$82.2 million at September 30, 2017, from \$74.7 million at December 31, 2016.

The Company's credit agreement with Wells Fargo Bank, N.A. (the "Lender") provides for a \$75 million revolving credit facility (the "Revolving Facility") and an incremental four-year accordion feature to borrow up to an additional \$50 million on the same terms, subject to approval by the Lender or another lender selected by the Company. The Revolving Facility and any incremental loan mature on May 7, 2020. Interest rates are, at the Company's option, LIBOR plus a margin of 1.000% to 2.000%, or the Lender's Prime Rate plus a margin of 0.000% to 1.000%; and a commitment fee range of 0.200% to 0.350% on the undrawn portion of the Revolving Facility. The Revolving Facility interest rate margins and commitment fee are determined quarterly in accordance with a pricing grid based upon the Company's Cash Flow Leverage Ratio, defined as the ratio of the Company's total funded senior indebtedness to earnings before interest, taxes, depreciation, depletion, amortization and stock-based compensation expense ("EBITDA") for the 12 months ended on the last day of the most recent calendar quarter, plus pro forma EBITDA from any businesses acquired during the period. Pursuant to a security agreement, dated August 25, 2004, the Revolving Facility is secured by the Company's existing and hereafter acquired tangible assets, intangible assets and real property. The maturity of the Revolving Facility and any incremental loans can be accelerated if any event of default, as defined under the credit agreement, occurs. The Company's maximum Cash Flow Leverage Ratio is 3.50 to 1. As of October 27, 2016, the

Company amended its credit agreement to increase the letter of credit sublimit under the Revolving Facility from \$5 million to \$10 million.

The Company may pay dividends so long as it remains in compliance with the provisions of the Company's credit agreement, and may purchase, redeem or otherwise acquire shares of its common stock so long as its pro forma Cash Flow Leverage Ratio is less than 3.00 to 1.00 and no default or event of default exists or would exist after giving effect to such stock repurchase.

The Company is not contractually committed to any planned capital expenditures until actual orders are placed for equipment. As of September 30, 2017, the Company had no material open orders or commitments that are not included in current liabilities on the September 30, 2017 Condensed Consolidated Balance Sheet other than approximately \$20.0 million related to the St. Clair kiln project.

In November 2016, to hedge against potential losses due to changes in the Euro to U.S. Dollar exchange rates, the Company entered into foreign exchange ("FX") hedges with Wells Fargo Bank, N.A. as the counterparty to the FX hedges to fix the exchange rate for 5.5 million Euros in connection with a contractual obligation related to the St. Clair kiln project. The Company will be exposed to credit losses in the event of non-performance by the counterparty to the FX hedges. The FX hedges have been effective as defined under applicable accounting rules. Therefore, changes in fair value of the FX hedges are reflected in comprehensive income. Due to the weakening of the U.S. Dollar, compared to the Euro, in the 2017 periods, the fair value of the FX hedges resulted in an asset of \$181 thousand at September 30, 2017, which is included in prepaid expenses and other current assets (\$141 thousand) and other assets, net (\$40 thousand) at September 30, 2017. Due to the strengthening of the U.S. Dollar, compared to the Euro, in the period from when the Company entered into the FX hedges through December 31, 2016, the fair value of the FX hedges resulted in a liability of \$352 thousand at December 31, 2016, which is included in accrued expenses (\$309 thousand) and other liabilities (\$43 thousand) at December 31, 2016.

As of September 30, 2017, the Company had no debt outstanding and no draws on the Revolving Facility other than \$7.0 million of letters of credit, including \$6.5 million related to the St. Clair kiln project, which count as draws against the available commitment under the Revolving Facility. The Company believes that, absent a significant acquisition, cash on hand and cash flows from operations will be sufficient to meet the Company's operating needs, ongoing capital needs, including current and possible modernization and expansion and development projects, including the kiln project at St. Clair, and liquidity needs and allow it to continue to repurchase up to \$7.2 million of its common stock remaining to be repurchased under its extended share repurchase program as well as pay its regular cash dividends for the near future.

