

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

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

Commission File Number 000-04197

United States Lime & Minerals, Inc.

(Exact name of Registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)
5429 LBJ Freeway, Suite 230, Dallas, Texas
(Address of principal executive offices)

75-0789226
(I.R.S. Employer
Identification Number)
75240
(Zip code)

Registrant's telephone number, including area code: (972) 991-8400

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Table with 2 columns: Title of Each Class, Name of Each Exchange on Which Registered. Row 1: Common Stock, \$0.10 par value; The NASDAQ Stock Market LLC

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [] No X

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [] No X

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 X 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 X No []

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. X

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 X
Non-accelerated filer [] Smaller reporting company X
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 X

The aggregate market value of Common Stock held by non-affiliates computed as of the last business day of the Registrant's quarter ended June 30, 2018: \$171,731,806.

Number of shares of Common Stock outstanding as of February 28, 2019: 5,609,981.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Registrant's definitive Proxy Statement to be filed for its 2019 Annual Meeting of Shareholders. Part IV incorporates certain exhibits by reference from the Registrant's previous filings.

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PART I

ITEM 1. BUSINESS

S.

General.

United States Lime & Minerals, Inc. (the “Company,” the “Registrant,” “We” or “Our”), which was incorporated in 1950, conducts its business through two segments, Lime and Limestone Operations and Natural Gas Interests.

The Company’s principal corporate office is located at 5429 LBJ Freeway, Suite 230, Dallas, Texas 75240. The Company’s telephone number is (972) 991-8400 and its internet address is www.uslm.com. The Company’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as well as the Company’s definitive proxy statement filed pursuant to Section 14(a) of the Exchange Act, are available free of charge on the Company’s website as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (the “SEC”).

Lime and Limestone Operations.

Business and Products. The Company, through its Lime and Limestone Operations, 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 manufacturers and agriculture (including poultry and cattle feed producers) industries. The Company is headquartered in Dallas, Texas and operates lime and limestone plants and distribution facilities in Arkansas, Colorado, Louisiana, Oklahoma and Texas through its wholly owned subsidiaries, Arkansas Lime Company, Colorado Lime Company, Texas Lime Company, U.S. Lime Company, U.S. Lime Company—Shreveport, U.S. Lime Company—St. Clair and U.S. Lime Company—Transportation.

The Company extracts high-quality limestone from its open-pit quarries and an underground mine and then processes it for sale as pulverized limestone, quicklime, hydrated lime and lime slurry. Pulverized limestone (also referred to as ground calcium carbonate) (“PLS”) is produced by applying heat to dry the limestone, which is then ground to granular and finer sizes. Quicklime (calcium oxide) is produced by heating limestone to very high temperatures in kilns in a process called calcination. Hydrated lime (calcium hydroxide) is produced by reacting quicklime with water in a controlled process. Lime slurry (milk of lime) is a suspended solution of calcium hydroxide produced by mixing quicklime with water in a lime slaker.

PLS is used in the production of construction materials such as roof shingles and asphalt paving, as an additive to agriculture feeds, in the production of glass, as a soil enhancement, in flue gas treatment for utilities and other industries requiring scrubbing of emissions for environmental purposes and for mine safety dust in coal mining operations. Quicklime is used primarily in metal processing, in flue gas treatment, in soil stabilization for highway, road and building construction, as well as for oilfield roads and drill sites, in the manufacturing of paper products and in municipal sanitation and water treatment facilities. Hydrated lime is used primarily in municipal sanitation and water treatment facilities, in soil stabilization for highway, road and building construction, in flue gas treatment, in asphalt as an anti-stripping agent, as a conditioning agent for oil and gas drilling mud, in the production of chemicals and in the production of construction materials such as stucco, plaster and mortar. Lime slurry is used primarily in soil stabilization for highway, road and building construction.

Product Sales. In 2018, the Company sold almost all of its lime and limestone products in the states of Arkansas, Arizona, Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, Tennessee and Texas. Sales were made primarily by the Company’s nine sales employees who call on current and potential customers and solicit orders, which are generally made on a purchase-order basis. The Company also receives orders in response to bids that it prepares and submits to current and potential customers.

Principal customers for the Company's lime and limestone products are construction customers (including highway, road and building contractors), industrial customers (including paper manufacturers and glass manufacturers), environmental customers (including municipal sanitation and water treatment facilities and flue gas treatment processes), metals producers (including steel producers), oil and gas services companies, roof shingle manufacturers and poultry and cattle feed producers. During 2018, the strongest sales for the Company's lime and limestone products was from construction customers, industrial customers, environmental customers, metals producers, oil and gas services companies and roof shingle manufacturers.

Approximately 600 customers accounted for the Company's sales of lime and limestone products during 2018. No single customer accounted for more than 10% of such sales. The Company is generally not subject to significant customer demand and credit risks as its customers are considerably diversified as to geographic location and industry concentration. However, given the nature of the lime and limestone industry, the Company's profits are very sensitive to changes in sales volume and prices.

Lime and limestone products are transported by truck and rail to customers generally within a radius of 400 miles of each of the Company's plants. All of the Company's 2018 sales were made within the United States.

Order Backlog. The Company does not believe that backlog information accurately reflects anticipated annual revenues or profitability from year to year.

Seasonality. The Company's sales have typically reflected seasonal trends, with the largest percentage of total annual shipments and revenues normally being realized in the second and third quarters. Lower seasonal demand normally results in reduced shipments and revenues in the first and fourth quarters. Inclement weather conditions generally have a negative impact on the demand for lime and limestone products supplied to construction-related customers, as well as on the Company's open-pit quarrying operations.

Limestone Reserves. The Company's limestone reserves contain at least 96% calcium carbonate (CaCO₃). The Company has two subsidiaries that extract limestone from open-pit quarries: Texas Lime Company ("Texas Lime"), which is located near Cleburne, Texas, and Arkansas Lime Company ("Arkansas Lime"), which is located near Batesville, Arkansas. U.S. Lime Company—St. Clair ("St. Clair") extracts limestone from an underground mine located near Marble City, Oklahoma. Colorado Lime Company ("Colorado Lime") owns property containing limestone deposits at Monarch Pass, located 15 miles west of Salida, Colorado. Existing crushed stone stockpiles on the property are being used to provide feedstock to the Company's plants in Salida and Delta, Colorado. Access to all properties is provided by paved roads and, in the case of Arkansas Lime and St. Clair, also by rail.

Texas Lime operates a quarry, located on approximately 4,100 acres of land, including 640 acres of land contiguous to our existing property acquired in 2018, that contains known high-quality limestone reserves in a bed averaging 28 feet in thickness, with an overburden that ranges from 0 to 50 feet. Texas Lime also has mineral interests in approximately 330 acres of land adjacent to the northwest boundary of its property. The Texas Lime reserves, as of December 31, 2018, were approximately 30 million tons of proven recoverable reserves plus approximately 78 million tons of probable recoverable reserves. Assuming the current level of production and recovery rate is maintained, the Company estimates that these reserves are sufficient to sustain operations for more than 70 years.

Arkansas Lime operates two quarries and has hydrated lime and limestone production facilities on a second site linked to the quarries by its own railroad. The quarries cover approximately 1,050 acres of land located in Independence County, Arkansas containing a known deposit of high-quality limestone reserves (the "Batesville Quarry"). The average thickness of the high-quality limestone bed is approximately 60 feet, with an average overburden thickness of approximately 30 feet. The reserves for the Batesville Quarry, as of December 31, 2018, were approximately 9 million tons of proven recoverable reserves. In 2005, the Company acquired approximately 2,500 acres of land in nearby Izard County, Arkansas (the "Love Hollow Quarry"). The high-quality reserves on these 2,500 acres, as of December 31, 2018, were approximately 76 million tons of probable recoverable reserves. The Company continues to assess the costs required to improve the transportation infrastructure between the Love Hollow Quarry and Arkansas Lime's production facilities and other development costs to prepare the Love Hollow Quarry for mining. Assuming the current level of production and recovery rate is maintained, the Company estimates that its total reserves in Arkansas are sufficient to sustain operations for more than 60 years.

St. Clair operates an underground mine and has hydrated lime and limestone production facilities located on approximately 1,400 acres that it owns containing high-quality limestone reserves, which includes approximately 540 acres of land acquired in 2018. The reserves, as of December 31, 2018, were approximately 12 million tons of probable recoverable reserves on 410 acres. Assuming the current level of production and recovery rate is maintained, the Company estimates that the probable recoverable reserves are sufficient to sustain operations for approximately 30 years. In addition, St. Clair also has the right to mine the high-quality limestone contained in approximately 1,330 adjacent acres pursuant to long-term mineral leases. The Company has not conducted a drilling program to identify and categorize reserves on the 1,330 leased acres.

During 2018, the Company produced approximately 3 million tons of limestone from its quarries and mine.

Colorado Lime acquired the Monarch Pass Quarry in November 1995 and has not carried out any mining on the property. A review of the potential limestone resources has been completed by independent geologists; however, the Company has not initiated a drilling program. Consequently, it is not possible to identify and categorize reserves. The Monarch Pass Quarry, which had been operated for many years until the early 1990s, contains a mixture of limestone types, including high-quality calcium limestone and dolomite. Assuming the current level of production is maintained, the Company estimates that the remaining crushed stone stockpiles on the property are sufficient to supply its plants in Salida and Delta, Colorado for approximately 15 years.

Quarrying and Mining. The Company extracts limestone by the open-pit method at its Texas and Arkansas quarries. The Monarch Pass Quarry is also an open-pit quarry but is not being mined at this time. The open-pit method consists of removing any overburden comprising soil and other substances, including inferior limestone, and then extracting the exposed high-quality limestone. The Company removes such overburden by utilizing both its own employees and equipment and those of outside contractors. Open-pit mining is generally less expensive than underground mining. The principal disadvantage of the open-pit method is that operations are subject to inclement weather and overburden removal. The limestone is extracted by drilling and blasting, utilizing standard mining equipment. At its St. Clair underground mine, the Company mines limestone using room and pillar mining. We have no knowledge of any recent changes in the physical quarrying or mining conditions on any of our properties that have materially affected quarrying or mining operations.

Plants and Facilities. After extraction, limestone is crushed and screened and, in the case of PLS, ground and dried, or, in the case of quicklime, processed in kilns. Quicklime may then be further processed in hydrators and slakers to produce hydrated lime and lime slurry. The Company processes and distributes lime and/or limestone products at five plants, six lime slurry facilities and two terminal facilities. All of its plants and facilities are accessible by paved roads, and, in the case of the Arkansas Lime and St. Clair plants and the terminal facilities, also by rail.

The Texas Lime plant has an annual capacity of approximately 470 thousand tons of quicklime from two preheater rotary kilns. The plant also has PLS equipment, which, depending on the product mix, has the capacity to produce approximately 800 thousand tons of PLS annually.

The Arkansas plant is situated at the Batesville Quarry. Utilizing three preheater rotary kilns, this plant has an annual capacity of approximately 630 thousand tons of quicklime. Arkansas Lime's PLS and hydrating facilities are situated on a tract of 290 acres located approximately two miles from the Quarry, to which it is connected by a Company-owned railroad. The PLS equipment, depending on the product mix, has the capacity to produce approximately 300 thousand tons of PLS annually.

The St. Clair plant currently has an annual capacity of approximately 180 thousand tons of quicklime from two rotary kilns, one of which is not a preheater kiln. The plant also has PLS equipment, which has the capacity to produce approximately 150 thousand tons of PLS annually. Beginning in the fourth quarter 2016, the Company began construction of a new, more fuel-efficient vertical kiln that will replace the non-preheater kiln and is expected to add approximately 70 thousand net tons of annual capacity of quicklime production. The new kiln is continuing to go through commissioning and is expected to start up around the end of the first quarter 2019. We will begin to depreciate the new kiln and related equipment when they consistently produce commercially saleable quicklime.

The Company also maintains lime hydrating and bagging equipment at the Texas, Arkansas and St. Clair plants. Storage facilities for lime and limestone products at each plant consist primarily of cylindrical tanks, which are considered by the Company to be adequate to protect its lime and limestone products and to provide an available supply for customers' needs at the expected volumes of shipments. Equipment is maintained at each plant to load trucks and, at the Arkansas Lime and St. Clair plants, to load railroad cars.

Colorado Lime operates a limestone grinding and bagging facility with an annual capacity of approximately 125 thousand tons, located on approximately three and one-half acres of land in Delta, Colorado, and a limestone drying, grinding and bagging facility, with an annual capacity of approximately 40 thousand tons, located on eight acres of land in Salida, Colorado. The Salida property is leased from the Union Pacific Railroad for a five-year term ending June 2019, and we do not anticipate renewing the lease.

During 2018, the Company's utilization rate was approximately 63% of its aggregate approximate annual production capacity for the plants in its Lime and Limestone Operations.

U.S. Lime Company ("US Lime") uses quicklime to produce lime slurry and has three Houston area facilities, including a distribution terminal connected to a railroad southwest of Houston, Texas, to serve the Greater Houston area construction market and three facilities to serve the Dallas-Ft. Worth Metroplex. The Company established U.S. Lime Company—Transportation ("Transportation") to deliver the Company's products to its customers and facilities primarily in the Dallas-Ft. Worth Metroplex. In December 2014, US Lime acquired the land and buildings, and Transportation acquired the trucks, trailers and other equipment, owned by a Houston, Texas trucking company operation that had exclusively delivered the Company's products to its customers and slurry facilities. The land purchased included the site leased for one of US Lime's Houston slurry facility. In December 2017, Transportation sold its trucks in Houston, Texas for approximately their net book value and entered into a dedicated transportation services agreement with a third-party carrier to deliver the Company's products to its customers and slurry facilities in the Houston metropolitan area.

U.S. Lime Company — Shreveport operates a distribution terminal in Shreveport, Louisiana, which is connected to a railroad, to provide lime storage, hydrating, slurrying and distribution capacity to service markets in Louisiana and East Texas.

The Company believes that its plants and facilities are adequately maintained and insured.

Employees. At December 31, 2018, the Company employed 287 persons and is a party to two collective bargaining agreements. The collective bargaining agreement for the Texas facilities expires November 2020. The collective bargaining agreement for the Arkansas facilities expires in January 2023. Overall, the Company believes that its employee relations are good.

Competition. The lime industry is highly regionalized and competitive, with price, quality, ability to meet customer demands and specifications, proximity to customers, personal relationships and timeliness of deliveries being the prime competitive factors. The Company's competitors are predominantly private companies.

The lime industry is characterized by high barriers to entry, including: the scarcity of high-quality limestone deposits on which the required zoning and permitting for extraction can be obtained; the need for lime plants and facilities to be located close to markets, paved roads and railroad networks to enable cost-effective production and distribution; clean air and anti-pollution regulations, including those related to greenhouse gas emissions, which make it more difficult to obtain permitting for new sources of emissions, such as lime kilns; and the high capital cost of the plants and facilities. These considerations reinforce the premium value of operations having permitted, long-term, high-quality limestone reserves and good locations and transportation relative to markets.

