

UNITED STATES LIME & MINERALS INC

Form 10-Q

October 30, 2009

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**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, 2009**

**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**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of October 30, 2009, 6,341,577 shares of common stock, \$0.10 par value, were outstanding.



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## PART I. FINANCIAL INFORMATION

## ITEM 1: FINANCIAL STATEMENTS

**UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands of dollars)

(Unaudited)

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,705	\$ 836
Trade receivables, net	14,103	14,492
Inventories	10,107	12,297
Prepaid expenses and other current assets	815	1,336
Total current assets	36,730	28,961
Property, plant and equipment, at cost	221,911	219,065
Less accumulated depreciation	(90,840)	(82,501)
Property, plant and equipment, net	131,071	136,564
Other assets, net	468	604
Total assets	\$ 168,269	\$ 166,129
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current installments of debt	\$ 5,000	\$ 5,000
Accounts payable	5,572	6,972
Accrued expenses	4,497	4,251
Total current liabilities	15,069	16,223
Debt, excluding current installments	37,917	46,354
Deferred tax liabilities, net	5,256	3,688
Other liabilities	3,509	5,417
Total liabilities	61,751	71,682
Stockholders equity:		
Common stock	639	635
Additional paid-in capital	15,392	14,853
Accumulated other comprehensive loss	(2,954)	(3,911)
Retained earnings	93,651	83,014
Less treasury stock, at cost	(210)	(144)

Total stockholders' equity	106,518	94,447
Total liabilities and stockholders' equity	\$ 168,269	\$ 166,129

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands of dollars, except per share amounts)

(Unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
<b>Revenues</b>								
Lime and limestone operations	\$ 29,871	94.5%	\$ 33,602	86.3%	\$ 84,023	94.3%	\$ 100,603	88.8%
Natural gas interests	1,742	5.5%	5,324	13.7%	5,039	5.7%	12,741	11.2%
	31,613	100.0%	38,926	100.0%	89,062	100.0%	113,344	100.0%
Cost of revenues:								
Labor and other operating expenses	19,772	62.5%	26,591	68.3%	57,532	64.6%	76,756	67.7%
Depreciation, depletion and amortization	3,207	10.2%	3,397	8.7%	9,857	11.1%	9,721	8.6%
	22,979	72.7%	29,988	77.0%	67,389	75.7%	86,477	76.3%
<b>Gross profit</b>	8,634	27.3%	8,938	23.0%	21,673	24.3%	26,867	23.7%
Selling, general and administrative expenses	2,023	6.4%	2,031	5.2%	5,863	6.6%	5,945	5.2%
<b>Operating profit</b>	6,611	20.9%	6,907	17.8%	15,810	17.7%	20,922	18.5%
Other expense (income):								
Interest expense	707	2.3%	834	2.2%	2,188	2.5%	2,724	2.4%
Other, net	(49)	(0.2)%	160	0.4%	(157)	(0.2)%	77	0.1%
	658	2.1%	994	2.6%	2,031	2.3%	2,801	2.5%
<b>Income before income taxes</b>	5,953	18.8%	5,913	15.2%	13,779	15.4%	18,121	16.0%
Income tax expense	1,458	4.6%	1,438	3.7%	3,142	3.5%	4,746	4.2%
<b>Net income</b>	\$ 4,495	14.2%	\$ 4,475	11.5%	\$ 10,637	11.9%	\$ 13,375	11.8%

**Income per share of common stock:**

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Basic	\$ 0.71	\$ 0.71	\$ 1.68	\$ 2	.12
Diluted	\$ 0.70	\$ 0.70	\$ 1.67	\$ 2	.10

See accompanying notes to condensed consolidated financial statements.



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

(In thousands of dollars)

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating Activities:</b>		
Net income	\$ 10,637	\$ 13,375
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	10,253	10,015
Amortization of financing costs	16	123
Deferred income taxes	1,568	1,962
(Gain) loss on disposition of assets	(60)	7
Stock-based compensation	292	443
Changes in operating assets and liabilities:		
Trade receivables, net	389	(5,704)
Inventories	2,190	(1,930)
Prepaid expenses and other current assets	521	653
Other assets	(37)	(111)
Accounts payable and accrued expenses	(683)	856
Other liabilities	(951)	(16)
Net cash provided by operating activities	24,135	19,673
<b>Investing Activities:</b>		
Purchase of property, plant and equipment	(5,150)	(13,236)
Proceeds from sale of property, plant and equipment	134	8
Net cash used in investing activities	(5,016)	(13,228)
<b>Financing Activities:</b>		
Repayments of revolving credit facility, net	(4,687)	(3,580)
Repayments of term loans	(3,750)	(3,750)
Purchase of treasury shares	(66)	(54)
Proceeds from exercise of stock options	253	31
Tax benefit related to exercise of stock options		57
Net cash used in financing activities	(8,250)	(7,296)
Net increase (decrease) in cash and cash equivalents	10,869	(851)
Cash and cash equivalents at beginning of period	836	1,079
Cash and cash equivalents at end of period	\$ 11,705	\$ 228

See accompanying notes to condensed consolidated financial statements.

