UNITED STATES LIME & MINERALS INC
Form 10-Q
October 31, 2018

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, 2018

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 000-04197

UNITED STATES LIME & MINERALS, INC.

(Exact name of registrant as specified in its charter)

TEXAS	75-0789226
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5429 LBJ Freeway, Suite 230, Dallas, TX	75240
(Address of principal executive offices)	(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 every Interactive Data File required to be submitted 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 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.

Large accelerated filer	Accelerated filer
Non-accelerated filer	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 28, 2018, 5,597,663 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)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 83,166	$ 85,000
Trade receivables, net	18,373	16,473
Inventories, net	12,903	13,546
Prepaid expenses and other current assets	2,326	2,996
Total current assets	116,768	118,015
Property, plant and equipment	330,196	300,236
Less accumulated depreciation and depletion	(201,522)	(190,518)
Property, plant and equipment, net	128,674	109,718
Other assets, net	573	713
Total assets	$ 246,015	$ 228,446
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Accounts payable	$ 8,848	$ 6,263
Accrued expenses	2,997	3,096
Total current liabilities	11,845	9,359
Deferred tax liabilities, net	13,468	12,374
Other liabilities	1,409	1,461
Total liabilities	26,722	23,194
Stockholders’ equity		
Common stock	660	659
Additional paid-in capital	25,523	24,307
Accumulated other comprehensive (loss) income	(27)	86
Retained earnings	247,093	233,905
Less treasury stock, at cost	(53,956)	(53,705)
Total stockholders’ equity	219,293	205,252
Total liabilities and stockholders’ equity	$ 246,015	$ 228,446

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)

	Three Months Ended September 30,								Nine Months Ended September 30,							
	2018				2017				2018				2017			
Revenues																
Lime and limestone operations	$	34,713	98.4	%	$	36,428	98.6	%	$	107,984	98.3	%	$	107,910	98.5	%
Natural gas interests		559	1.6	%		506	1.4	%		1,817	1.7	%		1,695	1.5	%
		35,272	100.0	%		36,934	100.0	%		109,801	100.0	%		109,605	100.0	%
Cost of revenues																
Labor and other operating expenses		23,687	67.2	%		23,142	62.7	%		73,077	66.5	%		70,447	64.3	%
Depreciation, depletion and amortization		4,389	12.4	%		4,240	11.5	%		12,854	11.7	%		12,530	11.4	%
		28,076	79.6	%		27,382	74.2	%		85,931	78.2	%		82,977	75.7	%
Gross profit		7,196	20.4	%		9,552	25.8	%		23,870	21.8	%		26,628	24.3	%
Selling, general and administrative expenses		2,790	7.9	%		2,657	7.2	%		7,856	7.2	%		7,595	6.9	%
Operating profit		4,406	12.5	%		6,895	18.6	%		16,014	14.6	%		19,033	17.4	%
Other (income) expense																
Interest expense		66	0.2	%		56	0.1	%		191	0.2	%		174	0.2	%
Interest and other income, net		(495)	(1.4)	%		(261)	(0.7)	%		(1,307)	(1.2)	%		(665)	(0.6)	%
		(429)	(1.2)	%		(205)	(0.6)	%		(1,116)	(1.0)	%		(491)	(0.4)	%
Income before income tax expense		4,835	13.7	%		7,100	19.2	%		17,130	15.6	%		19,524	17.8	%
Income tax expense		281	0.8	%		1,433	3.9	%		1,676	1.5	%		3,959	3.6	%
Net income	$	4,554	12.9	%	$	5,667	15.3	%	$	15,454	14.1	%	$	15,565	14.2	%
Net income per share of common stock																
Basic	$	0.81			$	1.02			$	2.76			$	2.79		

Diluted	$ 0.81	$ 1.01	$ 2.76	$ 2.79
Cash dividends per share of common stock	$ 0.135	$ 0.135	$ 0.405	$ 0.405

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 4,554	$ 5,667	$ 15,454	$ 15,565
Other comprehensive (loss) income				
Mark to market of foreign exchange hedges, net of tax benefit (expense) of $7 and $34 for the three months and nine months ended September 30, 2018, respectively, and $(34) and $(195) for the three months and nine months ended September 30, 2017, respectively	(24)	58	(113)	337
Total other comprehensive (loss) income	(24)	58	(113)	337
Comprehensive income	$ 4,530	$ 5,725	$ 15,341	$ 15,902

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)