Lime producers tend to be concentrated on known high-quality limestone formations where competition takes place principally on a regional basis. While the steel industry and environmental-related users, including utility plants, are the largest market sectors, the lime industry also counts chemical users and other industrial users, including paper manufacturers, oil and gas services and highway, road and building contractors, among its major customers.

In recent years, the lime industry has experienced reduced demand from certain industries as they experience cyclical or secular downturns. For example, demand from our steel and oil and gas services customers tends to vary with

the demand for their products and services, which has continued to be cyclical. In addition, utility plants are continuing to use more natural gas and renewable sources for power generation instead of coal, which reduces their demand for lime and limestone for flue gas treatment processes. These reductions in demand have resulted in increased competitive pressures, including pricing and competition for certain customer accounts, in the industry.

Consolidation in the lime industry has left the three largest companies accounting for more than two-thirds of North American production capacity. In addition to the consolidations, and often in conjunction with them, many lime producers have undergone modernization and expansion and development projects to upgrade their processing equipment in an effort to improve operating efficiency. The Company believes that its Texas and Arkansas modernization and expansion projects, and the recent construction of a new more fuel-efficient vertical kiln at its St. Clair operations in Oklahoma, along with its lime slurry operations in Texas, should allow the Company to continue to remain competitive, protect its markets and position itself for the future. In addition, the Company will continue to evaluate internal and external opportunities for expansion, growth and increased profitability, as conditions warrant, or opportunities arise. The Company may have to revise its strategy or otherwise find ways to enhance the value of the Company, including entering into strategic partnerships, mergers or other transactions.

Impact of Environmental Laws. The Company owns or controls large areas of land on which it operates limestone quarries, an underground mine, lime plants and other facilities with inherent environmental responsibilities, compliance costs and liabilities. These include maintenance and operating costs for pollution control equipment, the cost of ongoing monitoring programs, the cost of reclamation efforts and other similar environmental costs and liabilities.

The Company's operations are subject to various federal, state and local laws and regulations relating to the environment, health and safety and other regulatory matters, including the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws. ("Environmental Laws"). These Environmental Laws grant the United States Environmental Protection Agency (the "EPA") and state governmental agencies the authority to promulgate and enforce regulations that could result in substantial expenditures on pollution control, waste management, permitting and compliance activities. Many Environmental Laws also authorize private citizens and interest groups to file lawsuits in court to enforce alleged violations. The failure to comply with Environmental Laws may result in administrative and civil penalties, injunctive relief and criminal prosecution. The Company has not been named as a potentially responsible party in any federal superfund cleanup site or state-led cleanup site.

The rate of change of Environmental Laws continues to be rapid, and compliance can require significant expenditures. For example, the Clean Air Act required the Company's lime plants to obtain Title V operating permits that have significant ongoing compliance costs. In addition to the Title V permits, other environmental operating permits are required for the Company's operations, and such permits are subject to modification during the permit renewal process and, in rare instances, could be revoked.

Over time, EPA has increased the stringency of the National Ambient Air Quality Standards ("NAAQS") under the Clean Air Act.

The EPA has lowered ozone standards and reclassified areas where State Implementation Plans (the "SIPs") exist. In October 2015, the EPA issued a final rule lowering the ground-level ozone NAAQS to 70 parts per billion, and in 2018 initiated rulemaking to revise the SIPs. This rulemaking could increase the cost of future plant modifications or expansions, increase compliance costs and have a material adverse effect on the Company's financial condition, results of operations, cash flows and competitive position.

EPA regulations require large emitters of greenhouse gases, including the Company's plants, to collect and report greenhouse gas emissions data. The EPA has previously indicated that it will use the data collected through the greenhouse gas reporting rules to decide whether to promulgate future greenhouse gas emission limits. The EPA and delegated states also regulate greenhouse gas emissions under the New Source Review permitting and Federal Operating Permit programs for facilities that are otherwise subject to permitting based on their emissions of conventional, non-greenhouse gas pollutants. Thus, any new facilities or major modifications to existing facilities that exceed the federal New Source Review emission thresholds for conventional pollutants may be required to use "best available control technology" and energy efficiency measures to minimize greenhouse gas emissions.

Although the timing and impact of climate change legislation and of regulations limiting greenhouse gas

emissions are uncertain, the consequences of such legislation and regulation are potentially significant for the Company because the production of CO₂ is inherent in the manufacture of lime through the calcination of limestone and combustion of fossil fuels. Future greenhouse gas rulemaking could affect New Source Review permitting and, thereby, increase the time and costs of plant upgrades and expansions. The passage of climate change legislation, and other regulatory initiatives by the Congress, the states or the EPA that restrict or tax emissions of greenhouse gases, could also adversely affect the Company. There is no assurance that changes in the law or regulations will not be adopted, such as the imposition of a carbon tax, a cap-and-trade program requiring the Company to purchase carbon credits or other measures that would require reductions in emissions or changes to raw materials, fuel use or production rates. Such changes, if adopted, could have a material adverse effect on the Company's financial condition, results of operations, cash flows and competitive position.

In addition to regulation, several court cases have been filed and decisions issued that may increase the risk of claims being filed by third parties against companies for their greenhouse gas emissions. Such cases may seek to challenge air permits, to force reductions in greenhouse gas emissions or to recover damages for alleged climate change impacts to the environment, people and property.

The lime industry is currently undergoing a revision to an EPA rulemaking process pursuant to a federal regulation that regulates air emissions by establishing national standards that meet the maximum achievable control technology ("MACT") within the industry. Also known as the "Lime MACT," this rule is the second revision to the initial Lime MACT promulgated on January 5, 2004. It is expected that the rulemaking process may take 1-2 years before any new EPA standards would take effect. Changes in the Lime MACT could have a material adverse effect on the Company's financial condition, results of operations, cash flows and competitive position.

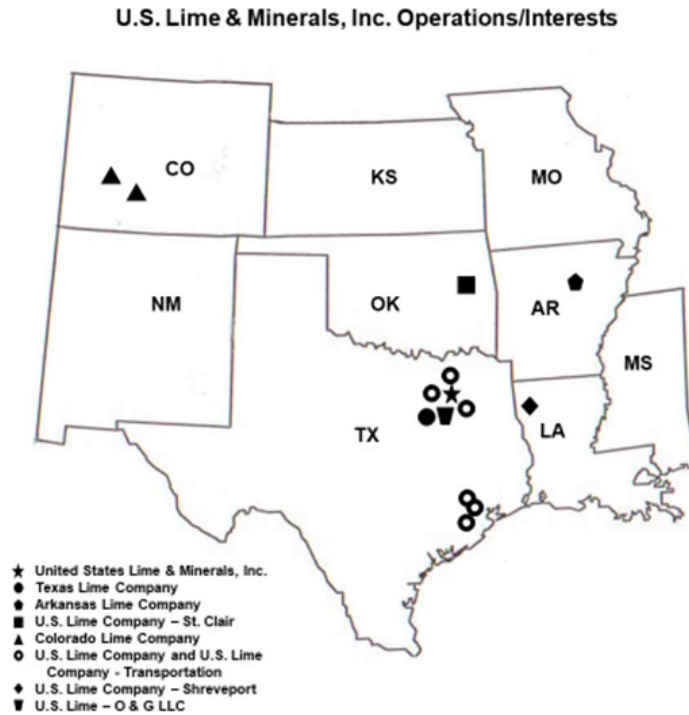
The Company also holds permits for process water and storm water discharges. Any failure to comply with these permits could result in fines or other penalties. Material changes to the terms of these permits in the future could also increase compliance costs.

The manufacturing of lime and hydrated lime requires significant volumes of fresh water. The Company operates multiple groundwater wells to provide water to its plants. Groundwater pumping is subject to increased regulation, and in some areas the Company is required to obtain permits from groundwater conservation districts in order to pump groundwater. Any failure to comply with these permits could result in fines or other penalties.

The Company incurred capital expenditures related to environmental matters of approximately \$1.2 million, \$0.4 million and \$0.5 million in 2018, 2017 and 2016, respectively. The Company's recurring costs associated with managing environmental permitting and waste recycling and disposal (e.g., used oil and lubricants) and maintaining pollution control equipment amounted to approximately \$0.6 million, \$0.7 million and \$0.9 million in 2018, 2017 and 2016, respectively.

The Company recognizes legal reclamation and remediation obligations associated with the retirement of long-lived assets at their fair value at the time the obligations are incurred ("Asset Retirement Obligations" or "AROs"). Over time, the liability for AROs is recorded at its present value each period through accretion expense, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company either settles the ARO for its recorded amount or recognizes a gain or loss. AROs are estimated based on studies and the Company's process knowledge and estimates and are discounted using an appropriate interest rate. The AROs are adjusted when further information warrants an adjustment. The Company believes its accrual of \$1.5 million for AROs at December 31, 2018 is reasonable.

Map of United States Lime & Minerals, Inc. Operations/Interests.



Natural Gas Interests.

Interests. The Company, through its wholly owned subsidiary, U.S. Lime Company — O & G, LLC (“U.S. Lime O & G”), has royalty interests ranging from 15.4% to 20% and a 20% non-operated working interest with respect to oil and gas rights on the Company’s approximately 3,800 acres of land located in Johnson County, Texas, in the Barnett Shale Formation. These interests are derived from the Company’s May 2004 oil and gas lease agreement (the “O & G Lease”) with EOG Resources, Inc. (“EOG”) with respect to oil and gas rights on its Texas Lime property that will continue on currently producing wells so long as EOG, or its successors or assigns, is producing natural gas from such wells as set forth in the O & G Lease. Affiliated companies of Enervest, Ltd. have purchased EOG’s interests in the O & G Lease, and an affiliate of Enervest, Ltd. is now the successor operator of the wells drilled under the O & G Lease.

During the fourth quarter 2005, drilling of the first natural gas well under the O & G Lease was completed, and natural gas production began in February 2006. A total of 34 wells have been drilled under the O & G Lease, but one of the wells ceased production in 2011 and has been plugged and abandoned. The Company’s overall average revenue interest is 34.7% in the 33 wells currently producing under the O & G Lease.

In November 2006, through U.S. Lime O & G, the Company entered into a drillsite and production facility lease agreement and subsurface easement (the “Drillsite Agreement”) with XTO Energy Inc. (“XTO”), which has an oil and gas lease covering 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-operated working

interest, resulting in a 12.4% revenue interest, in the six XTO wells drilled from a padsite located on the Company's property.

U.S. Lime O & G has no direct employees and is not the operator of any wells drilled on the properties subject to either the O & G Lease or the Drillsite Agreement (the "O & G Properties"). The only decision that the Company has the right to make is whether to participate as a non-operated working interest owner and pay its proportionate share of the costs of drilling, completing, working over and operating a well.

No wells have been completed on the O & G Properties since 2011. Given current market prices for natural gas and natural gas liquids, there are no present plans to drill additional wells on the O & G Properties. The Company cannot predict if any additional wells will be drilled on the O & G Properties, or their results.

Regulation. Many aspects of the production, pricing and marketing of natural gas are regulated by federal and state agencies. Legislation and rulemaking affecting the natural gas industry are under constant review for amendment or expansion, which in the past has increased the regulatory burden on affected members of the industry.

Oil and gas development and production operations are subject to various types of regulation at the federal, state and local levels that may impact the Company's royalty and non-operated working interests. Such regulation includes:

- requiring permits for the drilling of wells;
- numerous federal and state safety requirements;
- environmental requirements;
- property taxes and severance taxes; and
- specific state and federal income tax provisions.

The Texas Commission on Environmental Quality has adopted regulations limiting air emissions from oil and natural gas production in the Barnett Shale, where the O & G Properties are located. The EPA has adopted greenhouse gas monitoring and reporting regulations applicable to the petroleum and natural gas industry. The EPA has indicated that it will use data collected through the reporting rules to decide whether to promulgate future greenhouse gas emission limits. Future changes to greenhouse gas regulations could affect the relative competitiveness of, and therefore the demand for, natural gas and other fossil fuels.

Hydraulic fracturing is a technique used to produce oil and natural gas from shale, including the Barnett Shale Formation. The drilling on the Company's O & G Properties has involved hydraulic fracturing. EPA regulations require owners and operators of newly hydraulically fractured wells to use so-called "green completion" technology to reduce methane and volatile organic compound emissions during completion activities. EPA regulations also include standards for the reduction of methane, volatile organic compounds, and other emissions from new and existing sources in the oil and gas sector. New laws or regulations affecting hydraulic fracturing could adversely affect the cost of drilling and production from the O & G Properties.

Customers and Pricing. The pricing of natural gas sales is primarily determined by supply and demand in the marketplace and can fluctuate considerably. As the Company is not the operator of the wells drilled on the O & G Properties, it has limited access to timely information, involvement and operational control over the volumes of natural gas produced and sold and the terms and conditions, including price, on which such volumes are marketed and sold, all of which is controlled by the operators. Although the Company has the right to take its portion of natural gas production in kind, it currently has elected to have its natural gas production marketed and sold by the operators.

The prices that the Company receives for its natural gas production is also affected by the amount of natural gas liquids included in the natural gas and the prices for those liquids.

Drilling Activity. No new wells have been completed since 2011, and there are no present plans to drill additional wells, on the O & G Properties. The Company cannot predict the number of additional wells that ultimately will be drilled, if any, or their results.

Production Activity. The number of gross and net producing wells and production activity for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018		2017		2016	
	Gross	Net ⁽¹⁾	Gross	Net ⁽²⁾	Gross	Net ⁽²⁾
Producing wells ⁽¹⁾						
O & G Lease	33	6.6	33	6.6	33	6.6
Drillsite Agreement	6	0.8	6	0.8	6	0.8
Total	39	7.4	39	7.4	39	7.4
Natural gas production volume (BCF)	0.5		0.6		0.6	
Average sales price per MCF ⁽³⁾	\$ 5.02		\$ 3.99		\$ 3.35	
Total cost of revenues per MCF ⁽⁴⁾	\$ 3.01		\$ 2.69		\$ 3.25	

- (1) Although a total of 34 wells have been drilled under the O & G Lease, one well ceased production in 2011 and has been plugged and abandoned.
- (2) The number of net wells is required to be calculated based on the Company's non-operated working interests percentages multiplied by the number of gross wells and does not consider the Company's royalty interests percentages in each well.
- (3) Average sales price per MCF includes sales prices of natural gas liquids contained in the natural gas.
- (4) Includes taxes other than income taxes.

Delivery Commitments. There are no delivery commitments for the Company's natural gas production to which U.S. Lime O & G is a party.

Internal Controls Over Reserve Estimates. The Company's policies regarding internal controls over the recording of reserve estimates require reserves to be in compliance with the SEC definitions and guidance and prepared in accordance with generally accepted petroleum engineering principles. In 2018 and 2017, the Company retained LaRoche Petroleum Consultants, Ltd., independent third-party petroleum engineers, to perform appraisals of 100% of its proved reserves in compliance with these standards. In 2016, the Company retained DeGolyer and MacNaughton, independent third-party petroleum engineers, to perform appraisals of 100% of its proved reserves in compliance with these standards.