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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 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 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 Company's management evaluated for disclosure subsequent events that have occurred up to October 30, 2009, the date of issuance of these financial statements. 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, 2008. The results of operations for the three- and nine-month periods ended September 30, 2009 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, steel, municipal sanitation and water treatment, aluminum, paper, glass, roof shingle and agriculture 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.

In addition, through its wholly owned subsidiary, U.S. Lime Company - O & G, LLC ( U.S. Lime O & G ), under a lease agreement (the Lease Agreement ), the Company has a 20% working interest and royalty interests ranging from 15.4% to 20%, resulting in an overall average revenue interest of 34.6%, with respect to oil and gas rights in wells drilled 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% working interest in any wells drilled from two 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 upon shipment, and when payment is considered probable. The Company's returns and allowances are minimal. Revenues include external freight billed to customers with related costs in cost of revenues. External freight included in 2009 and 2008 revenues was \$6.3 million and \$7.9 million for the three-month periods, and \$18.0 million and \$22.7 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 sale.

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**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 and completion costs for successful exploratory wells and all development well costs are capitalized and depleted using the units-of-production method. Any costs to drill exploratory wells that do not find proved reserves are expensed.

**Fair Values of Financial Instruments.** Under US GAAP, 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. US GAAP requires the Company to apply valuation techniques that (1) place greater reliance on observable inputs and less reliance on unobservable inputs and (2) are consistent with the market approach, the income approach, and/or the cost approach. The Company's financial liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	<b>Fair Value Measurements as of September 30, 2009</b>				
	<b>September 30, 2009</b>	<b>Quoted Prices in Active Markets for Identical Assets (Liabilities) (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Other Unobservable Inputs (Level 3)</b>	<b>Valuation Technique</b>
Interest rate hedges liability	\$ (3,862)		(3,862)		Cash flows approach

The carrying values of cash and cash equivalents, trade receivables, accounts payable and accrued expenses approximate fair value due to the short maturity of these instruments. As the Company's debt bears interest at floating rates, the Company estimates that the carrying values of its debt at September 30, 2009 and December 31, 2008 approximate fair value.

**New Accounting Pronouncements.** In March 2008, the Financial Accounting Standards Board (the FASB) issued a new accounting standard for accounting for derivative instruments and hedging activities. This new standard expands disclosures to include information about the fair value of derivatives, related credit risks and a company's strategies and objectives for using derivatives. This new standard was adopted by the Company on January 1, 2009 and had no effect on the Company's financial statements.

Effective January 1, 2010, the Company will adopt the FASB's new accounting standard for employers' disclosures about post-retirement benefit plan assets, which was issued on December 30, 2008. The new standard will require the Company to consider the following objectives in providing more detailed disclosures about the plan assets of the Company's defined benefit pension plan: (1) how investment decisions are made, (2) the major categories of plan assets, (3) the inputs and valuation techniques used to measure fair values of plan assets, (4) the effect on fair value measurements using Level 3 measurements on changes in plan assets for the period, and (5) significant concentrations of risk within plan assets.

#### 4. **Business Segments**

The Company has two operating segments engaged in distinct business activities: 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 interest or public company costs to its business segments.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues				
Lime and limestone operations	\$ 29,871	33,602	\$ 84,023	100,603
Natural gas interests	1,742	5,324	5,039	12,741
Total revenues	\$ 31,613	38,926	\$ 89,062	113,344
Depreciation, depletion and amortization				
Lime and limestone operations	\$ 2,977	3,073	\$ 9,067	8,933
Natural gas interests	230	324	790	788
Total depreciation, depletion and amortization	\$ 3,207	3,397	\$ 9,857	9,721
Gross profit				
Lime and limestone operations	\$ 7,482	4,613	\$ 18,601	16,338
Natural gas interests	1,152	4,325	3,072	10,529
Total gross profit	\$ 8,634	8,938	\$ 21,673	26,867
Capital expenditures				
Lime and limestone operations	\$ 1,346	3,994	\$ 5,079	8,573
Natural gas interests	37	2,185	71	4,663
Total capital expenditures	\$ 1,383	6,179	\$ 5,150	13,236

**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):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Numerator:				
Income for basic and diluted income per common share	\$ 4,495	4,475	\$ 10,637	13,375
Denominator:				
Weighted-average shares for basic income per share	6,364	6,307	6,345	6,300
Effect of dilutive securities:				

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Restricted shares of stock	22	29	23	28
Employee and director stock options <sup>(1)</sup>	17	37	21	35
Adjusted weighted-average shares and assumed exercises for diluted income per share	6,403	6,373	6,389	6,363