

UNITED STATES LIME & MINERALS INC

Form 10-Q

October 29, 2010

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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, 2010**  
**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 27, 2010, 6,402,324 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<br/>30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|-----------------------------------|------------------------------|
| <b>ASSETS</b>                               |                                   |                              |
| Current assets:                             |                                   |                              |
| Cash and cash equivalents                   | \$ 32,779                         | \$ 16,466                    |
| Trade receivables, net                      | 13,964                            | 13,365                       |
| Inventories                                 | 10,751                            | 9,460                        |
| Prepaid expenses and other current assets   | 261                               | 1,469                        |
| Total current assets                        | 57,755                            | 40,760                       |
| Property, plant and equipment, at cost      | 226,452                           | 224,855                      |
| Less accumulated depreciation and depletion | (99,417)                          | (93,955)                     |
| Property, plant and equipment, net          | 127,035                           | 130,900                      |
| Other assets, net                           | 395                               | 410                          |
| Total assets                                | \$ 185,185                        | \$ 172,070                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                   |                              |
| Current liabilities:                        |                                   |                              |
| Current installments of debt                | \$ 5,000                          | \$ 5,000                     |
| Accounts payable                            | 4,741                             | 6,122                        |
| Accrued expenses                            | 5,437                             | 5,028                        |
| Total current liabilities                   | 15,178                            | 16,150                       |
| Debt, excluding current installments        | 32,916                            | 36,666                       |
| Deferred tax liabilities, net               | 7,984                             | 6,026                        |
| Other liabilities                           | 4,807                             | 3,247                        |
| Total liabilities                           | 60,885                            | 62,089                       |
| Stockholders equity:                        |                                   |                              |
| Common stock                                | 641                               | 640                          |
| Additional paid-in capital                  | 16,116                            | 15,619                       |
| Accumulated other comprehensive loss        | (3,642)                           | (2,718)                      |
| Retained earnings                           | 111,555                           | 96,684                       |
| Less treasury stock, at cost                | (370)                             | (244)                        |

|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 124,300    | 109,981    |
| Total liabilities and stockholders' equity | \$ 185,185 | \$ 172,070 |

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)

|  | <b>THREE MONTHS ENDED</b> |              |                      |              | <b>NINE MONTHS ENDED</b> |              |                      |              |  |
|--|---------------------------|--------------|----------------------|--------------|--------------------------|--------------|----------------------|--------------|--|
|  | <b>September 30,</b>      |              | <b>September 30,</b> |              | <b>September 30,</b>     |              | <b>September 30,</b> |              |  |
|  | <b>2010</b>               |              | <b>2009</b>          |              | <b>2010</b>              |              | <b>2009</b>          |              |  |
| <b>Revenues</b>                              |                           |              |                      |              |                          |              |                      |              |  |
| Lime and limestone operations                | \$ 30,458                 | 95.6%        | \$ 29,871            | 94.5%        | \$ 98,090                | 94.9%        | \$ 84,023            | 94.3%        |  |
| Natural gas interests                        | 1,411                     | 4.4%         | 1,742                | 5.5%         | 5,320                    | 5.1%         | 5,039                | 5.7%         |  |
|  | 31,869                    | 100.0%       | 31,613               | 100.0%       | 103,410                  | 100.0%       | 89,062               | 100.0%       |  |
| Cost of revenues:                            |                           |              |                      |              |                          |              |                      |              |  |
| Labor and other operating expenses           | 19,831                    | 62.2%        | 19,772               | 62.5%        | 64,860                   | 62.7%        | 57,532               | 64.6%        |  |
| Depreciation, depletion and amortization     | 3,173                     | 10.0%        | 3,207                | 10.2%        | 9,606                    | 9.3%         | 9,857                | 11.1%        |  |
|  | 23,004                    | 72.2%        | 22,979               | 72.7%        | 74,466                   | 72.0%        | 67,389               | 75.7%        |  |
| <b>Gross profit</b>                          | <b>8,865</b>              | <b>27.8%</b> | <b>8,634</b>         | <b>27.3%</b> | <b>28,944</b>            | <b>28.0%</b> | <b>21,673</b>        | <b>24.3%</b> |  |
| Selling, general and administrative expenses | 1,878                     | 5.9%         | 2,023                | 6.4%         | 6,188                    | 6.0%         | 5,863                | 6.6%         |  |
| <b>Operating profit</b>                      | <b>6,987</b>              | <b>21.9%</b> | <b>6,611</b>         | <b>20.9%</b> | <b>22,756</b>            | <b>22.0%</b> | <b>15,810</b>        | <b>17.7%</b> |  |
| Other expense (income):                      |                           |              |                      |              |                          |              |                      |              |  |
| Interest expense                             | 707                       | 2.2%         | 707                  | 2.3%         | 2,027                    | 2.0%         | 2,188                | 2.5%         |  |
| Other, net                                   | (14)                      | (0.1)%       | (49)                 | (0.2)%       | (60)                     | (0.1)%       | (157)                | (0.2)%       |  |
|  | 693                       | 2.1%         | 658                  | 2.1%         | 1,967                    | 1.9%         | 2,031                | 2.3%         |  |
| <b>Income before income taxes</b>            | <b>6,294</b>              | <b>19.8%</b> | <b>5,953</b>         | <b>18.8%</b> | <b>20,789</b>            | <b>20.1%</b> | <b>13,779</b>        | <b>15.4%</b> |  |
| Income tax expense                           | 1,748                     | 5.5%         | 1,458                | 4.6%         | 5,918                    | 5.7%         | 3,142                | 3.5%         |  |
| <b>Net income</b>                            | <b>\$ 4,546</b>           | <b>14.3%</b> | <b>\$ 4,495</b>      | <b>14.2%</b> | <b>\$ 14,871</b>         | <b>14.4%</b> | <b>\$ 10,637</b>     | <b>11.9%</b> |  |