Reserves. The following table reflects the proved developed, proved undeveloped and total proved reserves (all of which are located in Johnson County, Texas), future estimated net revenues and standardized measure at December 31, 2018, 2017 and 2016. The reserves and future estimated net revenues are based on the reports prepared by LaRoche Petroleum Consultants, Ltd. as of December 31, 2018 and 2017 and DeGolyer and MacNaughton as of December 31, 2016. Proved developed reserves included 39 producing wells at each of December 31, 2018, 2017 and

2016, respectively. The Company's proved reserves have not been filed with, or included in, any reports to any federal agency, other than those filed with the SEC.

	2018 ⁽¹⁾			2017 ⁽²⁾			2016 ⁽²⁾		
	Developed	Undeveloped	Total	Developed	Undeveloped	Total	Developed	Undeveloped	Total
Proved natural gas reserves (BCF)	3.9	—	3.9	4.6	—	4.6	3.9	—	3.9
Proved natural gas liquids and condensate reserves (MMBBLs)	0.6	—	0.6	0.7	—	0.7	0.5	—	0.5
Future estimated net revenues (in thousands)	\$ 15,664	\$ —	\$ 15,664	\$ 15,616	\$ —	\$ 15,616	\$ 9,506	\$ —	\$ 9,506
Standardized measure ⁽¹⁾ (in thousands)	\$ 6,490	\$ —	\$ 6,490	\$ 6,576	\$ —	\$ 6,576	\$ 4,197	\$ —	\$ 4,197

- (1) This present value data should not be construed as representative of fair market value, since such data is based upon projected cash flows, which do not provide for escalation or reduction of natural gas or natural gas liquids prices or for escalation or reduction of expenses and capital costs.
- (2) The reserve estimates as of December 31, 2018, 2017 and 2016 utilized 12-month average pricing, as required by accounting principles generally accepted in the United States of America, of \$2.82, \$2.81 and \$2.65 per MCF of natural gas and \$25.57, \$20.23 and \$16.61 per BBL of natural gas liquids, respectively.

Undeveloped Acreage. Since the Company is not the operator, it has limited information regarding undeveloped acreage and does not know how many acres the operators classify as undeveloped acreage, if any, or the number of wells that ultimately will be drilled on the O & G Properties.

Glossary of Certain Oil and Gas Terms. The definitions set forth below shall apply to the indicated terms as used in this Report. All volumes of natural gas referred to herein are stated at the legal pressure base of the state or area where the reserves exist and at 60 degrees Fahrenheit and in most instances are rounded to the nearest major multiple.

“BBL” means a standard barrel containing 42 United States gallons.

“BCF” means one billion cubic feet under prescribed conditions of pressure and temperature and represents a basic unit for measuring the production of natural gas.

“Depletion” means (i) the volume of hydrocarbons extracted from a formation over a given period of time, (ii) the rate of hydrocarbon extraction over a given period of time expressed as a percentage of the reserves existing at the beginning of such period, or (iii) the amount of cost basis at the beginning of a period attributable to the volume of hydrocarbons extracted during such period.

“Formation” means a distinct geologic interval, sometimes referred to as the strata, which has characteristics (such as permeability, porosity and hydrocarbon saturations) that distinguish it from surrounding intervals.

“Future estimated net revenues” means the result of applying current prices of oil and natural gas to future estimated production from oil and natural gas proved reserves, reduced by future estimated expenditures, based on current costs to be incurred, in developing and producing the proved reserves, excluding overhead.

“MCF” means one thousand cubic feet under prescribed conditions of pressure and temperature and represents a basic unit for measuring the production of natural gas.

“MMBBLs” means one million BBLs.

“Operator” means the individual or company responsible for the exploration, development and production of an oil or natural gas well or lease.

“*Proved oil and gas reserves*” are those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

- (i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.
- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
- (iii) Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
- (iv) Reserves that can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.
- (v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

“*Royalty*” means an interest in an oil and gas lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage (or of the proceeds of the sale thereof), but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage.

“*Severance tax*” means an amount of tax, surcharge or levy recovered by governmental agencies from the gross proceeds of oil and natural gas sales. Severance tax may be determined as a percentage of proceeds or as a specific amount per volumetric unit of sales. Severance tax is usually withheld from the gross proceeds of oil and natural gas sales by the first purchaser (e.g., pipeline or refinery) of production.

“*Standardized measure of discounted future net cash flows*” (also referred to as “*standardized measure*”) means the value of future estimated net revenues, calculated in accordance with SEC guidelines, to be generated from the production of proved reserves net of estimated production and future development costs, using prices and costs at the date of estimation, without future escalation, and estimated income taxes, and without giving effect to non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.

“*Undeveloped acreage*” means acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

“*Working interest*” means a real property interest entitling the owner to receive a specified percentage of the proceeds of the sale of oil and natural gas production or a percentage of the production but requires the owner of the working interest to bear the cost to explore for, develop and produce such oil and natural gas.

ITEM 1A. RISK FACTOR

S.

General.

Both of our business segments are affected by general economic and regulatory conditions in the U.S. and specific economic and regulatory conditions in particular industries.

General and industry specific economic conditions in the United States have reduced demand for our lime and limestone products. Specifically, demand from our utility customers has decreased due to the continuing trend in the United States to retire coal-fired utility plants. In the past, our steel and oil and gas services customers have reduced their purchase volumes, at times, due to cyclical economic conditions in their industries. The overall reduction in demand for lime and limestone products has also resulted in increased competitive pressures, including pricing pressure and competition for certain customer accounts, from other lime producers.

We are also in a period of regulatory uncertainty. While various actions and proposals by the current Administration and Congress to reduce regulations in certain respects or as to certain industries, to increase infrastructure spending, to permit increased oil and gas drilling, to increase the use of coal, to stimulate steel and other manufacturing and to protect U.S. markets, as well as the impact of corporate tax reforms, may increase U.S. economic activity and the demand for our lime and limestone products, there can be no assurance that such results will be achieved or that they will benefit us or our customers. In addition, depending on the outcome and effects of such proposals, a variety of factors, including uncertainty with respect to governmental budgetary constraints, legislative impasses, extended government shutdowns, trade wars, tariffs and increased inflationary pressures, could have a material adverse effect on our financial condition, results of operations, cash flows and competitive position that, on balance, may offset some or all of the benefits to us and our customers from the otherwise favorable regulatory changes.

For us to maintain or increase our profitability, we must maintain or increase our revenues and improve cash flows, manage our capital expenditures and control our operational and selling, general and administrative expenses. If we are unable to maintain our revenues and control our costs in these uncertain economic and regulatory times, our financial condition, results of operations, cash flows and competitive position could be materially adversely affected.

We may be adversely affected by any disruption in, or failure of, our information technology systems, including due to cyber-security risks and incidents.

We rely upon the capacity, reliability and security of our information technology (“IT”) systems for our manufacturing, sales, financial and administrative functions. We also face the challenge of supporting our IT systems and implementing upgrades when necessary, including the prompt detection and remediation of any cyber-security breaches.

Our IT systems security measures are focused on the prevention, detection and remediation of damage from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. However, our IT systems protection measures may not be successful in preventing unauthorized access, intrusion and damage. Threats to our systems can derive from human error, fraud or malice on the part of employees or third parties or may result from technological failure. Any failure, accident or security breach involving our IT systems could result in disruption to our operations. A material breach in the security of our IT systems could negatively impact our manufacturing operations, sales or financial and administrative functions, or result in the compromise of personal information of our employees, customers or suppliers. To the extent any such failure, accident or security breach results in disruption to our operations or sales or loss or disclosure of, or damage to, our data or confidential information, our costs could increase, and our reputation, business, results of operations and financial condition could be materially adversely affected. Additionally, should we experience a cyber-security event, we may incur substantial costs, including remediation costs, such as

liability for stolen assets or information, repairs of system damage, legal costs and costs associated with regulatory actions.

Lime and Limestone Operations.

In the normal course of our Lime and Limestone Operations, we face various business and financial risks that could have a material adverse effect on our financial position, results of operations, cash flows and competitive position. Not all risks are foreseeable or within our ability to control.

These risks arise from various factors, including, but not limited to, fluctuating demand and prices for our lime and limestone products, including as a result of downturns in the economy and in the construction, industrial, steel and oil and gas services industries, and reduced demand from coal-fired utility plants, increased competitive pressures from other lime producers, changes in legislation and regulations, including Environmental Laws, health and safety regulations and requirements to renew or obtain operating permits, our ability to produce and store quantities of lime and limestone products sufficient in amount and quality to meet customer demands and specifications, the success of our modernization, expansion and development strategies, the uncertainty of the product output from the vertical kiln technology being deployed at the St. Clair facility, including our ability to sell our increased lime capacity at acceptable prices, our ability to execute our strategies and complete projects on time and within budget, our ability to integrate, refurbish and/or improve acquired facilities, our access to capital, volatile costs, especially fuel, electricity, transportation and freight costs, inclement weather and the effects of seasonal trends.

We receive most of our coal and petroleum coke by rail, so the availability of sufficient solid fuels to run our plants could be diminished significantly in the event of major rail disruptions. Domestic coal and petroleum coke may also be exported, which can increase competition and prices for the domestic supply. In addition, our freight costs to deliver our lime and limestone products are high relative to the value of our products, and they have generally increased in recent years. Our costs for delivery of solid fuels, as well as our products, also increase as demand for rail and trucking by other industries increases, and revised Department of Transportation rules have reduced the availability of trucks, truck drivers and rail cars to deliver solid fuels to our plants and deliver our products to our customers. If we are unable to continue to pass along our variable coal, petroleum coke, diesel, natural gas, electricity, transportation and freight costs to our customers through higher prices or surcharges, our financial condition, results of operations, cash flows and competitive position could be materially adversely affected.

We quote on a delivered price basis to certain customers, which requires us to estimate future delivery costs. Our actual delivery costs may exceed these estimates, which would reduce our profitability.

Delivery costs are impacted by the price of diesel. When diesel prices increase, we incur additional fuel surcharges from freight companies that cannot be passed on to our customers that have been quoted a delivered price. Material increases in the price of diesel could have a material adverse effect on the Company's profitability.

Governmental fiscal and budgetary constraints, legislative impasses, and extended government shutdowns have in the past, and may in the future, adversely impact our financial condition and results of operations in various ways.

Governmental fiscal and budgetary constraints, legislative impasses and extended government shutdowns may adversely impact our financial condition and results of operations in various ways, including possibly reduced highway construction and infrastructure funding by federal, state and local governmental agencies, which could reduce demand for our lime and limestone products from our construction customers.

Our mining and other operations are subject to operating risks that are beyond our control, which could result in materially increased operating expenses and decreased production and shipment levels that could materially adversely affect our Lime and Limestone Operations and their profitability.

We mine limestone in open pit and underground mining operations and process and distribute that limestone through our plants and other facilities. Certain factors beyond our control could disrupt our operations, adversely affect production and shipments and increase our operating costs, all of which could have a material adverse effect on our results of operations. These include geological formation problems that may cause poor mining conditions, variability of

chemical or physical properties of our limestone, an accident or other major incident at a site that may cause all or part of our operations to cease for some period of time and increase our expenses, mining, processing and plant equipment failures and unexpected maintenance problems that may cause disruptions and added expenses, strikes, job actions or other work stoppages that may disrupt our operations or those of our suppliers, contractors or customers and increase our expenses, and adverse weather conditions and natural disasters, such as hurricanes, heavy rains, flooding, ice storms, freezing weather, drought and other natural events, that may affect operations, transportation or customers.

If any of these conditions or events occur, our operations may be disrupted, we could experience a delay or halt of production or shipments, our operating costs could increase significantly, and we could be exposed to fines, penalties, assessments and other liabilities. If our insurance coverage is limited or excludes a given condition or event, we may not be able to recover in full the losses that we may incur as a result of such conditions or events, some of which may be substantial.

We incur environmental compliance costs and liabilities, including capital, maintenance and operating costs, with respect to pollution control equipment, the cost of ongoing monitoring programs, the cost of reclamation and remediation efforts and other similar costs and liabilities relating to our compliance with Environmental Laws. We expect these costs and liabilities to continue or increase, including possible new costs, taxes and limitations on operations, including regulation of greenhouse gas emissions. Similar environmental costs and liabilities may also be faced by some of our customers.

The rate of change of Environmental Laws has been rapid over the last decade, and we may face possible new uncertainties, costs and liabilities, taxes and limitations on operations, including those related to climate change initiatives. Even with the current period of regulatory uncertainty that could result in deregulation in certain areas, we expect our expenditure requirements for future environmental compliance, including complying with nitrogen dioxide, sulfur dioxide, ozone and particulate matter emission limitations under the NAAQS and regulation of greenhouse gas emissions, to continue or increase. Discovery of currently unknown conditions and unforeseen costs and liabilities could require additional expenditures.

The regulation of greenhouse gas emissions remains an issue for the Company and some of its customers. There is no assurance that changes in the law or regulations will not be adopted, such as the imposition of a carbon tax, a cap-and-trade program requiring companies to purchase carbon credits, or other measures that would require reductions in emissions or changes to raw materials, fuel use or production rates. These changes, if adopted, could have a material adverse effect on the Company's financial condition, results of operations, cash flows and competitive position. More stringent regulation of greenhouse gas emissions could also adversely affect the competitiveness of some of the Company's customers, including coal-fired power plants, and indirectly the demand for our lime and limestone products. For example, our utility customers are continuing to switch from coal to natural gas or renewable sources for power generation for environmental regulatory as well as cost reasons, thus reducing demand for our lime and limestone products for flue gas treatment processes.

We intend to comply with all Environmental Laws and believe our accrual for environmental costs and liabilities at December 31, 2018 is reasonable. Because many of the requirements are subjective and therefore not quantifiable or presently determinable, or may be affected by additional legislation and rulemaking, including those related to climate change and greenhouse gas emissions, there is no assurance or certainty that we will be able to successfully secure new permits in connection with our future modernization and expansion and development projects, and it is not possible to accurately predict the aggregate future costs and liabilities relating to environmental compliance and their effect on our financial condition, results of operations, cash flows and competitive position.

To maintain our competitive position, we may need to continue to increase the efficiency of our operations and expand production capacity, obtain financing for any such projects and acquisitions at reasonable interest rates and acceptable terms and sell any resulting increased production at acceptable prices.

We are currently completing our new kiln project at St. Clair. We may in the future undertake additional modernization and expansion and development projects and acquisitions. Such projects and acquisitions may require that we incur additional debt, which may not be available to us at all or at reasonable interest rates or on acceptable terms. Given current and projected demand for lime and limestone products, we cannot guarantee that any such project or

acquisition would be successful, that we would be able to sell any resulting increased production at acceptable prices or that any such sales would be profitable.

Although prices for our lime and limestone products have been relatively firm in past years, pricing competition has increased in recent years. We are unable to predict future demand and prices, given the current economic and regulatory uncertainties in the U.S. and in particular industries, and cannot provide any assurance that current levels of demand and prices will continue or that any future increases in demand or prices can be maintained.

The lime industry is highly regionalized and competitive.