Results of Operations.

Revenues in the third quarter 2017 were \$36.9 million, compared to \$38.7 million in the comparable prior year quarter, a decrease of \$1.7 million, or 4.4%. Revenues from the Company's Lime and Limestone Operations in the third quarter 2017 decreased \$1.7 million, or 4.4%, to \$36.4 million from \$38.1 million in the comparable 2016 quarter, while revenues from its Natural Gas Interests decreased \$48 thousand, or 8.7%, to \$506 thousand from \$554 thousand in the comparable prior year quarter. In the first nine months 2017, revenues were \$109.6 million, compared to \$105.1 million in the comparable 2016 period, an increase of \$4.5 million, or 4.3%. Revenues from the Company's Lime and Limestone Operations in the first nine months 2017 increased \$4.3 million, or 4.1%, to \$107.9 million from \$103.6 million in the comparable 2016 period, while revenues from its Natural Gas Interests increased \$0.2 million, or 13.8%, to \$1.7 million from \$1.5 million in the comparable prior year period.

As discussed above, the decrease in lime and limestone revenues in the third quarter 2017, as compared to the third quarter 2016, resulted from decreased sales volumes of the Company's lime and limestone products, while the increase in the Company's lime and limestone revenues in the first nine months 2017, as compared to last year's comparable period, resulted primarily from increased sales volumes. Prices realized for the Company's lime and limestone products were flat in the third quarter, compared to the third quarter 2016, and slightly higher in the first nine months 2017, compared to the comparable 2016 period.

Production volumes from the Company's Natural Gas Interests in the third quarter 2017 totaled 137 thousand MCF, sold at an average price of \$3.69 per MCF, compared to 156 thousand MCF, sold at an average price of \$3.56 per MCF, in the comparable 2016 quarter. Production volumes in the first nine months 2017 from Natural Gas Interests totaled 425 thousand MCF, sold at an average price of \$3.98 per MCF, compared to the first nine months 2016 when 473 thousand MCF was produced and sold at an average price of \$3.15 per MCF. The Company's 2017 average prices per MCF were higher than the prior year's average prices primarily due to increases in market prices for natural gas and natural gas liquids.

The Company's gross profit was \$9.6 million in the third quarter 2017, compared to \$10.6 million in the comparable 2016 quarter, a decrease of \$1.0 million, or 9.6%. Gross profit in the first nine months 2017 was \$26.6 million, an increase of \$1.0 million, or 3.8%, from \$25.7 million in the first nine months 2016.

Included in gross profit in the third quarter and first nine months 2017 were \$9.5 million and \$26.2 million, respectively, from the Company's Lime and Limestone Operations, compared to \$10.5 million and \$25.7 million, respectively, in the comparable 2016 periods. The decreased gross profit for the Company's lime and limestone operations in the third quarter 2017, compared to the third quarter 2016, resulted primarily from the decreased revenues discussed above. The increased gross profit in the first nine months 2017, compared to the comparable 2016 period, resulted primarily from the increased revenues discussed above. The Company's gross profit margin as a percent of revenues from its Lime and Limestone Operations decreased to 26.0% and 24.3% in the third quarter and first nine months 2017, respectively, from 27.6% and 24.8% in the third quarter and first nine months 2016, respectively. The decreased gross profit and gross profit margin in the third quarter 2017 resulted primarily from the decrease in revenues discussed above.

Gross profit from the Company's Natural Gas Interests was flat at \$0.1 million in each of the third quarters 2017 and 2016. For the first nine months 2017, gross profit from the Company's Natural Gas Interest increased to \$0.4 million from a loss of \$19 thousand in the comparable 2016 period, which resulted primarily from the increase in revenues in the first nine months 2017 discussed above.