**Income per share of  
common stock:**

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|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.71 | \$ 0.71 | \$ 2.32 | \$ 1.68 |
| Diluted | \$ 0.71 | \$ 0.70 | \$ 2.32 | \$ 1.67 |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of dollars)

(Unaudited)

|   | <b>NINE MONTHS ENDED</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2010</b>              | <b>2009</b> |
| <b>Operating Activities:</b>  |                          |             |
| Net income  | \$ 14,871                | \$ 10,637   |
| Adjustments to reconcile net income to net cash provided by operations: |                          |             |
| Depreciation, depletion and amortization                                | 9,861                    | 10,253      |
| Amortization of financing costs   | 23                       | 16          |
| Deferred income taxes   | 2,518                    | 1,569       |
| Gain on disposition of assets   | (6)                      | (60)        |
| Stock-based compensation  | 498                      | 292         |
| Changes in operating assets and liabilities:                            |                          |             |
| Trade receivables   | (599)                    | 389         |
| Inventories   | (1,291)                  | 2,190       |
| Prepaid expenses and other current assets                               | 1,208                    | 521         |
| Other assets  | (117)                    | (37)        |
| Accounts payable and accrued expenses                                   | 433                      | (683)       |
| Other liabilities   | (113)                    | (952)       |
| Net cash provided by operating activities                               | 27,286                   | 24,135      |
| <b>Investing Activities:</b>  |                          |             |
| Purchase of property, plant and equipment                               | (7,129)                  | (5,150)     |
| Proceeds from sale of property, plant and equipment                     | 32                       | 134         |
| Net cash used in investing activities                                   | (7,097)                  | (5,016)     |
| <b>Financing Activities:</b>  |                          |             |
| Repayments of revolving credit facilities, net                          |                          | (4,687)     |
| Repayments of term loans  | (3,750)                  | (3,750)     |
| Purchase of treasury shares   | (126)                    | (66)        |
| Proceeds from exercise of stock options                                 |                          | 253         |
| Net cash used in financing activities                                   | (3,876)                  | (8,250)     |
| Net increase in cash and cash equivalents                               | 16,313                   | 10,869      |
| Cash and cash equivalents at beginning of period                        | 16,466                   | 836         |
| Cash and cash equivalents at end of period                              | \$ 32,779                | \$ 11,705   |

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. 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, 2009. The results of operations for the three- and nine-month periods ended September 30, 2010 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, utilities, 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 O & G Lease ), the Company has royalty interests ranging from 15.4% to 20% and a 20% non-operating working interest, resulting in an overall average revenue interest of 34.6%, 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% non-operating 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 2010 and 2009 revenues was \$6.0 million and \$6.3 million for the three-month periods, respectively, and \$20.6 million and \$18.0 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 and completion 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.

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**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 at September 30, 2010 and December 31, 2009 are summarized below (in thousands):

|                                | September<br>30,<br>2010 | December<br>31,<br>2009 | Significant Other<br>Observable Inputs (Level<br>2) |                         | Valuation<br>Technique |
|--------------------------------|--------------------------|-------------------------|---|-------------------------|------------------------|
|                                |                          |                         | September<br>30,<br>2010                            | December<br>31,<br>2009 |                        |
| Interest rate swap liabilities | \$ (4,679)               | (3,229)                 | \$ (4,679)  | (3,229)                 | Cash flows<br>approach |

The primary observable inputs for valuing the Company's interest rate swaps are LIBOR interest rates.

**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.

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

|   | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|---|-------------------------------------|--------|------------------------------------|--------|
|   | 2010                                | 2009   | 2010                               | 2009   |
| Revenues                                    |                                     |        |                                    |        |
| Lime and limestone operations               | \$ 30,458                           | 29,871 | \$ 98,090                          | 84,023 |
| Natural gas interests                       | 1,411                               | 1,742  | 5,320                              | 5,039  |
| Total revenues                              | \$ 31,869                           | 31,613 | \$ 103,410                         | 89,062 |
| Depreciation, depletion and amortization    |                                     |        |                                    |        |
| Lime and limestone operations               | \$ 3,018                            | 2,977  | \$ 9,141                           | 9,067  |
| Natural gas interests                       | 155                                 | 230    | 465                                | 790    |
| Total depreciation, depletion, amortization | \$ 3,173                            | 3,207  | \$ 9,606                           | 9,857  |
| Gross profit                                |                                     |        |                                    |        |
| Lime and limestone operations               | \$ 7,929                            | 7,482  | \$ 25,136                          | 18,601 |
| Natural gas interests                       | 936                                 | 1,152  | 3,808                              | 3,072  |
| Total gross profit                          | \$ 8,865                            | 8,634  | \$ 28,944                          | 21,673 |