Our competitors are predominately large private companies. The primary competitive factors in the lime industry are price, quality, ability to meet customer demands and specifications, proximity to customers, personal relationships and timeliness of deliveries, with varying emphasis on these factors depending upon the specific product application. To the extent that one or more of our competitors becomes more successful with respect to any key competitive factor, we may find it difficult to increase or maintain our prices or to retain certain customer accounts, and our financial condition, results of operations, cash flows and competitive position could be materially adversely affected.

Natural Gas Interests.

Our natural gas reserves are depleting assets, and we have no ability to explore for new reserves, nor at current market prices are there any present plans to drill additional wells on the O&G Properties.

Revenues from our Natural Gas Interests depend in large part on the quantity of natural gas and natural gas liquids produced from the O & G Properties. Our 39 producing wells will naturally experience declines in production rates due to depletion of their natural gas reserves, and the operators may determine to temporarily shut in or to plug and abandon a producing well if they believe that it is no longer economical to continue production from the well. We have no ability to explore for new reserves, and at current market prices for natural gas and natural gas liquids, there are no present plans to drill additional wells on the O & G Properties, thus limiting our Natural Gas Interests revenues to production from our existing wells.

Historically, the markets for natural gas and natural gas liquids have been volatile and may continue to be volatile in the future.

Various factors that are beyond our control will affect the demand for, and prices of, natural gas and natural gas liquids. The natural gas industry is cyclical in nature and tends to reflect general economic and gas supply and demand conditions. Recent technological advances, such as hydraulic fracturing, have enabled the industry to access additional reserves and have greatly increased the current supply of natural gas and natural gas liquids in the United States and elsewhere, generally resulting in lower natural gas and natural gas liquids prices. Lower natural gas and natural gas liquids prices may reduce the amount of natural gas and natural gas liquids that is economical for our operators to produce on the O & G Properties or cause them to shut in wells for extended periods of time or to plug and abandon wells. Reduced prices and production could further reduce our revenues and cash flows from our Natural Gas Interests, while at the same time also increasing the rate at which we record non-cash depletion expense on our wells, and thus could have an adverse effect on our gross profit from our Natural Gas Interests.

We do not control production operations on the O & G Properties, which could impact our Natural Gas Interests.

As the owner of royalty and non-operated working interests, our ability to influence production from the O & G Properties is severely limited. All decisions related to production on the O & G Properties will be made by the operators and may be influenced by factors beyond our control, including but not limited to natural gas and natural gas liquids prices, pipeline capacities, interest rates, budgetary considerations and general industry and economic conditions.

The occurrence of an operational risk or uncertainty that materially impacts the operations of the operators of the O & G Properties could have an adverse effect on the amount we receive in connection with our interests in production from the O & G Properties, which could have an adverse effect on our gross profit from our Natural Gas Interests.

Our natural gas gross profit is affected by production and other costs, some of which are outside of our control, and possible unitizations.

The Natural Gas Interests gross profit that comes from our non-operated working interests, and to a lesser extent our royalty interests, is directly affected by increases in production and other costs, including depletion expense, as well as unitizations of existing wells. Some of these costs are outside of our control, including production costs, costs of regulatory compliance and severance and other similar taxes. Other expenditures are dictated by business necessity, such as working over existing wells to increase recovery rates.

Governmental policies, laws and regulations could have an adverse impact on the O & G Properties and our natural gas business.

The O & G Properties and our natural gas business are subject to complex federal, state and local laws and regulations relating to the oil and gas industry, as well as regulations relating to health and safety matters.

Future developments regarding the regulation of the oil and gas industry are difficult to predict. Both current and potential future changes to laws and regulations can have an adverse impact on the costs and amount of our production.

Environmental costs and liabilities and changing environmental regulation associated with the O & G Properties could adversely affect our gross profit from our Natural Gas Interests.

As with other companies engaged in the ownership and production of oil and gas, we expect to have some risk of exposure to environmental costs and liabilities. The costs and liabilities associated with environmental compliance or remediation could reduce the gross profit we would receive from our Natural Gas Interests. The O & G Properties continue to be subject to extensive federal, state and local regulatory requirements relating to environmental affairs, health and safety and waste management.

Any increased regulation of natural gas production could increase our production costs on the O & G Properties and adversely affect our gross profit from our Natural Gas Interests. Third parties could also pursue legal actions to enforce compliance or assert claims for damages. Further, under certain environmental laws and regulations, the operators and owners of the underlying properties could also be subject to joint and several, strict liability for the removal or remediation of released materials or property contamination from drilling, including hydraulic fracturing, or waste disposal, regardless of whether the operators or owners were responsible for the release or contamination or if the operations were in compliance with all applicable laws. Future Environmental Law developments, such as stricter laws, regulations or enforcement policies, including climate change legislation mandating reductions in greenhouse gas emissions, could significantly increase the costs of production from the O & G Properties or affect the demand for natural gas and adversely affect our gross profit from our Natural Gas Interests.

ITEM 1B. UNRESOLVED STAFF COMMENT

S.

None.

ITEM 2. PROPERTIES.

Reference is made to Item 1 of this Report for a description of the properties of the Company, and such description is hereby incorporated by reference in answer to this Item 2. As disclosed in Note 3 of Notes to Consolidated Financial Statements, the Company's plants and facilities and reserves are subject to encumbrances to secure the Company's loans.

ITEM 3. LEGAL PROCEEDING

S.

Information regarding legal proceedings is set forth in Note 9 of Notes to Consolidated Financial Statements and is hereby incorporated by reference in answer to this Item 3.

ITEM 4. MINE SAFETY DISCLOSURES.

Under Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K, each operator of a coal or other mine is required to include disclosures regarding certain mine safety results in its periodic reports filed with the SEC. The operation of the Company's quarries, underground mine and plants is subject to regulation by the federal Mine Safety and Health Administration ("MSHA") under the Federal Mine Safety and Health Act of 1977. The required information regarding certain mining safety and health matters, broken down by mining complex, for the year ended December 31, 2018 is presented in Exhibit 95.1 to this Report.

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

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock is listed on the Nasdaq Global Market® under the symbol "USLM." As of February 28, 2019, the Company had approximately 350 shareholders of record.

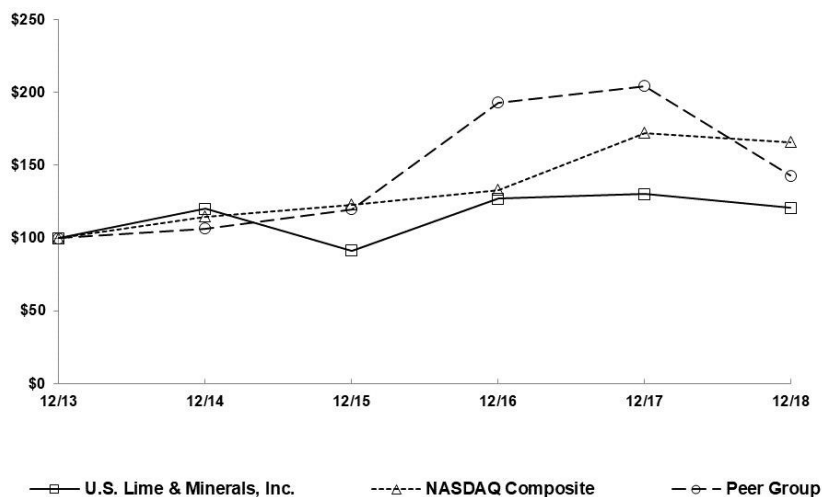
As of February 28, 2019, the Company had 500,000 shares of \$5.00 par value preferred stock authorized; however, none has been issued.

PERFORMANCE GRAPH

The graph below compares the cumulative 5-year total shareholders' return on the Company's common stock with the cumulative total return on the NASDAQ Composite Index and a peer group index consisting of Eagle Materials, Inc., Monarch Cement Co., U.S. Concrete, Inc. and Martin Marietta Materials, Inc. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 on December 31, 2013, and that all dividends have been reinvested.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among U.S. Lime & Minerals, Inc., the NASDAQ Composite Index, and a Peer Group



	2013	2014	2015	2016	2017	2018
U.S. LIME & MINERALS, INC.	100.00	120.08	91.38	127.02	130.16	120.72
NASDAQ COMPOSITE INDEX	100.00	114.62	122.81	133.19	172.11	165.84
PEER GROUP	100.00	106.58	119.72	193.16	204.45	142.73

In December 2015, we commenced a publicly announced share repurchase program to repurchase up to \$10 million of our common stock. On November 19, 2018, we announced a 12-month extension of the repurchase program through November 30, 2019 to repurchase up to the \$7.2 million of our common stock remaining under the program. We did not repurchase any shares pursuant to this program in the fourth quarter 2018.

In addition, the Company's Amended and Restated 2001 Long-Term Incentive Plan allows employees and directors to pay the exercise price upon the exercise of stock options and the tax withholding liability upon exercise of stock options or the lapse of restrictions on restricted stock by payment in cash and/or withholding or delivery of shares of the Company's common stock to the Company. Pursuant to these provisions, the Company repurchased 2,262 shares at a price of \$71.00 per share, the fair market value of one share on the date they were tendered to the Company, in the fourth quarter 2018 for payment of tax withholding liability upon the lapse of restrictions on restricted stock.

ITEM 6. SELECTED FINANCIAL DAT

A.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands, except per share amounts)				
Operating results					
Lime and limestone revenues	\$ 141,922	142,612	137,190	128,390	144,567
Natural gas revenues	2,513	2,232	2,092	2,447	5,274
Total revenues	\$ 144,435	144,844	139,282	130,837	149,841
Gross profit	\$ 30,486	34,380	33,092	28,714	36,791
Operating profit	\$ 20,002	24,227	23,480	19,086	27,322
Income before income tax expense (benefit)	\$ 21,568	24,943	23,618	17,481	25,922
Income tax expense (benefit) ⁽¹⁾	\$ 1,883	(2,205)	5,864	4,595	6,555
Net income	\$ 19,685	27,148	17,754	12,886	19,367
Net income per share of common stock:					
Basic	\$ 3.52	4.87	3.19	2.30	3.47
Diluted	\$ 3.51	4.86	3.19	2.30	3.47

(1) Income tax expense (benefit) for the year ended December 31, 2017 includes the one-time effect of a \$7,447 income tax benefit resulting from reduced federal income tax rates under the 2017 Tax Act.

	As of December 31,				
	2018	2017	2016	2015	2014
Total assets	\$ 244,671	228,446	210,159	196,499	199,986
Current installments of debt	\$ —	—	—	—	16,667
Debt, excluding current installments	\$ —	—	—	—	—
Stockholders' equity per outstanding common share	\$ 39.76	36.73	32.23	29.72	27.65
Employees	287	318	321	323	313

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS.

Any statements contained in this Report that are not statements of historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report, including without limitation statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are identified by such words as "will," "could," "should," "would," "believe," "possible," "potential," "expect," "intend," "plan," "schedule," "estimate," "anticipate" and "project." The Company undertakes no obligation to publicly update or revise any forward-looking statements. The Company cautions that forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from expectations, including without limitation the following: (i) the Company's plans, strategies, objectives, expectations, and intentions are subject to change at any time at the Company's discretion; (ii) the Company's plans and results of operations will be affected by

its ability to maintain and increase its revenues and manage its growth; (iii) the Company's ability to meet short-term and long-term liquidity demands, including meeting the Company's operating and capital needs, including for the modernization and expansion and development project at St. Clair and possible acquisitions, repurchasing the Company's common stock and paying dividends, and conditions in the credit and equity markets, including the ability of the Company's customers to meet their obligations; (iv) interruptions to operations and increased expenses at the Company's facilities resulting from changes in mining methods or conditions, variability of chemical or physical properties of the Company's limestone and its impact on process equipment and product quality, inclement weather conditions, natural disasters, accidents, IT systems failures or disruptions, including due to cyber-security incidents or regulatory requirements; (v) volatile coal, petroleum coke, diesel, natural gas, electricity, transportation and freight costs and the consistent availability of trucks, truck drivers and rail cars to deliver the Company's products to its customers and solid fuels to its plants on a timely basis at competitive prices; (vi) unanticipated delays or cost overruns in completing modernization and expansion and development projects, including the Company's St. Clair kiln project that is estimated to cost approximately \$50 million in total; (vii) the Company's ability to expand its Lime and Limestone Operations through projects and acquisitions of businesses with related or similar operations, including obtaining financing for such projects and acquisitions, and to sell any resulting increased production at acceptable prices; (viii) inadequate demand and/or prices for the Company's lime and limestone products due to increased competition from competitors, increasing competition for certain customer accounts, conditions in the U.S. economy, recessionary pressures in, and the impact of government policies on particular industries, including construction, steel, industrial and oil and gas services, reduced demand from utility plants, effects of governmental fiscal and budgetary constraints, including the level of highway construction and infrastructure funding, the impact of tax reform, legislative impasses, extended government shutdowns, trade wars, tariffs, economic and regulatory uncertainties under state governments and the United States Administration and Congress, and inability to continue to maintain or increase prices for the Company's products, including passing through the increased costs of transportation; (ix) uncertainties of prices and regulations with respect to the Company's Natural Gas Interests, including the absence of drilling activities on the Company's O & G Properties, any risks the Company may experience with the change in the operators of the wells drilled on the O & G Properties, inability to explore for new reserves, unitization of existing wells, declines in production rates and plugging and abandoning of existing wells; (x) ongoing and possible new regulations, investigations, enforcement actions and costs, legal expenses, penalties, fines, assessments, litigation, judgments and settlements, taxes and disruptions and limitations of operations, including those related to climate change and health and safety and those that could impact the Company's ability to continue or renew its operating permits or successfully secure new permits in connection with its modernization and expansion and development projects; (xi) estimates of reserves and remaining lives of reserves; and (xii) 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 Quarterly Reports on Form 10-Q.

OVERVIEW.

General.

We have 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 our segments, management primarily reviews revenues and gross profit. We do not allocate corporate overhead or interest costs or income to our business segments.

Our Lime and Limestone Operations represent our principal business. Our Natural Gas Interests consist of royalty and non-operated working interests under the O & G Lease and the Drillsite Agreement with two separate operators related to our Johnson County, Texas property, located in the Barnett Shale Formation, on which Texas Lime conducts its lime and limestone operations. Our principal management decisions related to our Natural Gas Interests involve whether to participate as a non-operated working interest owner by contributing our proportional costs for drilling proposed wells or workovers of existing wells under the O & G Lease and the Drillsite Agreement. While we intend to continue to participate in future natural gas wells drilled and workovers of existing wells on our O & G Properties, if any, we are not in the business of drilling for or producing natural gas and have no personnel with expertise in that field.

Revenues from our Lime and Limestone Operations decreased 0.5% in 2018 compared to 2017, primarily due to decreased sales volumes of our lime and limestone products in 2018, which accounted for a revenue decrease of

approximately 1.8% for 2018 compared to 2017. The 2018 decrease in sales volumes resulted from decreased demand, principally from our construction and environmental customers, partially offset by increased demand from our steel customers. The decrease in revenues in 2018 was partially offset by an increase in average product prices for our lime and limestone products of approximately 1.3% in 2018 compared to 2017.