Selling, general and administrative expenses ("SG&A") were \$2.7 million and \$7.6 million in the third quarter and first nine months 2017, respectively, compared to \$2.5 million and \$7.2 million in the third quarter and first nine months 2016, respectively. As a percentage of revenues, SG&A was 7.2% and 6.9% in the third quarter and first nine months 2017, respectively, compared to 6.4% and 6.9%, in the third quarter and first nine months 2016, respectively. The increase in SG&A as a percentage of revenues in the third quarter 2017 compared to the third quarter 2016 was primarily due to the decrease in revenues in the 2017 period, compared to the comparable 2016 period. The increase in SG&A in the 2017 periods, compared to the comparable 2016 periods, was principally due to increased non-cash stock-based compensation costs, which is primarily due to the increases in the price per share of the Company's common stock for grants expensed during the 2017 periods, compared to the comparable 2016 periods.

Interest expense was \$0.1 million in each of the 2017 and 2016 third quarters, and \$0.2 million in each of the 2017 and 2016 first nine months. Other income, net was \$0.3 million in the third quarter 2017, compared to \$0.1 million in the third quarter 2016, and \$0.7 million in the first nine months 2017, compared to \$0.2 million in the first nine months 2016, primarily due to increased interest earned on the Company's cash balances.

Income tax expense decreased to \$1.4 million in the third quarter 2017, compared to \$2.1 million in the third quarter 2016, a decrease of \$0.6 million or 30.4%. In the first nine months 2017, income tax expense decreased to \$4.0 million from \$4.7 million in the comparable 2016 period, a decrease of \$0.7 million, or 15.1%. The decrease in income tax expense in the third quarter and the first nine months 2017, compared to the comparable 2016 periods, was primarily due to a decrease in the Company's estimated effective income tax rate resulting from income tax credits associated with the ongoing St. Clair kiln project, partially offset for the first nine months 2017 by the increase in the Company's income before income taxes.

The Company's net income was \$5.7 million (\$1.01 per share diluted) in the third quarter 2017, compared to net income of \$6.1 million (\$1.09 per share diluted) in the third quarter 2016, a decrease of \$0.4 million, or 6.8%. Net

income in the first nine months 2017 was \$15.6 million (\$2.79 per share diluted), an increase of \$1.7 million, or 12.5%, compared to the first nine months 2016 net income of \$13.8 million (\$2.48 per share diluted).

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk.

The Company would be exposed to changes in interest rates, primarily as a result of floating interest rates on the Revolving Facility. There was no outstanding balance on the Revolving Facility subject to interest rate risk at September 30, 2017. Any future borrowings under the Revolving Facility would be subject to interest rate risk. See Note 8 of Notes to Condensed Consolidated Financial Statements.

Foreign Exchange Risk.

The Company could be exposed to changes in the Euro to U.S. Dollar exchange rate for its 3.7 million Euros obligation related to a contract for the St. Clair kiln project. The Company entered into FX hedges to fix its U.S. Dollar liability at \$4.2 million. See Note 6 of Notes to Condensed Consolidated Financial Statements.

ITEM 4: CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Report. Based upon that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of the end of the period covered by this Report were effective.

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In December 2015, the Company commenced a publicly announced share repurchase program to repurchase up to \$10 million of its common stock. In November 2016, the Company announced a 12-month extension of the repurchase program to repurchase up to the \$7.2 million of its common stock remaining under the program. The Company did not repurchase any shares pursuant to this program the the third quarter 2017.

ITEM 4: MINE SAFETY DISCLOSURES

Under Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of SEC Regulation S-K, each operator of a coal or other mine is required to include disclosures regarding certain mine safety results in its periodic reports filed with the SEC. The operation of the Company's quarries, underground mine and plants is subject to regulation by the federal Mine Safety and Health Administration ("MSHA") under the Federal Mine Safety and Health Act of 1977. The required information regarding certain mining safety and health matters, broken down by mining complex, for the quarter ended September 30, 2017 is presented in Exhibit 95.1 to this Report.