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|  |    |       |       |          |       |
|--|----|-------|-------|----------|-------|
| Capital expenditures                   |    |       |       |          |       |
| Lime and limestone operations          | \$ | 1,791 | 1,346 | \$ 5,119 | 5,079 |
| Natural gas interests (net of refunds) |    | 246   | 37    | 2,010    | 71    |
| Total capital expenditures             | \$ | 2,037 | 1,383 | \$ 7,129 | 5,150 |

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**Table of Contents****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<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Numerator:  |   |             |  |             |
| Income for basic and diluted income per common share                                | \$ 4,546                                    | 4,495       | \$ 14,871                                  | 10,637      |
| Denominator:  |   |             |  |             |
| Weighted-average shares for basic income per share                                  | 6,402                                       | 6,386       | 6,400                                      | 6,368       |
| Effect of dilutive securities:  |   |             |  |             |
| Employee and director stock options <sup>(1)</sup>                                  | 16  | 17          | 17   | 21          |
| Adjusted weighted-average shares and assumed exercises for diluted income per share | 6,418                                       | 6,403       | 6,417                                      | 6,389       |
| Income per share of common stock:   |   |             |  |             |
| Basic   | \$ 0.71                                     | 0.71        | \$ 2.32                                    | 1.68        |
| Diluted   | \$ 0.71                                     | 0.70        | \$ 2.32                                    | 1.67        |

(1) Options to acquire 2 shares of common stock were excluded from the calculation of dilutive securities for the 2010 and 2009 periods (except for the nine months ended September 30, 2009, with respect to which 20 shares were excluded) as anti-dilutive because the exercise price

exceeded the average per share market price for the periods presented.

#### 6. Comprehensive Income and Accumulated Other Comprehensive Loss

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

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net income                                  | \$ 4,546                  | 4,495       | \$ 14,871                | 10,637      |
| Reclassification to interest expense        | 429                       | 476         | 1,367                    | 1,288       |
| Deferred tax credit (expense)               | 182                       | 144         | 527                      | (549)       |
| Change in fair value of interest rate hedge | (930)                     | (873)       | (2,818)                  | 218         |
| Comprehensive income                        | \$ 4,227                  | 4,242       | \$ 13,947                | 11,594      |

Amounts reclassified to interest expense were for payments made by the Company pursuant to the Company's interest rate hedges.

Accumulated other comprehensive loss consisted of the following (in thousands):

|   | <b>September 30, 2010</b> | <b>December 31, 2009</b> |
|---|---------------------------|--------------------------|
| Mark-to-market for interest rate hedges, net of tax benefit | \$ (2,979)                | \$ (2,055)               |
| Minimum pension liability adjustments, net of tax benefit   | (663)                     | (663)                    |
| Accumulated other comprehensive loss                        | \$ (3,642)                | \$ (2,718)               |

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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 consisted of the following (in thousands):

|                                 | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|---------------------------------|-----------------------------------|----------------------------------|
| Lime and limestone inventories: |                                   |                                  |
| Raw materials                   | \$ 4,231                          | \$ 3,373                         |
| Finished goods                  | 1,678                             | 1,351                            |
|                                 | 5,909                             | 4,724                            |
| Service parts inventories       | 4,842                             | 4,736                            |
| Total inventories               | \$ 10,751                         | \$ 9,460                         |

**8. Banking Facilities**

The Company's credit agreement includes a ten-year \$40 million term loan (the Term Loan), a ten-year \$20 million multiple draw term loan (the Draw Term Loan) and a \$30 million revolving credit facility (the Revolving Facility) (collectively, the Credit Facilities). At September 30, 2010, the Company had \$322 thousand of letters of credit issued, which count as draws under the Revolving Facility.

The Term Loan requires quarterly principal payments of \$833 thousand, which began on March 31, 2006, equating to a 12-year amortization, with a final principal payment of \$7.5 million due on December 31, 2015. The Draw Term Loan requires quarterly principal payments of \$417 thousand, based on a 12-year amortization, which began on March 31, 2007, with a final principal payment on December 31, 2015 equal to any remaining principal then outstanding. The maturity of the Term Loan, the Draw Term Loan and the Revolving Facility can be accelerated if any event of default, as defined under the Credit Facilities, occurs.

As of June 1, 2010, the Company entered into an amendment to its Credit Facilities (the Amendment) primarily to remove or reduce certain restrictions and to extend, by more than three years, the maturity date of the Revolving Facility. In return for these improvements, the Company agreed to increase the commitment fee for the Revolving Facility, increase the interest rate margins on existing and new borrowings, reduce the Company's maximum Cash Flow Leverage Ratio (defined below) and pay a \$100 thousand amendment fee.

The Amendment removed from the Credit Facilities: (1) the annual \$10 million maximum non-oil and gas-related capital expenditures limitation; (2) the \$40 million maximum acquisition limitation over the life of the Credit Facilities; and (3) the annual \$1.5 million maximum dividend restriction. In addition, pursuant to the Amendment, the Company may now 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 Amendment extended the maturity date of the Revolving Facility to June 1, 2015; previously, the maturity date for the Revolving Facility was April 2, 2012.