Revenues from our Natural Gas Interests increased 12.6% in 2018 compared to 2017 due to an increase in average prices for natural gas and natural gas liquids of approximately 25.6%, partially offset by a decrease in production volumes of approximately 13.0%, resulting from the normal declines in production rates on the Company's existing natural gas wells.

Gross profit decreased 11.3% in 2018 compared to 2017. Gross profit from our Lime and Limestone Operations in 2018 decreased 12.4% compared to 2017, primarily due to increased quarrying and transportation costs. Gross profit from our Natural Gas Interests increased 37.9% in 2018 compared to 2017, primarily due to the increase in revenues discussed above.

Interest expense remained flat at \$0.2 million for each of 2018 and 2017. Interest and other income, net, in 2018 increased \$0.9 million, or 89.0%, compared to 2017, due to increased interest rates received on our cash and cash equivalents in 2018.

Income tax expense was \$1.9 million in 2018, compared to income tax benefit of \$2.2 million in 2017. Income tax benefit in 2017 included a \$7.4 million reduction of our deferred tax liabilities, net, due to the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), which was signed into law on December 22, 2017. The 2017 Tax Act reduced the enacted federal income tax rate for corporations from 35% to 21% beginning in 2018. Applying the lower federal income tax rate to the Company's deferred tax items resulted in a one-time reduction to the Company's deferred tax liabilities, net, recorded as a tax benefit in the Consolidated Statements of Income in 2017.

Net income decreased \$7.5 million, or 27.5%, in 2018 compared to 2017. The principal reasons for the decrease in our net income in 2018, compared to 2017, were the tax benefit of \$7.4 million that we recorded in 2017 as a result of the 2017 Tax Act and increased quarrying and transportation costs in 2018.

Our existing cash balances and cash flows from operations during 2018 enabled us to make \$53.8 million of capital investments and pay \$3.0 million in dividends in 2018. Our cash balance was \$67.2 million at December 31, 2018, compared to \$85.0 million at December 31, 2017, principally reflecting our increased capital expenditures during 2018.

Our new fuel-efficient kiln at St. Clair is expected to start up around the end of the first quarter 2019. We expect the total cost of the kiln project to be approximately \$50 million when completed, including costs associated with upgrades and enhancements to equipment related to the new kiln. As of December 31, 2018, we had paid an aggregate of \$38.7 million on the project, and we anticipate most of the remaining costs will be paid by the end of 2019. We will begin to depreciate the new kiln and related equipment when they consistently produce commercially saleable quicklime.

In December 2015, we commenced a publicly announced share repurchase program to repurchase up to \$10 million of our common stock. Pursuant to that program, we repurchased 3,086 shares in December 2015 at a weighted-average price of \$54.79 per share. In 2016, we repurchased 50,068 shares at a weighted-average price of \$53.52 per share. In November 2018, we announced a 12-month extension of the repurchase program to repurchase up to the approximately \$7.2 million of our common stock remaining under the program through November 30, 2019. No additional shares have been repurchased to date.

On January 31, 2019, we announced that our Board of Directors had declared a regular quarterly cash dividend of \$0.135 (13.5 cents). The dividend is payable on March 15, 2019 to shareholders of record on February 22, 2019.

Absent a significant acquisition opportunity arising during 2019, we anticipate funding our operating and capital needs, our cash dividend and the remainder of our share repurchase program from our cash on hand and cash flows from operations.

Lime and Limestone Operations.

In our Lime and Limestone Operations, we produce and sell PLS, quicklime, hydrated lime and lime slurry. The principal factors affecting our success are the level of demand and prices for our products and whether we are able to maintain sufficient production levels and product quality while controlling costs.

Inclement weather conditions, such as winter ice and snow storms, cold weather, hurricanes and excessive rainfalls generally reduce the demand for lime and limestone products supplied to construction-related customers that account for a significant amount of our revenues. Inclement weather also interferes with our open-pit mining operations and can disrupt our plant production. In addition to weather, various maintenance, environmental, accident and other operational and construction issues can also disrupt our operations and increase our operating expenses.

Demand for our products in our market areas is also affected by general economic conditions, the pace of construction, the demand for steel, the level of oil and gas drilling in our markets, the level of governmental and private funding for highway construction and infrastructure and utility plant usage of coal for power generation. Demand for our lime and limestone products from our construction and environmental customers decreased in 2018. An extended rainy season in Texas negatively impacted demand from our construction customers in 2018, and we lost a municipal water treatment account during the year. However, demand for our lime and limestone products from our steel customers increased during 2018 as domestic steel producers increased their capacity utilization in 2018.

On December 4, 2015, the President signed into law the Fixing America's Surface Transportation Act (the "FAST Act"), the first multi-year transportation authorization enacted in over ten years. The FAST Act authorizes \$305 billion over fiscal years 2016 through 2020 that provides long-term funding certainty for surface transportation projects. Its enactment should allow states and local governments to move forward with critical transportation projects, like new highways, with confidence that the Highway Trust Fund will meet its obligations through 2020. In addition, Texas approved constitutional amendments authorizing a portion of oil and gas tax revenues to be deposited into the State Highway Fund, for certain other sales and use tax revenues beginning in Texas' fiscal 2018 to be directed to the State Highway Fund and, beginning in Texas' fiscal 2020, for certain state motor vehicle sales and rental tax revenue to be directed to the State Highway Fund. With these funding improvements, along with additional infrastructure spending proposed by the current Administration, we would expect to see increases in demand from our construction customers, but the timing of the demand is uncertain and subject to weather and other uncertainties.

Our modernization and expansion and development projects in Texas and Arkansas, and our current modernization of U. S. Lime Company—St. Clair and our Texas slurry operations have positioned us to meet the demand for high-quality lime and limestone products in our markets. Our modernization and expansion and development projects have also equipped us with up-to-date, fuel-efficient plant facilities, which has resulted in lower production costs and greater operating efficiencies, thus enhancing our competitive position. All our kilns are fuel-efficient preheater kilns, except for one kiln at St. Clair, which will be replaced by our new, more fuel-efficient kiln.

For our plants to operate at peak efficiency, we must meet operational challenges that arise from time to time, including bringing new facilities on line and refurbishing and/or improving acquired facilities, such as St. Clair, as well as operating existing facilities efficiently. We also incur ongoing costs for maintenance and to remain in compliance with rapidly changing Environmental Laws and health and safety and other regulations.

Our primary variable cost is energy. Prices for coal, petroleum coke, diesel, natural gas, electricity, transportation and freight are volatile and have generally increased over the past several years. In addition, our freight costs, including diesel prices, to deliver our products can be high relative to the value of our products. We have been able to mitigate to some degree the adverse impact of volatile energy costs by varying the mixes of fuel used in our kilns, and by passing on some of any increase in costs to our customers, where possible, through higher prices and/or surcharges on certain products. In addition, as noted above, we are also completing the construction of the new, more fuel-efficient vertical kiln at St. Clair, which should help us manage our energy costs at that plant. Finally, we have not engaged in any significant hedging activity in an effort to control our energy costs but may do so in the future.

We have financed our modernization and expansion and development projects and acquisitions through a combination of debt financing, which has now been repaid, and cash flows from operations. We must generate sufficient

cash flows to cover ongoing capital requirements, including current and possible future modernization and expansion and development projects and acquisitions, or borrow sufficient funds to finance any shortfall in our liquidity needs.

For us to maintain or increase our profitability in our Lime and Limestone Operations in the face of reduced demand from some of our customers, competitive pressures and increased costs, we must maintain or increase our customer base, improve our revenues and control our operational and selling, general and administrative expenses. To maintain or improve our gross profit margins, we are focusing on maintaining, and increasing where possible, our lime and limestone prices to offset our increased costs, which is a challenging task with increased competition from other lime and limestone producers. In addition, we will continue to explore ways to increase, the operating efficiency of our plants and other facilities and expand our production capacity through acquisitions as conditions warrant or opportunities arise.

We continue to believe the enhanced efficiency and production capacity resulting from our modernization and expansion and development projects at Texas and Arkansas, our new kiln project at St. Clair, our expanded slurry operations, our acquisitions and the operational strategies we have implemented have allowed us to increase our efficiency, grow production capacity, improve product quality, better serve existing customers, attract new customers and control costs. To date, however, demand and prices for our lime and limestone products have not been sufficient to fully utilize our additional production capacity. In addition, there can be no assurance that our efficiency and production will not be adversely affected by weather, maintenance, environmental, accident and other operational and construction issues; that we can successfully invest in improvements to our existing facilities; that our results will not be adversely affected by increases in fuel, natural gas, electricity, transportation and freight costs or new environmental, health and safety or other regulatory requirements; or that, with increasing competition with other lime and limestone producers, our revenues, gross profit, net income and cash flows can be maintained or improved.

Natural Gas Interests.

In 2004, we entered into the O & G Lease with EOG with respect to oil and gas rights on our Cleburne, Texas property, located in the Barnett Shale Formation. Pursuant to the O & G Lease, we have royalty interests ranging from 15.4% to 20% in oil and gas produced from any successful wells drilled on the leased property and an option to participate in any well drilled on the leased property as a 20% non-operated working interest owner. Our overall average revenue interest is 34.7% in the 33 wells drilled under the O & G Lease that are currently producing. Affiliated companies of Enervest, Ltd. purchased EOG's interests in the O & G Lease, and an affiliate of Enervest, Ltd. is now the successor operator of the wells drilled under the O & G Lease.

In November 2006, we also entered into a Drillsite Agreement with XTO that has an oil and gas lease covering approximately 538 acres of land contiguous to our Johnson County, Texas property. Pursuant to this Agreement, we have a 3% royalty interest and a 12.5% non-operated working interest, resulting in a 12.4% interest in revenues in the six XTO wells drilled and producing from a padsite located on our property.

No new wells have been completed since 2011, and there are no present plans to drill additional wells on the O&G Properties. We cannot predict the number of additional wells that ultimately will be drilled on the O & G Properties, if any, or their results.

The pricing of natural gas sales is primarily determined by supply and demand in the marketplace and can fluctuate considerably. The prices that we receive for our natural gas production is also affected by the amount of natural gas liquids included in the natural gas, and the prices for those liquids is also subject to supply and demand factors. In addition, if estimates of our proved oil and gas reserves decline due to further declines in prices for natural gas and natural gas liquids or other reasons, the rate at which we record depletion expense would increase.

CRITICAL ACCOUNTING POLICIES.

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of

contingent assets and liabilities, at the date of our financial statements. Actual results may differ from these estimates and judgments under different assumptions or conditions and historical trends.

Critical accounting policies are defined as those that are reflective of significant management judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. We believe the following critical accounting policies require the most significant management estimates and judgments used in the preparation of our consolidated financial statements.

Revenue recognition. We recognize revenue for our Lime and Limestone Operations in accordance with the terms of our purchase orders, contracts or purchase agreements, which are generally upon shipment, and when payment is considered probable. Revenues include external freight billed to customers with related costs in cost of revenues. Our returns and allowances are minimal. External freight billed to customers included in revenues was \$25.6 million, \$23.5 million and \$23.1 million for 2018, 2017 and 2016, respectively, which approximates the amount of external freight billed to customers included in cost of revenues. Sales taxes billed to customers are not included in revenues. For our Natural Gas Interests, we recognize revenue in the month of production and delivery.

Accounts receivable. We estimate the collectability of our trade receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables and determining our allowance for doubtful accounts. Uncollected trade receivables are charged-off when identified by management to be unrecoverable. The majority of our trade receivables are unsecured. Payment terms for our trade receivables are based on underlying purchase orders, contracts or purchase agreements. Credit losses relating to these receivables have generally been within management expectations and historical trends.

Successful-efforts method for Natural Gas Interests. We use the successful-efforts method to account for development expenditures related to our Natural Gas Interests. Under this method, drilling and completion costs of development wells are capitalized and depleted using the units-of-production method. Costs to drill exploratory wells, if any, that do not find proved reserves are expensed.

Reserve estimates. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain it will commence the project within a reasonable time.

The volumes of our reserves are estimates that, by their nature, are subject to revision. The estimates are made using geological and reservoir data, as well as production performance data. These estimates will be reviewed annually and revised, either upward or downward, as warranted by additional performance data. If the estimates of proved reserves were to decline, the rate at which we record depletion expense would increase.

Environmental costs and liabilities. We record environmental accruals in other liabilities, based on studies and estimates, when it is probable we have incurred a reasonably estimable cost or liability. The accruals are adjusted when further information warrants an adjustment. Environmental expenditures that extend the life, increase the capacity or improve the safety or efficiency of Company-owned assets or are incurred to mitigate or prevent future possible environmental issues are capitalized. Other environmental costs are expensed when incurred.

Contingencies. We are party to proceedings, lawsuits and claims arising in the normal course of business relating to regulatory, labor, product and other matters. We are required to estimate the likelihood of any adverse judgments or outcomes with respect to these matters, as well as potential ranges of possible losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual matter, including coverage under our insurance policies. This determination may change in the future because of new information or developments.

Income Taxes. We utilize the asset and liability approach in reporting our income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. We establish valuation allowances when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Income tax related interest and penalties are included in income tax expense. We also assess individual tax positions to determine if they meet the criteria for some or all of the benefits of that position to be recognized in our financial statements and only recognize tax positions that meet the more-likely-than-not recognition threshold.

Stock-based compensation. We expense all stock-based payments to employees and directors, including grants of stock options and restricted stock, in our Consolidated Statements of Income based on their fair values. Compensation cost is recognized ratably over the vesting period for all stock-based awards.

RESULTS OF OPERATIONS.

The following table sets forth certain financial information expressed as a percentage of revenues for the periods indicated:

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Lime and Limestone Operations	98.3 %	98.5 %	98.5 %
Natural Gas Interests	1.7	1.5	1.5
Total revenues	100.0	100.0	100.0
Cost of revenues			
Labor and other operating expenses	(66.9)	(65.0)	(64.8)
Depreciation, depletion and amortization	(12.0)	(11.3)	(11.4)
Gross profit	21.1	23.7	23.8
Selling, general and administrative expenses	(7.3)	(7.0)	(6.9)
Operating profit	13.8	16.7	16.9
Other (expense) income:			
Interest expense	(0.2)	(0.2)	(0.2)
Interest and other income, net	1.3	0.7	0.2
Income tax (expense) benefit	(1.3)	1.5	(4.2)
Net income	13.6 %	18.7 %	12.7 %

2018 vs. 2017

Revenues for 2018 decreased to \$144.4 million from \$144.8 million in 2017, a decrease of \$0.4 million, or 0.3%. Revenues from our Lime and Limestone Operations in 2018 decreased \$0.7 million, or 0.5%, to \$141.9 million from \$142.6 million in 2017. The decrease in revenues from our Lime and Limestone Operations was primarily due to decreased sales volumes of our lime and limestone products, principally to our construction and environmental customers, partially offset by increased sales volumes to our steel customers. In addition, we realized a 1.3% increase in prices for our lime and limestone products in 2018, compared to 2017.

Revenues from our Natural Gas Interests for 2018 increased \$0.3 million, or 12.6%, to \$2.5 million from \$2.2 million in the prior year. The increase in revenues from our Natural Gas Interests resulted from higher average prices per MCF in 2018, compared to 2017, due to increases in market prices for natural gas and natural gas liquids, partially offset by the normal declines in production rates on existing wells.