The Company believes it is responsible to employees to provide a safe and healthy workplace environment. The Company seeks to accomplish this by: training employees in safe work practices; openly communicating with employees; following safety standards and establishing and improving safe work practices; involving employees in safety processes; and recording, reporting and investigating accidents, incidents and losses to avoid reoccurrence.

Following passage of the Mine Improvement and New Emergency Response Act of 2006, MSHA significantly increased the enforcement of mining safety and health standards on all aspects of mining operations. There has also been an increase in the dollar penalties assessed for citations and orders issued in recent years.

ITEM 6: EXHIBITS

- 31.1 Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer.
- 32.1 Section 1350 Certification by the Chief Executive Officer.
- 32.2 Section 1350 Certification by the Chief Financial Officer.
- 95.1 Mine Safety Disclosures.
- 101 Interactive Data Files.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED STATES LIME & MINERALS, INC.

October 27, 2017

By: /s/ Timothy W. Byrne

Timothy W. Byrne

President and Chief Executive Officer

(Principal Executive Officer)

October 27, 2017

By: /s/ Michael L. Wiedemer

Michael L. Wiedemer

Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

UNITED STATES LIME & MINERALS, INC.

Quarterly Report on Form 10-Q
Quarter Ended
September 30, 2017

Index to Exhibits

| EXHIBIT NUMBER | DESCRIPTION |
|---------------------------|--|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer. |
| 32.1 | Section 1350 Certification by the Chief Executive Officer. |
| 32.2 | Section 1350 Certification by the Chief Financial Officer. |
| 95.1 | Mine Safety Disclosures. |
| 101 | Interactive Data Files. |

RULE 13a-14(a)/15d-14(a) CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER

I, Timothy W. Byrne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United States Lime & Minerals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 27, 2017

/s/ Timothy W. Byrne

Timothy W. Byrne
President and Chief Executive Officer

RULE 13a-14(a)/15d-14(a) CERTIFICATION BY THE CHIEF FINANCIAL OFFICER

I, Michael L. Wiedemer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United States Lime & Minerals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 27, 2017

/s/ Michael L. Wiedemer

Michael L. Wiedemer

Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER

I, Timothy W. Byrne, Chief Executive Officer of United States Lime & Minerals, Inc. (the “Company”), hereby certify that, to my knowledge:

- (1) The Company’s periodic report on Form 10-Q for the quarterly period ended September 30, 2017 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 27, 2017

/s/ Timothy W. Byrne

Timothy W. Byrne

President and Chief Executive Officer

SECTION 1350 CERTIFICATION BY THE CHIEF FINANCIAL OFFICER

I, Michael L. Wiedemer, Chief Financial Officer of United States Lime & Minerals, Inc. (the “Company”), hereby certify that, to my knowledge:

- (1) The Company’s periodic report on Form 10-Q for the quarterly period ended September 30, 2017 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 27, 2017

/s/ Michael L. Wiedemer

Michael L. Wiedemer

Vice President and Chief Financial Officer

MINE SAFETY DISCLOSURES

The following disclosures are provided pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of SEC Regulation S-K, which require certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”).

The Mine Act has been construed as authorizing MSHA to issue citations and orders pursuant to the legal doctrine of strict liability, or liability without fault. If, in the opinion of an MSHA inspector, a condition that violates the Mine Act or regulations promulgated pursuant to it exists, then a citation or order will be issued regardless of whether the operator had any knowledge of, or fault in, the existence of that condition. Many of the Mine Act standards include one or more subjective elements, so that issuance of a citation or order often depends on the opinions or experience of the MSHA inspector involved and the frequency and severity of citations and orders will vary from inspector to inspector.

Whenever MSHA believes that a violation of the Mine Act, any health or safety standard, or any regulation has occurred, it may issue a citation or order which describes the violation and fixes a time within which the operator must abate the violation. In some situations, such as when MSHA believes that conditions pose a hazard to miners, MSHA may issue an order requiring cessation of operations, or removal of miners from the area of the mine, affected by the condition until the hazards are corrected. Whenever MSHA issues a citation or order, it has authority to propose a civil penalty or fine, as a result of the violation, that the operator is ordered to pay.