As a result of the Amendment, the Revolving Facility commitment fee was increased to a range of 0.250% (previously 0.200%) to 0.400% (previously 0.350%). In addition, the Credit Facilities will now bear interest, at the Company's option, at either LIBOR plus a margin of 1.750% (previously 1.125%) to 2.750% (previously 2.125%), or the Lender's Prime Rate plus a margin of 0.000% (previously minus 0.500%) to plus 1.000% (previously plus 0.375%). The Revolving Facility commitment fee and the interest rate margins 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 and amortization (EBITDA) for the twelve months ended on the last day of the most recent calendar quarter, plus, added by the Amendment, pro forma EBITDA from any businesses acquired during the period. Lastly, the Amendment reduced the Company's maximum Cash Flow

Leverage Ratio to 3.25 to 1 (previously 3.50 to 1).

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The Amendment did not amend the security agreement, dated August 25, 2004, pursuant to which the Credit Facilities continue to be secured by the Company's existing and hereafter acquired tangible assets, intangible assets and real property. The Amendment also did not amend the Company's interest rate hedges, discussed below, with respect to the outstanding balances on the Term Loan and the Draw Term Loan that the Company has entered into with Wells Fargo Bank, N.A. as counterparty to the hedges.

The Company has hedges that fix LIBOR through maturity at 4.695%, 4.875% and 5.500% on the outstanding balance of the Term Loan, 75% of the outstanding balance of the Draw Term Loan and 25% of the outstanding balance of the Draw Term Loan, respectively. As a result of the Amendment, and based on the current LIBOR margin of 1.750% (1.125% prior to the Amendment), as of June 1, 2010 the Company's interest rates are: 6.445% (5.820% prior to the Amendment) on the outstanding balance of the Term Loan; 6.625% (6.000% prior to the Amendment) on 75% of the outstanding balance of the Draw Term Loan; and 7.250% (6.625% prior to the Amendment) on 25% of the outstanding balance of the Draw Term Loan.

The hedges have been effective as defined under applicable accounting rules. Therefore, changes in fair value of the interest rate hedges are reflected in comprehensive income (loss). The Company will be exposed to credit losses in the event of non-performance by the counterparty to the hedges. Due to interest rate declines, the Company's mark-to-market of its interest rate hedges, at September 30, 2010 and December 31, 2009, resulted in liabilities of \$4.7 million and \$3.2 million, respectively, which are included in accrued expenses (\$1.6 and \$1.7 million, respectively) and other liabilities (\$3.1 million and \$1.5 million, respectively) on the Company's Condensed Consolidated Balance Sheets. The Company paid \$429 thousand and \$1,367 thousand in quarterly settlement payments pursuant to its hedges during the three- and nine-month periods ended September 30, 2010, respectively, compared to payments of \$476 thousand and \$1,288 thousand in the comparable prior year three- and nine-month periods, respectively. These payments were included in interest expense.

A summary of outstanding debt at the dates indicated is as follows (in thousands):

|                                      | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--------------------------------------|-----------------------------------|----------------------------------|
| Term Loan                            | \$ 24,166                         | \$ 26,666                        |
| Draw Term Loan                       | 13,750                            | 15,000                           |
| Revolving Facility <sup>(1)</sup>    |                                   |                                  |
| Subtotal                             | 37,916                            | 41,666                           |
| Less current installments            | 5,000                             | 5,000                            |
| Debt, excluding current installments | \$ 32,916                         | \$ 36,666                        |

(1) The Company had letters of credit totaling \$322 issued on the Revolving Facility at September 30, 2010 and December 31, 2009.

As the Company's debt bears interest at floating rates, the Company estimates the carrying values of its debt at September 30, 2010 and December 31, 2009 approximate fair value.

9. Contingencies

In the second quarter 2010, there was an accident at the Company's St. Clair plant in Oklahoma, resulting in a fatality. The Company incurred and accrued costs associated with the accident during the second quarter, including an accrual for estimated costs of potential Mine Safety and Health Administration (MSHA) penalties, fines, assessments, legal expenses and other costs, as well as transportation and other logistics and operating costs incurred. The Company is cooperating fully with the MSHA investigation into the accident. Actual costs could be more or less than the current estimate, and the Company will refine its estimate as additional information becomes available.

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**10. Income Taxes**

The Company has estimated its effective income tax rate for 2010 will be approximately 28.5%, compared to 24.7% for 2009. As in prior periods, the primary reason 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, but generally has a smaller impact as income before income taxes increases. The Company's effective income tax rate for 2010 increased compared to its 2009 rate primarily because of the \$7.0 million increase in income before income taxes in the current year nine-month period compared to the comparable prior year period.

**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, expect, intend, plan, schedule, estimate, anticipate, and project. The Company does not intend to assume any 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 manage its growth; (iii) the Company's ability to meet short-term and long-term liquidity demands, including servicing the Company's debt, conditions in the credit and equity markets, and changes in interest rates on the Company's debt, including the ability of the Company's customers and the counterparty to the Company's interest rate hedges to meet their obligations; (iv) interruptions to operations and increased expenses at its facilities resulting from inclement weather conditions, accidents or regulatory requirements; (v) increased fuel, electricity, transportation and freight costs; (vi) unanticipated delays, difficulties in financing, or cost overruns in completing construction projects; (vii) the Company's ability to expand its Lime and Limestone Operations through acquisitions of businesses with related or similar operations, including obtaining financing for such acquisitions, and to successfully integrate acquired operations; (viii) inadequate demand and/or prices for the Company's lime and limestone products due to the state of the U.S. economy, recessionary pressures in particular industries, including highway and housing related construction and steel, and inability to continue to increase or maintain prices for the Company's products; (ix) the uncertainties of development, production and prices with respect to the Company's Natural Gas Interests, including reduced drilling activities pursuant to the Company's O & G Lease and Drillsite Agreement, unitization of existing wells, inability to explore for new reserves and declines in production rates; (x) on-going and possible new environmental and other regulations, investigations, enforcement actions and costs, legal expenses, penalties, fines, assessments, taxes and limitations on operations, including those related to climate change and health and safety; 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 Form 10-K for the fiscal year ended December 31, 2009.