Our gross profit decreased to \$30.5 million for 2018 from \$34.4 million for 2017, a decrease of \$3.9 million, or 11.3%. Gross profit from our Lime and Limestone Operations for 2018 was \$29.5 million, compared to \$33.7 million in

2017, a decrease of \$4.2 million, or 12.4%. The decrease in gross profit in 2018, compared to 2017, resulted primarily from increased quarrying and transportation costs.

Gross profit for 2018 also included \$1.0 million from our Natural Gas Interests, compared to \$0.7 million in 2017, an increase of \$0.3 million, or 37.9%. The increase in gross profit from our Natural Gas Interests in 2018, compared to 2017, was primarily due to the increased revenues as discussed above. Production volumes for 2018 from our Natural Gas Interests totaled 0.5 BCF, sold at an average price per MCF of \$5.02, compared to 2017 when 0.6 BCF was produced and sold at an average price of \$3.99 per MCF.

Selling, general and administrative expenses (“SG&A”) increased to \$10.5 million for 2018, an increase of \$0.3 million, or 3.3%, compared to \$10.2 million for 2017. As a percentage of revenues, SG&A increased to 7.3% in 2018 from 7.0% in 2017, due primarily to the decrease in revenues and an increase in compensation-related expenses in 2018.

Interest expense was \$0.2 million in each of 2018 and 2017, as we had no outstanding debt during either 2018 or 2017.

Interest and other income, net was \$1.8 million in 2018, compared to \$1.0 million in 2017. The increase in interest and other income, net in 2018, compared to 2017, was primarily due to increased interest rates received on cash and cash equivalents in 2018.

Income tax expense (benefit) was an expense of \$1.9 million in 2018, for an effective rate of 8.7%, compared to a benefit of \$2.2 million in 2017, for an effective rate of (8.8%), an increase in income tax expense of \$4.1 million. The income tax benefit in 2017 included a benefit of \$7.4 million (\$1.33 per share diluted) due to a reduction in the enacted federal income tax rates in the United States as a result of the 2017 Tax Act and the one-time impact of the lower rates on our deferred tax liabilities, net. Our effective income tax rate for 2018 was reduced by research and development tax credits associated with the construction of the St. Clair kiln project.

Net income decreased to \$19.7 million (\$3.51 per share diluted) in 2018, compared to \$27.1 million (\$4.86 per share diluted) in 2017, a decrease of \$7.5 million, or 27.5%.

2017 vs. 2016

Revenues for 2017 increased to \$144.8 million from \$139.3 million in 2016, an increase of \$5.6 million, or 4.0%. Revenues from our Lime and Limestone Operations in 2017 increased \$5.4 million, or 4.0%, to \$142.6 million from \$137.2 million in 2016. The increase in revenues from our Lime and Limestone Operations was primarily due to increased sales volumes of our lime and limestone products, principally to our oil and gas services and industrial customers, partially offset by decreased sales volumes to our environmental customers. In addition, we realized a slight increase in prices for our lime and limestone products in 2017, compared to 2016.

Revenues from our Natural Gas Interests for 2017 increased \$0.1 million, or 6.7%, to \$2.2 million from \$2.1 million in the prior year. The increase in revenues from our Natural Gas Interests resulted from higher average price per MCF in 2017, compared to 2016, partially offset by the normal declines in production rates on existing wells.

Our gross profit increased to \$34.4 million for 2017 from \$33.1 million for 2016, an increase of \$1.3 million, or 3.9%. Gross profit from our Lime and Limestone Operations for 2017 was \$33.7 million, compared to \$33.0 million in 2016, an increase of \$0.6 million, or 1.9%. The increase in gross profit in 2017 compared to 2016 resulted primarily from the increased revenues discussed above, partially offset by increased stripping costs at the Batesville Quarry, which continued into 2018.

Gross profit for 2017 also included \$0.7 million from our Natural Gas Interests, compared to \$0.1 million in 2016, an increase of \$0.7 million or 1,113.3%. The increase in gross profit from our Natural Gas Interests in 2017, compared to 2016, was primarily due to lower depletion and lease operating expenses and price increases in 2017, compared to 2016. Production volumes for 2017 from our Natural Gas Interests totaled 0.6 BCF, sold at an average price per MCF of \$3.99, compared to 2016 when 0.6 BCF was produced and sold at an average price of \$3.35 per MCF.

SG&A increased to \$10.2 million for 2017, an increase of \$0.5 million, or 5.6%, compared to \$9.6 million for 2016. As a percentage of revenues, SG&A increased to 7.0% in 2017 from 6.9% in 2016, due primarily to an increase in stock-based compensation in 2017, principally due to higher prices for our common stock.

Interest expense was \$0.2 million in each of 2017 and 2016, as we had no outstanding debt during either 2017 or 2016.

Interest and other income, net was \$1.0 million in 2017, compared to \$0.4 million in 2016. The increase in interest and other income, net in 2017, compared to 2016, was primarily due to higher average balances of cash and cash equivalents.

Income tax expense (benefit) was a benefit of \$2.2 million in 2017, for an effective rate of (8.8%), compared to an expense of \$5.9 million in 2016, for an effective rate of 24.8%, a decrease in income tax expense of \$8.1 million. The income tax benefit in 2017 included a benefit of \$7.4 million (\$1.33 per share diluted) due to the reduction in the enacted federal income tax rates in the United States and the one-time impact of the lower rates on our deferred tax liabilities, net. Our effective income tax rate for 2017 was also reduced by research and development tax credits associated with the construction of the St. Clair kiln project, which were not significant in 2016.

Net income increased to \$27.1 million (\$4.86 per share diluted) in 2017, compared to \$17.8 million (\$3.19 per share diluted) in 2016, an increase of \$9.4 million, or 52.9%.

FINANCIAL CONDITION.

Capital Requirements. We require capital primarily for normal recurring capital and re-equipping projects, modernization and expansion and development projects and acquisitions. Our capital needs are expected to be met principally from cash on hand, cash flows from operations and our \$75.0 million revolving credit facility.

We expect to spend approximately \$12.0 million per year over the next several years in our Lime and Limestone Operations for normal recurring capital and re-equipping projects at our plants and facilities to maintain or improve efficiency, ensure compliance with Environmental Laws, meet customer needs and reduce costs. As of December 31, 2018, we had approximately \$3.4 million, including approximately \$1.3 million for the St. Clair kiln project, in open orders or contractual commitments for our Lime and Limestone Operations and none for our Natural Gas Interests.

Liquidity and Capital Resources. Net cash provided by operating activities was \$38.7 million in 2018, compared to \$34.3 million in 2017, an increase of \$4.5 million, or 13.0%. Our net cash provided by operating activities is composed of net income, depreciation, depletion and amortization ("DD&A"), other non-cash items included in net income and changes in working capital. In 2018, net cash provided by operating activities was principally composed of \$19.7 million net income, \$17.6 million DD&A and \$1.5 million stock-based compensation, partially offset by a \$0.7 million decrease from changes in working capital. Although net income decreased in 2018 compared to 2017, net cash provided by operating activities in 2018, compared to 2017, increased primarily due to a \$7.6 million decrease in deferred income taxes in 2017 principally caused by the reduction in the enacted United States federal income tax rates. In 2018, the changes in working capital were principally composed of a \$3.1 million increase in trade receivables, net and a \$1.4 million decrease in prepaid expenses and other current assets. The increase in trade receivables, net at December 31, 2018 resulted principally from the timing of revenues in the fourth quarter 2018 compared to the fourth quarter 2017. The decrease in prepaid expenses and other current assets resulted primarily from a current income tax receivable at December 31, 2017 that was utilized in 2018. In 2017, net cash provided by operating activities was principally composed of \$27.1 million net income, \$16.5 million DD&A, \$1.4 million stock-based compensation, \$7.6 million decrease in deferred income taxes and \$3.6 million decrease from changes in working capital. Changes in working capital in 2017 were primarily due to an increase in prepaid expenses and other current assets of \$1.6 million, an increase in inventories, net of \$1.1 million and a decrease in accounts payable and accrued expenses of \$1.1 million, partially offset by a \$0.3 million decrease in trade receivables, net in 2017.

Net cash used in investing activities was \$53.2 million for 2018, compared to \$20.7 million in 2017. Net cash used in investing activities included approximately \$26.2 million and \$9.7 million paid on the St. Clair kiln project in

2018 and 2017, respectively. Net cash used in investing activities in 2018 also included approximately \$9.4 million for land purchases in Texas, Arkansas and Oklahoma, approximately \$3.1 million for specialized equipment at the Arkansas quarry and approximately \$1.7 million for updating our fleet of slakers and trucks used in the production and transportation of our lime slurry products. The balance of net cash used in investing activities in 2018 was primarily for normal recurring capital and re-equipping projects at our plants and facilities.

Net cash used in financing activities primarily consisted of \$3.0 million for dividend payments in each of 2018 and 2017, and \$0.4 million and \$0.3 million to repurchase shares of our common stock in 2018 and 2017, respectively.

Our cash and cash equivalents at December 31, 2018 decreased to \$67.2 million from \$85.0 million at December 31, 2017.

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

We may pay dividends so long as we remain in compliance with the provisions of our credit agreement, and may purchase, redeem or otherwise acquire shares of our common stock so long as our 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.

We had \$1.2 million of letters of credit issued under the Revolving Facility as of December 31, 2018, including approximately \$0.8 million related to the St. Clair kiln project, but no cash draws. Our letters of credit count as draws against the available commitment under the Revolving Facility.

Common Stock Buybacks. We spent \$0.4, \$0.3 and \$2.9 million in 2018, 2017 and 2016, respectively, to repurchase treasury shares. Included in the 2016 expenditures were \$2.7 million spent as part of our publicly announced share repurchase program commenced in December 2015 to repurchase up to \$10 million of our common stock, which has been extended through November 30, 2019 with respect to the \$7.2 million remaining under the program.

Contractual Obligations. The following table sets forth our contractual obligations as of December 31, 2018 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	1 Year	2 - 3 Years	4 - 5 Years	More Than 5 Years
Debt	\$ —	—	—	—	—
Operating leases ⁽¹⁾	\$ 3,466	1,319	1,750	397	—
Limestone mineral leases	\$ 1,617	71	142	142	1,261
Purchase obligations ⁽²⁾	\$ 3,451	3,451	—	—	—
Other liabilities	\$ 1,519	120	248	245	906
Total	\$ 10,053	4,961	2,140	784	2,167

(1) Represents operating leases for railcars, corporate office space and some equipment that are either non-cancelable or subject to significant penalty upon cancellation.

(2) Of these obligations, \$936 were recorded on the Consolidated Balance Sheet at December 31, 2018.

We believe that cash on hand and cash flows from operations will be sufficient to meet our operating needs, ongoing capital needs, including our current and possible modernization and expansion and development projects, and liquidity needs and allow us to continue to repurchase up to approximately \$7.2 million of our common stock under our recently extended share repurchase program, as well as pay our regular cash dividends for the near future.

Off-Balance Sheet Arrangements. We do not utilize off-balance sheet financing arrangements; however, we lease railcars, corporate office space and some equipment used in our operations under operating lease agreements that are either non-cancelable or subject to significant penalty upon cancellation and have various limestone mineral leases. As of December 31, 2018, the total future lease payments under our various operating and mineral leases totaled \$3.5 million and \$1.6 million, respectively, and are due in payments as summarized in the table above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

INTEREST RATE RISK.

We could be exposed to changes in interest rates, primarily as a result of floating interest rates on the Revolving Facility. There was no outstanding balance on the Revolving Facility subject to interest rate risk at December 31, 2018. Any future borrowings under the Revolving Facility would be subject to interest rate risk. See Note 3 of Notes to Consolidated Financial Statements.

FOREIGN EXCHANGE RISK.

We could be exposed to changes in the Euro to U.S. Dollar exchange rate for our approximately 1.4 million Euros obligations for contracts related to the purchase and installation of equipment. We entered into foreign exchange hedges to fix our U.S. Dollar liability at approximately \$1.6 million. See Note 9 of Notes to Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DAT

A.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
United States Lime & Minerals, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of United States Lime & Minerals, Inc. (a Texas corporation) and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated March 1, 2019 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2005.

Dallas, Texas
March 1, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
United States Lime & Minerals, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of United States Lime & Minerals, Inc. (a Texas corporation) and Subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2018, and our report dated March 1, 2019 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Dallas, Texas
March 1, 2019

United States Lime & Minerals, Inc.

Consolidated Balance Sheet

s

(dollars in thousands, except per share amounts)

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 67,218	\$ 85,000
Trade receivables, net	19,602	16,473
Inventories, net	12,846	13,546
Prepaid expenses and other current assets	1,692	2,996
Total current assets	<u>101,358</u>	<u>118,015</u>
Property, plant and equipment		
Mineral reserves and land	33,637	24,254
Proved natural gas properties, successful-efforts method	18,414	18,414
Buildings and building and leasehold improvements	5,814	5,643
Machinery and equipment	286,173	248,294
Furniture and fixtures	981	958
Automotive equipment	3,453	2,673
Property, plant and equipment	<u>348,472</u>	<u>300,236</u>
Less accumulated depreciation and depletion	<u>(205,708)</u>	<u>(190,518)</u>
Property, plant and equipment, net	142,764	109,718
Other assets, net	549	713
Total assets	\$ 244,671	\$ 228,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,570	\$ 6,263
Accrued expenses	3,393	3,096
Total current liabilities	<u>7,963</u>	<u>9,359</u>
Deferred tax liabilities, net	12,365	12,374
Other liabilities	1,376	1,461
Total liabilities	21,704	23,194
Stockholders' equity		
Preferred stock, \$5.00 par value; authorized 500,000 shares; none issued or outstanding	—	—
Common stock, \$0.10 par value; authorized 15,000,000 shares; 6,606,100 and 6,582,135 shares issued at December 31, 2018 and 2017, respectively	661	659
Additional paid-in capital	25,867	24,307
Accumulated other comprehensive (loss) income	(13)	86
Retained earnings	250,568	233,905
Less treasury stock; 998,699 and 993,314 shares at December 31, 2018 and 2017, respectively, at cost	<u>(54,116)</u>	<u>(53,705)</u>
Total stockholders' equity	222,967	205,252
Total liabilities and stockholders' equity	\$ 244,671	\$ 228,446

The accompanying notes are an integral part of these consolidated financial statements.

United States Lime & Minerals, Inc.