The table that follows reflects citations, orders, violations and proposed assessments issued to the Company by MSHA during the quarter ended September 30, 2017 and all pending legal actions as of September 30, 2017. Due to timing and other factors, the data may not agree with the mine data retrieval system maintained by MSHA. The proposed assessments for the quarter ended September 30, 2017 were taken from the MSHA system as of October 26, 2017.

Additional information follows about MSHA references used in the table:

- *Section 104(a) Citations:* The total number of citations received from MSHA under section 104(a) of the Mine Act for alleged violations of health or safety standards that could significantly and substantially contribute to a serious injury if left unabated.
- *Section 104(b) Orders:* The total number of orders issued by MSHA under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA. This results in an order of immediate withdrawal from the area of the mine affected by the condition until MSHA determines that the violation has been abated.
- *Section 104(d) Citations and Orders:* The total number of citations and orders issued by MSHA under section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.
- *Section 110(b)(2) Violations:* The total number of flagrant violations issued by MSHA under section 110(b)(2) of the Mine Act.
- *Section 107(a) Orders:* The total number of orders issued by MSHA under section 107(a) of the Mine Act for situations in which MSHA determined an imminent danger existed.

Citations and orders can be contested before the Federal Mine Safety and Health Review Commission (the “Commission”), and as part of that process, are often reduced in severity and amount, and are sometimes dismissed. The Commission is an independent adjudicative agency that provides administrative trial and appellate review of legal disputes arising under the Mine Act. These cases may involve, among other questions, challenges by operators to citations, orders and penalties they have received from MSHA, or complaints of discrimination by miners under section 105 of the Mine Act.

| Mine(1) | Section 104 S & S Citations | Section 104(b) Orders | Section 104(d) Citations and Orders | Section 110(b)(2) Violations | Section 107(a) Orders | Proposed MSHA Assessments(2) (\$ in thousands) | Fatalities | Pending Legal Actions(3) |
|-----------------------------|-----------------------------------|-----------------------------|---|------------------------------------|-----------------------------|---|------------|--------------------------------|
| Texas Lime Company | 1 | — | — | — | — | 0.8 | — | — |
| Arkansas Lime Company | | | | | | | | |
| Plant | — | — | — | — | — | — | — | — |
| Limedale Quarry | — | — | — | — | — | — | — | — |
| Colorado Lime Company | | | | | | | | |
| Monarch Quarry | — | — | — | — | — | — | — | — |
| Salida Plant | — | — | — | — | — | — | — | — |
| Delta Plant | — | — | — | — | — | — | — | — |
| U.S. Lime Company—St. Clair | — | — | — | — | — | — | — | — |

- (1) The definition of a mine under section 3 of the Mine Act includes the mine, as well as other items used in, or to be used in, or resulting from, the work of extracting and processing limestone, such as roads, land, structures, facilities, equipment, machines, tools, kilns, and other property. These other items associated with a single mine have been aggregated in the totals for that mine.
- (2) The proposed MSHA assessments issued during the reporting period do not necessarily relate to the citations or orders issued by MSHA during the reporting period or to any pending contests reported above.
- (3) Includes any pending legal actions before the Commission involving such mine as of September 30, 2017. Any pending legal actions were initiated by the Company. The pending legal actions may relate to the citations or orders issued by MSHA during the reporting period or to citations or orders issued in prior periods. Due to timing and other factors, the data may not agree with the mine data retrieval system maintained by MSHA. There were no legal actions resolved or instituted during the reporting period.

Pattern or Potential Pattern of Violations. During the quarter ended September 30, 2017, none of the mines operated by the Company received written notice from MSHA of either (a) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to mine health or safety hazards under section 104(e) of the Mine Act or (b) the potential to have such a pattern.