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**Overview.**

The Company has two business segments: Lime and Limestone Operations and Natural Gas Interests.

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, utilities, 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. The Lime and Limestone Operations represent the Company's principal business.

The Company's Natural Gas Interests are held through 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. 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. The Company reported its first revenues and gross profit for natural gas production from its Natural Gas Interests in the first quarter 2006.

During the first nine months 2010, the increase in lime and limestone revenues primarily resulted from increased lime sales and average product price increases during the period of approximately 6.7% for the Company's lime and limestone products compared to the first nine months 2009. Sales volumes of the Company's lime products increased compared to the significantly depressed 2009 demand for the Company's lime products, principally in the first six months 2010. The increased demand in the first six months 2010 was principally from steel customers, which weakened in the third quarter. PLS sales volumes decreased in the third quarter 2010 compared to the third quarter 2009, due to reduced roof shingle demand for re-roofing in the Company's markets, and construction demand related to housing developments remained anemic, while improved highway construction demand continued, although governmental funding of public sector projects remains a concern.

The Company's improved gross profit and gross profit margin as a percentage of revenues for the Company's Lime and Limestone Operations in the first nine months 2010, compared to last year's comparable period, resulted primarily from increased revenues, partially offset by additional operating costs incurred in the second quarter 2010, including accruals for estimated costs of MSHA penalties, fines, assessments, legal expenses and other costs, as well as transportation and other logistics and operating costs, due to an accident at the Company's St. Clair plant in Oklahoma, that resulted in a fatality. The Company is cooperating fully with the MSHA investigation into the accident. Actual costs could be more or less than the current estimate, and the Company will refine its estimate as additional information becomes available.

Despite decreasing in the third quarter 2010, compared to the third quarter 2009, revenues and gross profit from the Company's Natural Gas Interests increased in the first nine months 2010, as increased prices for liquids contained in the Company's natural gas more than offset the declines in production volumes. Prices for natural gas liquids generally follow crude oil prices, which increased significantly in the first nine months 2010 compared to the prior year comparable period. The number of producing wells increased to 32 in the first nine months 2010 from 30 in the prior year period. Two new wells drilled in the first quarter 2010 pursuant to the Company's Drillsite Agreement were completed as producing wells during the third quarter 2010. Eight new wells drilled in the fourth quarter 2009 and the first quarter 2010 pursuant to the O & G Lease are expected to be completed as producing wells in the fourth quarter 2010. The Company cannot predict the number of additional wells that ultimately will be drilled, if any, or their results.

**Table of Contents****Liquidity and Capital Resources.**

Net cash provided by operating activities was \$27.3 million in the nine months ended September 30, 2010, compared to \$24.1 million in the comparable 2009 period, an increase of \$3.2 million, or 13.1%. 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 2010, cash provided by operating activities was principally composed of \$14.9 million net income, \$9.9 million DD&A and \$2.5 million deferred income taxes, compared to \$10.6 million net income, \$10.3 million DD&A and \$1.6 million deferred income taxes in the first nine months 2009. The most significant changes in working capital in the first nine months 2010 was a net increase in inventories of \$1.3 million and a \$1.2 million decrease in prepaid expenses and other current assets. The increase in inventories was primarily for purchases of coal and petroleum coke, while the decrease in prepaid expenses and other current assets was primarily due to amortization of prepaid insurance. The most significant change in working capital items during the 2009 period was a net decrease in inventories of \$2.2 million.

The Company invested \$7.1 million in capital expenditures in the first nine months 2010, compared to \$5.2 million in the comparable period last year. The first nine months 2009 included \$1.3 million for the quarry development at the Company s Arkansas facilities. Included in capital expenditures during the first nine months 2010 and 2009 were \$2.0 million and \$71 thousand, respectively, for drilling and workover costs for the Company s non-operating working interests in natural gas wells.

Net cash used in financing activities was \$3.9 million in the first nine months 2010, including \$3.8 million for repayments of term loan debt. Net cash used in financing activities was \$8.3 million in the first nine months 2009, including \$3.8 million for repayments of term loan debt and \$4.7 million for repayments of the Company s revolving credit facility.

The Company s cash and cash equivalents at September 30, 2010 increased \$16.3 million to \$32.8 million from \$16.5 million at December 31, 2009.

The Company s credit agreement includes a ten-year \$40 million term loan (the Term Loan ), a ten-year \$20 million multiple draw term loan (the Draw Term Loan ) and a \$30 million revolving credit facility (the Revolving Facility ) (collectively, the Credit Facilities ). At September 30, 2010, the Company had \$322 thousand of letters of credit issued, which count as draws under the Revolving Facility.

The Term Loan requires quarterly principal payments of \$833 thousand, which began on March 31, 2006, equating to a 12-year amortization, with a final principal payment of \$7.5 million due on December 31, 2015. The Draw Term Loan requires quarterly principal payments of \$417 thousand, based on a 12-year amortization, which began on March 31, 2007, with a final principal payment on December 31, 2015 equal to any remaining principal then outstanding. The maturity of the Term Loan, the Draw Term Loan and the Revolving Facility can be accelerated if any event of default, as defined under the Credit Facilities, occurs.