Consolidated Statements of Income

e

(dollars in thousands, except per share amounts)

	Years Ended December 31,		
	2018	2017	2016
Revenues			
Lime and limestone operations	\$ 141,922	\$ 142,612	\$ 137,190
Natural gas interests	2,513	2,232	2,092
	<u>144,435</u>	<u>144,844</u>	<u>139,282</u>
Cost of revenues			
Labor and other operating expenses			
Lime and limestone operations	95,699	93,266	89,095
Natural gas interests	859	858	1,164
Depreciation, depletion and amortization	17,391	16,340	15,931
	<u>113,949</u>	<u>110,464</u>	<u>106,190</u>
Gross profit	<u>30,486</u>	<u>34,380</u>	<u>33,092</u>
Selling, general and administrative expenses, including depreciation and amortization expense of \$212, \$209 and \$210 in 2018, 2017 and 2016, respectively	10,484	10,153	9,612
Operating profit	<u>20,002</u>	<u>24,227</u>	<u>23,480</u>
Other (income) expense			
Interest expense	243	241	246
Interest and other income, net	(1,809)	(957)	(384)
	<u>(1,566)</u>	<u>(716)</u>	<u>(138)</u>
Income before income tax expense (benefit)	<u>21,568</u>	<u>24,943</u>	<u>23,618</u>
Income tax expense (benefit)	1,883	(2,205)	5,864
Net income	<u>\$ 19,685</u>	<u>\$ 27,148</u>	<u>\$ 17,754</u>
Net income per share of common stock			
Basic	<u>\$ 3.52</u>	<u>\$ 4.87</u>	<u>\$ 3.19</u>
Diluted	<u>\$ 3.51</u>	<u>\$ 4.86</u>	<u>\$ 3.19</u>

The accompanying notes are an integral part of these consolidated financial statements.

United States Lime & Minerals, Inc.
Consolidated Statements of Comprehensive Income
e
(dollars in thousands)

	<u>Years Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net income	\$ 19,685	\$ 27,148	\$ 17,754
Other comprehensive (loss) income			
Mark to market of foreign exchange hedges, net of tax (benefit) expense of \$(29), \$155 and \$(129) for 2018, 2017 and 2016, respectively	(99)	309	(223)
Total other comprehensive (loss) income	(99)	309	(223)
Comprehensive income	<u>\$ 19,586</u>	<u>\$ 27,457</u>	<u>\$ 17,531</u>

The accompanying notes are an integral part of these consolidated financial statements.

United States Lime & Minerals, Inc.
Consolidated Statements of Stockholders' Equity

y

(dollars in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other			Treasury Stock	Total
	Shares Outstanding	Amount		Comprehensive (Loss) Income	Retained Earnings			
Balances at December 31, 2015	5,605,681	655	21,642	—	194,798	(50,468)	166,627	
Stock options exercised	5,683	1	154	—	—	—	155	
Stock-based compensation	16,708	1	1,035	—	—	—	1,036	
Treasury shares purchased	(53,932)	—	—	—	—	(2,928)	(2,928)	
Cash dividends paid	—	—	—	—	(2,782)	—	(2,782)	
Net income	—	—	—	—	17,754	—	17,754	
Mark to market of foreign exchange hedges, net of \$129 tax benefit	—	—	—	(223)	—	—	(223)	
Comprehensive (loss) income	—	—	—	(223)	17,754	—	17,531	
Balances at December 31, 2016	5,574,140	657	22,831	(223)	209,770	(53,396)	179,639	
Stock options exercised	2,000	—	73	—	—	—	73	
Stock-based compensation	16,695	2	1,403	—	—	—	1,405	
Treasury shares purchased	(4,014)	—	—	—	—	(309)	(309)	
Cash dividends paid	—	—	—	—	(3,013)	—	(3,013)	
Net income	—	—	—	—	27,148	—	27,148	
Mark to market for foreign exchange hedges, net of \$155 tax expense	—	—	—	309	—	—	309	
Comprehensive income	—	—	—	309	27,148	—	27,457	
Balances at December 31, 2017	5,588,821	659	24,307	86	233,905	(53,705)	205,252	
Stock options exercised	6,339	—	73	—	—	—	73	
Stock-based compensation	17,626	2	1,487	—	—	—	1,489	
Treasury shares purchased	(5,385)	—	—	—	—	(411)	(411)	
Cash dividends paid	—	—	—	—	(3,022)	—	(3,022)	
Net income	—	—	—	—	19,685	—	19,685	
Mark to market for foreign exchange hedges, net of \$29 tax benefit	—	—	—	(99)	—	—	(99)	
Comprehensive (loss) income	—	—	—	(99)	19,685	—	19,586	
Balances at December 31, 2018	5,607,401	\$ 661	\$ 25,867	\$ (13)	\$ 250,568	\$ (54,116)	\$ 222,967	

The accompanying notes are an integral part of these consolidated financial statements.

United States Lime & Minerals, Inc.
Consolidated Statements of Cash Flow
s
(dollars in thousands)

	2018	2017	2016
OPERATING ACTIVITIES:			
Net income	\$ 19,685	\$ 27,148	\$ 17,754
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	17,603	16,549	16,141
Amortization of deferred financing costs	14	15	14
Deferred income taxes	20	(7,612)	648
Loss on disposition of property, plant and equipment	624	377	622
Stock-based compensation	1,489	1,405	1,036
Changes in operating assets and liabilities:			
Trade receivables, net	(3,129)	308	(892)
Inventories, net	700	(1,113)	2,295
Prepaid expenses and other current assets	1,377	(1,594)	308
Other assets	(1)	5	4
Accounts payable and accrued expenses	438	(1,130)	532
Other liabilities	(85)	(76)	(615)
Net cash provided by operating activities	38,735	34,282	37,847
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(53,762)	(21,337)	(17,664)
Acquisition of assets of a business	—	—	(50)
Proceeds from sale of property, plant and equipment	605	592	208
Net cash used in investing activities	(53,157)	(20,745)	(17,506)
FINANCING ACTIVITIES:			
Cash dividends paid	(3,022)	(3,013)	(2,782)
Proceeds from exercise of stock options	73	73	155
Purchase of treasury shares	(411)	(309)	(2,928)
Net cash used in financing activities	(3,360)	(3,249)	(5,555)
Net (decrease) increase in cash and cash equivalents	(17,782)	10,288	14,786
Cash and cash equivalents at beginning of period	85,000	74,712	59,926
Cash and cash equivalents at end of period	\$ 67,218	\$ 85,000	\$ 74,712

The accompanying notes are an integral part of these consolidated financial statements.

United States Lime & Minerals, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share amounts)
Years Ended December 31, 2018, 2017 and 2016

(1) Summary
of Significant Accounting Policies

(a) Organization

United States Lime & Minerals, Inc. (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 manufacturers and agriculture (including poultry and cattle feed producers) industries. The Company is headquartered in Dallas, Texas and operates lime and limestone plants and distribution facilities in Arkansas, Colorado, Louisiana, Oklahoma and Texas through its wholly owned subsidiaries, Arkansas Lime Company, Colorado Lime Company, Texas Lime Company, U.S. Lime Company, U.S. Lime Company – Shreveport, U.S. Lime Company – St. Clair and U.S. Lime Company – Transportation. In addition, the Company, through its wholly owned subsidiary, U.S. Lime Company – O & G, LLC, has royalty and non-operated working interests in natural gas wells located in Johnson County, Texas, in the Barnett Shale Formation.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and judgments.

(d) Statements of Cash Flows

For purposes of reporting cash flows, the Company considers all certificates of deposit and highly-liquid debt instruments, such as U.S. Treasury bills and notes, with maturities, at the time of purchase, of three months or less to be cash equivalents. Cash equivalents are carried at cost plus accrued interest, which approximates fair market value. Supplemental cash flow information is presented below:

	<u>Years Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash paid during the year for:			
Interest	\$ 179	\$ 140	\$ 113
Income taxes	\$ 331	\$ 6,718	\$ 4,908

(e) Revenue Recognition

The Company recognizes revenues for its lime and limestone operations in accordance with the terms of its purchase orders, contracts or purchase agreements, which is generally upon shipment, and when payment is considered probable. See Note 10 for disaggregation of revenues by segment, which the Company believes best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Revenues include external freight billed to customers with related costs accounted for as a fulfillment cost and included in cost of revenues. The Company’s returns and allowances are minimal. External freight

United States Lime & Minerals, Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)
Years Ended December 31, 2018, 2017 and 2016

billed to customers included in revenues was \$25,637, \$23,489 and \$23,087 for 2018, 2017 and 2016, respectively, which approximates the amount of external freight billed to customers included in cost of revenues. Sales taxes billed to customers are not included in revenue. For its natural gas interests, the Company recognizes revenue in the month of production and delivery.

(f) 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. There were no changes in the methods and assumptions used in measuring fair value during the period.

The carrying values of cash and cash equivalents, trade receivables, other current assets, accounts payable and accrued expenses approximate fair value due to the short maturity of these instruments. The Company’s foreign exchange hedges are carried at fair value at December 31, 2018 and 2017. See Notes 1(p), 4 and 9. Financial assets (liabilities) measured at fair value on a recurring basis are summarized below:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	Significant Other Observable Inputs (Level 2)		<u>Valuation Technique</u>
			<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	
Foreign exchange hedges	\$ (16)	\$ 111	\$ (16)	\$ 111	Cash flows approach

(g) Concentration of Credit Risk and Trade Receivables

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents, trade receivables and derivative financial instruments. The Company places its cash and cash equivalents with high credit quality financial institutions and its derivative financial instruments with financial institutions and other firms that management believes have high credit ratings. The Company’s cash and cash equivalents at commercial banking institutions normally exceed federally insured limits. For a discussion of the credit risks associated with the Company’s derivative financial instruments, see Note 9.

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. Trade receivables are presented net of the related allowance for doubtful accounts, which totaled \$430 and \$346 at December 31,

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2018 and 2017, respectively. Additions and write-offs to the Company's allowance for doubtful accounts during the years ended December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 346	\$ 334
Additions	109	69
Write-offs	(25)	(57)
Ending balance	<u>\$ 430</u>	<u>\$ 346</u>

(h) Inventories, Net

Inventories are valued principally at the lower of cost, determined using the average cost method, or net realizable value. Costs for raw materials and finished goods include materials, labor and production overhead. A summary of inventories is as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Lime and limestone inventories:		
Raw materials	\$ 4,693	\$ 5,105
Finished goods	2,153	2,266
	6,846	7,371
Service parts inventories	6,000	6,175
	<u>\$ 12,846</u>	<u>\$ 13,546</u>

(i) Property, Plant and Equipment

For major constructed assets, the capitalized cost includes the price paid by the Company for labor and materials plus interest and internal and external project management costs that are directly related to the constructed assets. Machinery and equipment at December 31, 2018 and 2017 included \$45,555 and \$14,930, respectively, of construction in progress for various capital projects. No interest costs were capitalized for the years ended December 31, 2018 and 2017. At December 31, 2018 and 2017, accounts payable and accrued expenses included \$936 and \$2,787, respectively, of capitalized cost. Depreciation of property, plant and equipment is being provided for by the straight-line method over estimated useful lives as follows:

Buildings and building and leasehold improvements	3 - 25 years
Machinery and equipment	2 - 25 years
Furniture and fixtures	3 - 10 years
Automotive equipment	3 - 10 years

Maintenance and repairs are charged to expense as incurred; renewals and betterments are capitalized. When units of property are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income.

The Company expenses all exploration costs as incurred as well as costs incurred at an operating quarry or mine, other than capital expenditures and inventory. Costs to acquire mineral reserves or mineral interests are capitalized upon acquisition. Development costs incurred to develop new mineral reserves, to expand the capacity of a quarry or mine, or to develop quarry or mine areas substantially in advance of current production are capitalized once proven and probable reserves exist and can be economically produced. For each quarry or mine, capitalized costs to acquire and develop mineral reserves are depleted using the units-of-production method based on the proven and probable reserves for such quarry or mine.

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The Company reviews its long-lived assets for impairment and, when events or circumstances indicate the carrying amount of an asset may not be recoverable, the Company determines if impairment of value exists. If the estimated undiscounted future net cash flows are less than the carrying amount of the asset, an impairment exists, and an impairment loss must be calculated and recorded. If an impairment exists, the impairment loss is calculated based on the excess of the carrying amount of the asset over the asset's fair value. Any impairment loss is treated as a permanent reduction in the carrying value of the asset. Through December 31, 2018, no events or circumstances arose that would require the Company to record a provision for impairment of its long-lived assets.

(j) 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.

(k) Asset Retirement Obligations

The Company recognizes legal obligations for reclamation and remediation associated with the retirement of long-lived assets at their fair value at the time the obligations are incurred ("AROs"). Over time, the liability for AROs is recorded at its present value each period through accretion expense, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company either settles the AROs for the recorded amount or recognizes a gain or loss. As of December 31, 2018, and 2017, the Company's AROs included in other liabilities and accrued expenses were \$1,519 and \$1,582, respectively. As of December 31, 2018, assets, net of accumulated depreciation, associated with the Company's AROs totaled \$877. During 2018 and 2017, the Company spent \$178 and \$377, respectively, on its AROs, and recognized accretion expense of \$84, \$73 and \$70 in 2018, 2017 and 2016, respectively, on its AROs.

The AROs were estimated based on studies and the Company's process knowledge and estimates and are discounted using a credit adjusted risk-free interest rate. The AROs are adjusted when further information warrants an adjustment. The Company estimates annual expenditures of approximately \$100 to \$200 each in years 2019 through 2023 relating to its AROs.

(l) Other Assets

Other assets consist of the following:

	December 31,	
	2018	2017
Deferred financing costs	\$ 19	\$ 35
Other	530	678
	\$ 549	\$ 713

(m) Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded at their present value when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated.

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Generally, the timing of these accruals will coincide with completion of a feasibility study or the Company's commitment to a formal plan of action.

The Company incurred capital expenditures related to environmental matters of approximately \$1,152 in 2018, \$440 in 2017 and \$477 in 2016.

(n) **Income and Dividends Per Share of Common Stock**

The following table sets forth the computation of basic and diluted income per common share:

	Years Ended December 31,		
	2018	2017	2016
Net income for basic and diluted income per common share	\$ 19,685	\$ 27,148	\$ 17,754
Weighted-average shares for basic income per common share	5,595,384	5,577,312	5,567,902
Effect of dilutive securities:			
Employee and director stock options ⁽¹⁾	6,993	11,184	4,071
Adjusted weighted-average shares and assumed exercises for diluted income per common share	5,602,377	5,588,496	5,571,973
Basic net income per common share	\$ 3.52	\$ 4.87	\$ 3.19
Diluted net income per common share	\$ 3.51	\$ 4.86	\$ 3.19

(1) Excludes 9,900, 0, and 22,425 stock options in 2018, 2017 and 2016, respectively, as antidilutive because the exercise price exceeded the average per share market price for the periods presented.

The Company paid \$0.54, \$0.54 and \$0.50 of cash dividends per share of common stock in 2018, 2017 and 2016, respectively.

(o) **Stock-Based Compensation**

The Company expenses all stock-based payments to employees and directors, including grants of stock options and restricted stock, in the Company's Consolidated Statements of Income based on their fair values. Compensation cost is recognized on a straight-line basis over the vesting period.

(p) **Derivative Instruments and Hedging Activities**

Every derivative instrument is recorded on the Company's Consolidated Balance Sheets as either an asset or liability measured at its fair value. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. If the derivative is designated as a cash flow hedge, changes in fair value are recognized in comprehensive income or loss until the hedged item is recognized in earnings. The Company estimated fair value utilizing the cash flows valuation technique. The fair values of derivative contracts that expire in less than one year are recognized as current assets or liabilities. Those that expire in more than one year are recognized as long-term assets or liabilities. See Notes 1(f), 4 and 9.