	Nine Months Ended September 30, 2018	2017
OPERATING ACTIVITIES:		
Net income	$ 15,454	$ 15,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	13,011	12,711
Amortization of deferred financing costs	23	11
Deferred income taxes	1,119	(1,243)
Loss on disposition of property, plant and equipment	466	78
Stock-based compensation	1,144	1,073
Changes in operating assets and liabilities:		
Trade receivables, net	(1,900)	(1,461)
Inventories, net	358	(448)
Prepaid expenses and other current assets	670	(325)
Other assets	118	2
Accounts payable and accrued expenses	1,566	(1,963)
Other liabilities	(191)	(42)
Net cash provided by operating activities	31,838	23,958
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(31,687)	(14,504)
Proceeds from sale of property, plant and equipment	460	459
Net cash used in investing activities	(31,227)	(14,045)
FINANCING ACTIVITIES:		
Cash dividends paid	(2,267)	(2,259)
Proceeds from exercise of stock options	73	72
Purchase of treasury shares	(251)	(193)
Net cash used in financing activities	(2,445)	(2,380)
Net (decrease) increase in cash and cash equivalents	(1,834)	7,533
Cash and cash equivalents at beginning of period	85,000	74,712
Cash and cash equivalents at end of period	$ 83,166	$ 82,245

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. The 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, 2017. The results of operations for the three- and nine-month periods ended September 30, 2018 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), industrial (including paper and glass manufacturers), environmental (including municipal sanitation and water treatment facilities and flue gas treatment processes), metals (including steel producers), oil and gas services, roof shingle 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 when obligations under the terms of a contract, purchase order or purchase agreement are satisfied, which are generally upon shipment. Revenues are measured as the amount of consideration expected to be received in exchange for transferring products. 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 2018 and 2017 revenues was $6.4 million and $5.8 million, for the three-month periods, and $19.1 and $17.8 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.

The Company operates its Lime and Limestone Operations within a single geographic region and derives its revenues from the sale of lime and limestone products. Revenues from the Company's Natural Gas Interests are from the Company's royalty and non-operating working interests in Johnson County, Texas. Revenues disaggregated between contracts for the Company's Lime and Limestone Operations and its Natural Gas Interests are included in Note 4 to the condensed consolidated financial statements.

The majority of the Company's trade receivables are unsecured. Payment terms for all trade receivables are based on the underlying purchase orders, contracts or purchase agreements. Credit losses relating to trade receivables have generally been within management expectations and historical trends. Uncollected trade receivables are charged-off when identified by management to be unrecoverable. The Company maintains an allowance for doubtful accounts to reflect estimated losses resulting from the failure of customers to make required payments.

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 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 to the condensed consolidated financial statements. 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, 2018 and December 31, 2017, respectively, are summarized below (in thousands):

	Significant Other Observable Inputs (Level 2)

	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	Valuation Technique
Foreign exchange hedges	$ (35)	$ 111	$ (35)	$ 111	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 Company adopted ASU 2014-09 and all related amendments on January 1, 2018 and analyzed contracts which might impact its revenue recognition using the modified retrospective approach. There was no impact of initially applying the new standard on the opening balance of retained earnings, and there has been no restatement of comparative periods. The Company expects the impact of adoption of ASU 2014-09 to be immaterial to the financial statements on an ongoing basis.

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. The Company intends to adopt ASU 2016-02 using the current-period adjustment method which will result in application of the new guidance at January 1, 2019, the beginning of the period of adoption. Based on its existing leases as of September 30, 2018, the Company estimates the effect on total assets and total liabilities will be approximately $3.0 million each, with the addition of a right-of-use asset and related liability. The Company is continuing to evaluate the effect this standard will have on its Consolidated Financial Statements, but does not expect adoption of this standard to have a material effect other than recording the assets and liabilities, discussed in the previous sentence, to its balance sheet.

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 evaluating the effect that this standard will have on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02 ("ASU 2018-02"), "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"). The amendments in ASU 2018-02 are effective for fiscal years beginning after December 15, 2018 and for interim periods therein. The Company does not believe this standard will have a material effect 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, interest expense or interest income 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,	
Revenues	2018	2017	2018	2017
Lime and limestone operations	$ 34,713	$ 36,428	$ 107,984	$ 107,910
Natural gas interests	559	506	1,817	1,695
Total revenues	$ 35,272	$ 36,934	$ 109,801	$ 109,605
Depreciation, depletion and amortization				
Lime and limestone operations	$ 4,234	$ 4,048	$ 12,375	$ 11,935
Natural gas interests	155	192	479	595
Total depreciation, depletion and amortization	$ 4,389	$ 4,240	$ 12,854	$ 12,530
Gross profit				
Lime and limestone operations	$ 6,992	$ 9,476	$ 23,112	$ 26,218
Natural gas interests	204	76	758	410
Total gross profit	$ 7,196	$ 9,552	$ 23,870	$ 26,628
Capital expenditures				
Lime and limestone operations	$ 12,309	$ 6,362	$ 31,687	$ 14,502
Natural gas interests	—	—	—	2
Total capital expenditures	$ 12,309	$ 6,362	$ 31,687	$ 14,504

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,	
	2018	2017	2018	2017
Net income for basic and diluted income per common share	$ 4,554	$ 5,667	$ 15,454	$ 15,565
Weighted-average shares for basic income per common share	5,598	5,577	5,595	5,577
Effect of dilutive securities:				