As of June 1, 2010, the Company entered into an amendment to its Credit Facilities (the Amendment ) primarily to remove or reduce certain restrictions and to extend, by more than three years, the maturity date of the Revolving Facility. In return for these improvements, the Company agreed to increase the commitment fee for the Revolving Facility, increase the interest rate margins on existing and new borrowings, reduce the Company s maximum Cash Flow Leverage Ratio (defined below) and pay a \$100 thousand amendment fee.

The Amendment removed from the Credit Facilities: (1) the annual \$10 million maximum non-oil and gas-related capital expenditures limitation; (2) the \$40 million maximum acquisition limitation over the life of the Credit Facilities; and (3) the annual \$1.5 million maximum dividend restriction. In addition, pursuant to the Amendment, the Company may now 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 Amendment extended the maturity date of the Revolving Facility to June 1, 2015; previously, the maturity date for the Revolving Facility was April 2, 2012.



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As a result of the Amendment, the Revolving Facility commitment fee was increased to a range of 0.250% (previously 0.200%) to 0.400% (previously 0.350%). In addition, the Credit Facilities will now bear interest, at the Company's option, at either LIBOR plus a margin of 1.750% (previously 1.125%) to 2.750% (previously 2.125%), or the Lender's Prime Rate plus a margin of 0.000% (previously minus 0.500%) to plus 1.000% (previously plus 0.375%). The Revolving Facility commitment fee and the interest rate margins 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 and amortization ( EBITDA ) for the twelve months ended on the last day of the most recent calendar quarter, plus, added by the Amendment, pro forma EBITDA from any businesses acquired during the period. Lastly, the Amendment reduced the Company's maximum Cash Flow Leverage Ratio to 3.25 to 1 (previously 3.50 to 1).

The Amendment did not amend the security agreement, dated August 25, 2004, pursuant to which the Credit Facilities continue to be secured by the Company's existing and hereafter acquired tangible assets, intangible assets and real property. The Amendment also did not amend the Company's interest rate hedges, discussed below, with respect to the outstanding balances on the Term Loan and the Draw Term Loan that the Company has entered into with Wells Fargo Bank, N.A as counterparty to the hedges.

The Company has hedges that fix LIBOR through maturity at 4.695%, 4.875% and 5.500% on the outstanding balance of the Term Loan, 75% of the outstanding balance of the Draw Term Loan and 25% of the outstanding balance of the Draw Term Loan, respectively. As a result of the Amendment, and based on the current LIBOR margin of 1.750% (1.125% prior to the Amendment), as of June 1, 2010 the Company's interest rates are: 6.445% (5.820% prior to the Amendment) on the outstanding balance of the Term Loan; 6.625% (6.000% prior to the Amendment) on 75% of the outstanding balance of the Draw Term Loan; and 7.250% (6.625% prior to the Amendment) on 25% of the outstanding balance of the Draw Term Loan.

The hedges have been effective as defined under applicable accounting rules. Therefore, changes in fair value of the interest rate hedges are reflected in comprehensive income (loss). The Company will be exposed to credit losses in the event of non-performance by the counterparty to the hedges. Due to interest rate declines, the Company's mark-to-market of its interest rate hedges, at September 30, 2010 and December 31, 2009, resulted in liabilities of \$4.7 million and \$3.2 million, respectively, which are included in accrued expenses (\$1.6 and \$1.7 million, respectively) and other liabilities (\$3.1 million and \$1.5 million, respectively) on the Company's Condensed Consolidated Balance Sheets. The Company paid \$429 thousand and \$1,367 thousand in quarterly settlement payments pursuant to its hedges during the three- and nine-month periods ended September 30, 2010, respectively, compared to payments of \$476 thousand and \$1,288 thousand in the comparable prior year three- and nine-month periods, respectively. These payments were included in interest expense.

The Company is not contractually committed to any planned capital expenditures for its Lime and Limestone Operations until actual orders are placed for equipment. Under the O & G Lease, and pursuant to the Company's subsequent elections to participate as a 20% non-operating working interest owner, unless, within five days after receiving an AFE (authorization for expenditures) for a proposed well, the Company provides notice otherwise, the Company is deemed to have elected to participate as a 20% working interest owner. As a 20% non-operating working interest owner, the Company is responsible for 20% of the costs to drill, complete and workover the well. Pursuant to the Drillsite Agreement, the Company, as a 12.5% non-operating working interest owner, is responsible for 12.5% of the costs to drill, complete and workover each well. The Company estimates it will spend approximately \$200 thousand per well for completion costs on the eight new wells scheduled to be completed in the fourth quarter 2010. As of September 30, 2010, the Company had no material open orders or commitments that are not included in current liabilities on the September 30, 2010 Condensed Consolidated Balance Sheet.

As of September 30, 2010, the Company had \$37.9 million in total debt outstanding.

**Table of Contents****Results of Operations.**

Revenues increased to \$31.9 million in the third quarter 2010 from \$31.6 million in the comparable prior year quarter, an increase of \$256 thousand, or 0.8%. Revenues from the Company's Lime and Limestone Operations increased \$587 thousand, or 2.0%, to \$30.5 million in the third quarter 2010, compared to \$29.9 million in the comparable 2009 quarter, while revenues from its Natural Gas Interests decreased \$331 thousand, or 19.0%, to \$1.4 million in the third quarter 2010 from \$1.7 million in the comparable 2009 quarter. For the first nine months 2010, revenues increased to \$103.4 million from \$89.1 million in the comparable 2009 period, an increase of \$14.3 million, or 16.1%. Revenues from the Company's Lime and Limestone Operations increased \$14.1 million, or 16.7%, to \$98.1 million in the first nine months 2010, compared to \$84.0 million in the comparable 2009 period, while revenues from its Natural Gas Interests increased \$281 thousand, or 5.6%, to \$5.3 million in the first nine months 2010 from \$5.0 million in the comparable 2009 period. The increase in lime and limestone revenues in the 2010 periods, compared to last year's comparable periods, primarily resulted from increased sales volumes of the Company's lime products due to improved demand, principally from its steel customers in the first half 2010, and increased prices realized during the periods for the Company's lime and limestone products. These increases were partially offset by decreased PLS sales volumes in the third quarter 2010, compared to the third quarter 2009, due to reduced roof shingle demand in the Company's markets.

The Company's gross profit was \$8.9 million for the third quarter 2010, compared to \$8.6 million for the comparable 2009 quarter, an increase of \$231 thousand, or 2.7%. Gross profit for the first nine months 2010 was \$28.9 million, an increase of \$7.3 million, or 33.5%, from \$21.7 million for the first nine months 2009. Included in gross profit for the third quarter and first nine months 2010 were \$7.9 million and \$25.1 million, respectively, from the Company's Lime and Limestone Operations, compared to \$7.5 million and \$18.6 million, respectively, in the comparable 2009 periods. The improved gross profits and gross profit margins as a percentage of revenues for the Company's Lime and Limestone Operations in the third quarter and first nine months 2010, compared to the 2009 comparable periods, primarily resulted from the increased revenues, partially offset in the first nine months 2010 by costs incurred and accrued associated with the accident at St. Clair.

Gross profit from the Company's Natural Gas Interests declined to \$936 thousand in the third quarter 2010 from \$1.2 million in the prior year comparable quarter, primarily due to the decline in natural gas production volumes. For the first nine months 2010, gross profit from Natural Gas Interests increased to \$3.8 million from \$3.1 million in the comparable 2009 period, primarily due to the increase in prices compared to the comparable prior year period, partially offset by the decline in production volumes. Production volumes from the Company's Natural Gas Interests for the third quarter 2010 totaled 220 thousand MCF, sold at an average price of \$6.41 per MCF, compared to 302 thousand MCF, sold at an average price of \$5.84 per MCF, in the comparable 2009 quarter. Production volumes for the first nine months 2010 from Natural Gas Interests totaled 635 thousand MCF, sold at an average price of \$7.76 per MCF, compared to the first nine months 2009 when 1.0 BCF was produced and sold at an average price of \$4.99 per MCF.

Selling, general and administrative expenses ( SG&A ) declined \$145 thousand, or 7.2%, to \$1.9 million in the third quarter 2010 from \$2.0 million in the third quarter 2009. As a percentage of revenues, SG&A decreased to 5.9% in the 2010 quarter, compared to 6.4% in the comparable 2009 quarter. SG&A increased to \$6.2 million in the first nine months 2010 from \$5.9 million in the comparable 2009 period, an increase of \$325 thousand, or 5.5%. As a percentage of revenues, SG&A in the first nine months 2010 decreased to 6.0 %, compared to 6.6% in the comparable 2009 period. The increase in SG&A in the first nine months 2010 was primarily due to increased insurance costs and an increase in allowance for doubtful accounts, which was due to continued weakness in the economy.

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Interest expense in the third quarter 2010 and 2009 was \$707 thousand. Interest expense in the first nine months 2010 decreased to \$2.0 million from \$2.2 million in the first nine months 2009, a decrease of \$161 thousand, or 7.4%. The decrease in interest expense in the first nine months 2010 primarily resulted from decreased average outstanding debt due to the repayment of \$5.0 million of debt since September 30, 2009, partially offset by an increase in interest rates beginning in June 2010 resulting from the Amendment. Interest expense included payments of \$429 thousand and \$1.4 million that were made pursuant to the Company's interest rate hedges during the three- and nine-month periods ended September 30, 2010, respectively, compared to payments of \$476 thousand and \$1.3 million in the comparable prior year three- and nine-month periods, respectively.

Income tax expense increased to \$1.7 million in the third quarter 2010 from \$1.5 million in the third quarter 2009, an increase of \$290 thousand, or 19.9%. For the first nine months 2010, income tax expense increased to \$5.9 million from \$3.1 million in the comparable 2009 period, an increase of \$2.8 million, or 88.4%. The increases in income taxes in the 2010 periods compared to the comparable 2009 periods were primarily due to the increases in the Company's effective income tax rates and income before income taxes. The Company's effective income tax rate for the 2010 periods increased compared to the rates for the comparable 2009 periods primarily because statutory depletion had a smaller impact due to the \$7.0 million increase in income before income taxes in the first nine months 2010 compared to the first nine months 2009.

The Company's net income was \$4.5 million (\$0.71 per share diluted in 2010 and \$0.70 per share diluted in 2009) in both the third quarter 2010 and 2009. Net income in the first nine months 2010 was \$14.9 million (\$2.32 per share diluted), an increase of \$4.2 million, or 39.8%, compared to the comparable 2009 period net income of \$10.6 million (\$1.67 per share diluted).

**ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk.**

The Company is exposed to changes in interest rates, primarily as a result of floating interest rates on the Revolving Facility. At September 30, 2010, the Company had \$37.9 million of indebtedness outstanding under floating rate debt. The Company has entered into interest rate hedge agreements to swap floating rates for fixed LIBOR rates at 4.695%, plus the applicable margin, through maturity on the Term Loan balance of \$24.2 million, 4.875%, plus the applicable margin, on \$10.3 million of the Draw Term Loan balance and 5.50%, plus the applicable margin, on the remaining \$3.4 million of the Draw Term Loan balance. There was no outstanding balance on the Revolving Facility subject to interest rate risk at September 30, 2010. Any future borrowings under the Revolving Facility would be subject to interest rate risk. See Note 8 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 the Company's disclosure controls and procedures as of the end of the period covered by this Report. Based on 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.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Information with respect to an accident at the Company's St. Clair plant in Oklahoma resulting in a fatality is set forth in Note 9 of Notes to Condensed Consolidated Financial Statements, and is hereby incorporated by reference in response to this Item.

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

The Company's Amended and Restated 2001 Long-Term Incentive Plan allows employees and directors to pay the exercise price for stock options and the tax withholding liability for the lapse of restrictions on restricted stock by payment in cash and/or delivery of shares of the Company's common stock. In the third quarter 2010, pursuant to these provisions the Company received 1,156 shares of its common stock in payment to exercise stock options. The 1,156 shares were valued at \$42.26 per share, the fair market value of one share of the Company's common stock on the date they were tendered to the Company.

**ITEM 5. OTHER INFORMATION**

**Mine Safety Disclosures.**

The Company's goal is to provide a workplace that is incident free. We believe it is the Company's responsibility to employees to provide a safe and healthy environment. The Company seeks to implement this goal 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 recurrence.

Following passage of The Mine Improvement and New Emergency Response Act of 2006, the Mine Safety and Health Administration (MSHA) significantly increased the enforcement of safety and health standards and imposed 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 over the past two years.

The following disclosures are provided pursuant to the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which requires certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the U.S. Federal Mine Safety and Health Act of 1977 (the Mine Act). Under the Dodd-Frank Act, the SEC is authorized to issue rules and regulations to carry out the purposes of these provisions but has not done so as of the date of this Report. While we believe the following disclosures meet the requirements of the Dodd-Frank Act, it is possible that any rulemaking by the SEC will require disclosures to be presented in a form that differs from the following.

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.

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Whenever MSHA believes a violation of the Mine Act, any health or safety standard, or any regulation has occurred, it may issue a citation or order that 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 removing 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. Citations and orders can be contested and appealed 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 Company had 96 contests pending before the Commission as of September 30, 2010 that involve a variety of citations, including citations below the level required to be included in the table that follows. This includes contests that were initiated prior to the three-month period ended September 30, 2010 and which do not necessarily relate to the citations, orders, violations or proposed assessments issued by MSHA during such three-month period.

The table that follows reflects citations, orders, violations and proposed assessments issued to the Company by MSHA during the three months ended September 30, 2010. 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 three months ended September 30, 2010 were taken from the MSHA system as of October 28, 2010.

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 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.

| Mine <sup>(1)</sup>      | Section | Section | Section                              | Section   | Section | Section   | Fatalities |
|--------------------------|---------|---------|--------------------------------------|-----------|---------|---|------------|
|                          | 104(a)  | 104(b)  | 104(d)<br>Citations<br>and<br>Orders | 110(b)(2) | 107(a)  | Proposed<br>MSHA<br>Assessments <sup>(2)</sup><br>(in<br>thousands) |            |
| Texas Lime Company       |         |         |                                      |           |         | \$ 0.6  |            |
| Arkansas Lime<br>Company |         |         |                                      |           |         |   |            |
| Plant                    | 1       |         |                                      |           |         | \$ 0.7  |            |
| Limedale Quarry          | 1       |         |                                      |           |         | \$ 1.1  |            |

|                       |   |    |      |
|-----------------------|---|----|------|
| Colorado Lime Company |   |    |      |
| Monarch Quarry        |   |    |      |
| Salida Plant          |   |    | 1.6  |
| Delta Plant           |   |    |      |
| U.S. Lime Company     |   |    |      |
| St. Clair             | 4 | \$ | 16.9 |

(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 land, structures, facilities, equipment, machines, tools, kilns, and other preparation facilities. 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 quarterly reporting period do not necessarily relate to the citations or orders issued by MSHA during the quarterly

reporting period  
or to the  
pending contests  
reported above.

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**Pattern or Potential Pattern of Violations.** During the three months ended September 30, 2010, 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.

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.

**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 29, 2010

By: /s/ Timothy W. Byrne

Timothy W. Byrne  
President and Chief Executive Officer  
(Principal Executive Officer)

October 29, 2010

By: /s/ M. Michael Owens

M. Michael Owens  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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UNITED STATES LIME & MINERALS, INC.  
Quarterly Report on Form 10-Q  
Quarter Ended  
September 30, 2010  
Index to Exhibits

| EXHIBIT<br>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.             |