(q) **Income Taxes**

The Company utilizes the asset and liability approach in its reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and

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liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Income tax related interest and penalties are included in income tax expense.

The Company also assesses individual tax positions to determine if they meet the criteria for some or all of the benefits of that position to be recognized in the Company's financial statements. The Company only recognizes tax positions that meet the more-likely-than-not recognition threshold.

(r) **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 of interest rate and foreign exchange hedges and minimum pension liability adjustments, are reported as a separate component of the stockholders' equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. See Notes 1(p), 4 and 9.

(2) 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 December 31, 2018, the Company estimates the effect on total assets and total liabilities will be approximately \$3,500 each, with the addition of a right-of-use asset and related liability. The Company does not expect adoption of this standard will have a material effect on its Consolidated Financial Statements 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.

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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 this ASU are effective for fiscal years beginning after December 15, 2018 and for interim periods therein. Early adoption of ASU 2018-02 is permitted. The Company does not believe this standard will have a material effect on the Company’s Consolidated Financial Statements.

(3) Banking Facilities and Debt

The Company’s credit agreement with Wells Fargo Bank, N.A. (the “Lender”) provides for a \$75,000 revolving credit facility (the “Revolving Facility”) and an incremental four-year accordion feature to borrow up to an additional \$50,000 on the same terms, subject to approval by the Lender or another lender selected by the Company. The terms of the credit agreement provide for a final maturity of the Revolving Facility and any incremental loan on May 7, 2020; interest rates, at the Company’s option, of LIBOR plus a margin of 1.000% to 2.000%, or the Lender’s Prime Rate plus a margin of 0.000% to 1.000%; and a commitment fee range of 0.200% to 0.350% on the undrawn portion of the Revolving Facility. The Revolving Facility interest rate margins and commitment fee are determined quarterly in accordance with a pricing grid based upon the Company’s Cash Flow Leverage Ratio, defined as the ratio of the Company’s total funded senior indebtedness to earnings before interest, taxes, depreciation, depletion, amortization and stock-based compensation expense (“EBITDA”) for the 12 months ended on the last day of the most recent calendar quarter, plus pro forma EBITDA from any businesses acquired during the period. Pursuant to a security agreement, dated August 25, 2004, the Revolving Facility is secured by the Company’s existing and hereafter acquired tangible assets, intangible assets and real property. The maturity of the Revolving Facility and any incremental loans can be accelerated if any event of default, as defined under the credit agreement, occurs. The Company’s maximum Cash Flow Leverage Ratio is 3.50 to 1. As of October 27, 2016, the Company amended its credit agreement to increase the letter of credit sublimit under the Revolving Facility from \$5,000 to \$10,000.

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

The Company had no debt outstanding at December 31, 2018 or 2017. The Company had \$1,246 of letters of credit issued at December 31, 2018, which count as draws against the available commitment under the Revolving Facility.

(4) Comprehensive Income

The components of comprehensive income for the years ended December 31 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net income	\$ 19,685	\$ 27,148	\$ 17,754
Mark to market of foreign exchange hedges	(128)	464	(352)
Deferred income tax benefit (expense)	29	(155)	129
Comprehensive income	<u>\$ 19,586</u>	<u>\$ 27,457</u>	<u>\$ 17,531</u>

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(5) Income Taxes

Income tax expense (benefit) for the years ended December 31 is as follows:

	2018	2017	2016
Current income tax expense	\$ 1,863	\$ 5,407	\$ 5,087
Deferred income tax expense (benefit)	20	(7,612)	777
Income tax expense (benefit)	<u>\$ 1,883</u>	<u>\$ (2,205)</u>	<u>\$ 5,864</u>

A reconciliation of income taxes computed at the federal statutory rate to income tax (benefit) expense for the years ended December 31 is as follows:

	2018		2017		2016	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income taxes computed at the federal statutory rate	\$ 4,529	21.0 %	\$ 8,730	35.0 %	\$ 8,266	35.0 %
(Reduction) increase in taxes resulting from:						
Benefit of reduced federal income tax rates	—	—	(7,447)	(29.9)	—	—
Statutory depletion in excess of cost depletion	(1,199)	(5.6)	(2,004)	(8.0)	(1,854)	(7.9)
Research and development tax credit	(1,775)	(8.2)	(1,433)	(5.7)	(167)	(0.7)
Manufacturing deduction	—	—	(674)	(2.7)	(666)	(2.8)
State income taxes, net of federal income tax benefit	178	0.8	235	0.9	202	0.9
Other	150	0.7	388	1.6	83	0.3
Income tax expense (benefit)	<u>\$ 1,883</u>	<u>8.7 %</u>	<u>\$ (2,205)</u>	<u>(8.8)%</u>	<u>\$ 5,864</u>	<u>24.8 %</u>

The \$7,447 benefit of reduced federal income tax rates in 2017 resulted from the 2017 Tax Act, which was signed into law on December 22, 2017. The 2017 Tax Act reduced the enacted federal income tax rate for corporations from 35% to 21% beginning in 2018. Applying the lower federal income tax rate to the Company's book to tax differences resulted in a one-time reduction to the Company's deferred tax liabilities, net, recorded as an income tax benefit in the Consolidated Statements of Income in 2017. The research and development tax credit in 2018, 2017 and 2016 is associated with the ongoing construction of the St. Clair kiln project.

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Components of the Company's deferred tax liabilities and assets are as follows:

	December 31, 2018	December 31, 2017
Deferred tax liabilities		
Lime and limestone property, plant and equipment	\$ 11,219	\$ 11,023
Fair value liability of foreign exchange hedges	—	26
Natural gas interests drilling costs and equipment	1,475	1,622
	<u>12,694</u>	<u>12,671</u>
Deferred tax assets		
Fair value liability of foreign exchange hedges	3	—
Other	326	297
	<u>329</u>	<u>297</u>
Deferred tax liabilities, net	<u>\$ 12,365</u>	<u>\$ 12,374</u>

Current income taxes are classified on the Company's Consolidated Balance Sheets as follows:

Prepaid expenses and other current assets	\$ —	\$ 1,394
Accrued expenses	\$ 54	\$ —

The Company had no federal net operating loss carry forwards at December 31, 2018. The Company reduces deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is "more likely than not" that some portion or all of the deferred tax assets will not be realized. Deferred tax assets are considered fully recognizable because of the Company's recent income history and expectations of income in the future. The Company's federal income tax returns for the year ended December 31, 2015 and subsequent years remain subject to examination. The Company's income tax returns in certain state income tax jurisdictions remain subject to examination for various periods for the year ended December 31, 2015 and subsequent years. The Company treats interest and penalties on income tax liabilities as income tax expense.

(6) Employee Retirement Plans

The Company has a contributory retirement (401(k)) savings plans for non-union employees and for union employees of Arkansas Lime Company and Texas Lime Company. Company contributions to these plans were \$251, \$209 and \$185 in 2018, 2017 and 2016, respectively.

(7) Stock-Based Compensation

The Company has a long-term incentive plan, the Amended and Restated 2001 Long-Term Incentive Plan (the "2001 Plan"). The 2001 Plan provides for stock options, restricted stock and dollar-denominated cash awards, including performance-based awards. In addition to stock options, restricted stock and cash awards, the 2001 Plan provides for the grant of stock appreciation rights, deferred stock and other stock-based awards to directors, officers, employees and consultants.

The number of shares of common stock that may be subject to outstanding awards granted under the 2001 Plan (determined immediately after the grant of any award) may not exceed 741,413 from the inception of the 2001 Plan. In addition, no individual may receive awards in any one calendar year of more than 100,000 shares of common stock. Stock options granted under the 2001 Plan expire ten years from the date of grant and generally become exercisable, or vest, immediately. Restricted stock generally vests over periods of one-half to three years. Upon the exercise of stock

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options, the Company issues common stock from its non-issued authorized or treasury shares that have been reserved for issuance pursuant to the 2001 Plan. At December 31, 2018, the number of shares of common stock remaining available for future grants of stock options, restricted stock or other forms of stock-based compensation under the 2001 Plan was 45,157.

The Company recorded \$1,489, \$1,405 and \$1,036 for stock-based compensation expense related to stock options and shares of restricted stock for 2018, 2017 and 2016, respectively. The amounts included in cost of revenues were \$154, \$144 and \$148 and in selling, general and administrative expense were \$1,335, \$1,261 and \$888, for 2018, 2017 and 2016, respectively.

A summary of the Company's stock option and restricted stock activity and related information for the year ended December 31, 2018 and certain other information for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Stock Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value	Restricted Stock	Weighted- Average Grant-Date Fair Value
Outstanding (stock options); non-vested (restricted stock) at December 31, 2017	67,400	\$ 61.90	\$ 1,033	17,665	\$ 69.96
Granted	9,900	71.61	—	18,063	72.12
Exercised (stock options); vested (restricted stock)	(17,000)	57.80	447	(17,732)	74.85
Forfeited	—	—	—	(402)	72.42
Outstanding (stock options); non-vested (restricted stock) at December 31, 2018	60,300	\$ 64.64	\$ 507	17,594	\$ 71.36
Exercisable at December 31, 2018	60,300	\$ 64.64	\$ 507	n/a	n/a

	2018	2017	2016
Weighted-average fair value of stock options granted during the year	\$ 17.74	\$ 17.61	\$ 13.12
Weighted-average remaining contractual life for stock options in years	6.87	6.57	6.78
Total fair value of stock options vested during the year	\$ 176	\$ 174	\$ 130
Total intrinsic value of stock options exercised during the year	\$ 447	\$ 86	\$ 150
Total fair value of restricted stock vested during the year	\$ 1,327	\$ 1,232	\$ 907

There were no non-vested stock options at December 31, 2018, and the weighted-average remaining contractual life of the outstanding and exercisable stock options at such date was 6.87 years. The total compensation cost not yet recognized for restricted stock at December 31, 2018 was \$1,258, which will be recognized over the weighted average of 1.23 years.

The fair value for the stock options was estimated at the date of grant using a lattice-based option valuation model, with the following weighted-average assumptions for the 2018, 2017 and 2016 grants: risk-free interest rates of 2.51% to 2.80% (weighted average 2.59%) in 2018, 1.45% to 1.81% (weighted average 1.73%) in 2017 and 0.92% to 1.49% (weighted average 1.37%) in 2016; a dividend yield of 0.73% to 0.76% (weighted average 0.75%) in 2018, 0.54% to 0.67% (weighted average 0.57%) in 2017 and 0.67% to 1.00% (weighted average of 0.74%) in 2016; and a volatility factor of .256 to .249 (weighted average .250) in 2018, .258 to .265 (weighted average .260) in 2017 and .264 to .275 (weighted average .266) in 2016, based on the monthly per-share closing prices for three years preceding the date of

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issuance. In addition, the fair value of these options was estimated based on an expected life of three to five years. The fair value of restricted stock is based on the closing per-share price of the Company's common stock on the date of grant.

(8) Share Repurchases

In December 2015, the Company commenced a publicly announced share repurchase program to repurchase up to \$10,000 of its common stock. During December 2015, the Company repurchased 3,086 shares at a weighted-average price of \$54.79 per share. Pursuant to the share repurchase program, in 2016 the Company repurchased 50,068 shares at a weighted-average price of \$53.52 per share. On November 19, 2018, the Company extended the repurchase program through November 30, 2019. No shares were repurchased under the program in 2018 or 2017.

In addition, during 2018, pursuant to provisions in the 2001 Plan that allow employees and directors to pay the tax withholding liability upon the lapse of restrictions on restricted stock in either cash and/or delivery of shares of the Company's common stock, the Company repurchased 5,385 shares at a weighted-average price of \$76.32 per share.

(9) Commitments and Contingencies

The Company leases some of the equipment used in its operations under operating leases. Generally, the leases are for periods varying from one to five years and are renewable at the option of the Company. The Company also has a lease for corporate office space. Total lease and rent expense was \$2,260, \$2,359 and \$2,659 for 2018, 2017 and 2016, respectively. As of December 31, 2018, future minimum payments under operating leases that were either non-cancelable or subject to significant penalty upon cancellation were \$1,319 for 2019, \$1,030 for 2020, \$720 for 2021, \$397 for 2022, \$0 for 2023 and \$0 thereafter.

The Company is party to lawsuits and claims arising in the normal course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the Company's financial condition, results of operations, cash flows or competitive position.

The Company is not contractually committed to any planned capital expenditures until actual orders are placed for equipment or services. At December 31, 2018, the Company had approximately \$1,333 for open equipment and construction contracts and orders related to the new kiln project at its St. Clair facilities. One of the contracts for this project requires future payments totaling 0.4 million Euros, or approximately \$422. In addition, at December 31, 2018, the Company had a contract related to a capital project at its Arkansas facilities that required future payments totaling 1.0 million Euros, or approximately \$1,157. To hedge against potential losses due to changes in the Euro to U.S. Dollar exchange rates, the Company has entered into foreign exchange ("FX") hedges with Wells Fargo Bank, N.A. as the counterparty to the hedges to fix the exchange rate for the 1.4 million Euros. The hedges have been effective as defined under applicable accounting rules. Therefore, changes in fair value of the FX hedges are reflected in comprehensive income. The Company will be exposed to credit losses in the event of non-performance by the counterparty to the hedges. Due to the strengthening of the Euro, compared to the U.S. Dollar during 2018, the fair value of the FX hedges resulted in a liability of \$16 at December 31, 2018, which is included in accrued expenses, compared to an asset of \$111 at December 31, 2017, which is included in prepaid expenses and other current assets (\$83) and other assets, net (\$28). See Notes 1(f), 1(p) and 4.

(10) Business Segments

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

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Operating results and certain other financial data for the years ended December 31, 2018, 2017 and 2016 for the Company's two business segments are as follows:

Revenues	2018	2017	2016
Lime and limestone operations	\$ 141,922	\$ 142,612	\$ 137,190
Natural gas interests	2,513	2,232	2,092
Total revenues	<u>\$ 144,435</u>	<u>\$ 144,844</u>	<u>\$ 139,282</u>
Depreciation, depletion and amortization			
Lime and limestone operations	\$ 16,741	\$ 15,694	\$ 15,063
Natural gas interests	650	646	868
Total depreciation, depletion and amortization	<u>\$ 17,391</u>	<u>\$ 16,340</u>	<u>\$ 15,931</u>
Gross profit			
Lime and limestone operations	\$ 29,482	\$ 33,652	\$ 33,032
Natural gas interests	1,004	728	60
Total gross profit	<u>\$ 30,486</u>	<u>\$ 34,380</u>	<u>\$ 33,092</u>
Identifiable assets, at year end			
Lime and limestone operations	\$ 169,182	\$ 133,350	\$ 126,015
Natural gas interests	6,596	7,085	7,768
Unallocated corporate assets and cash items	68,893	88,011	76,376
Total identifiable assets	<u>\$ 244,671</u>	<u>\$ 228,446</u>	<u>\$ 210,159</u>
Capital expenditures			
Lime and limestone operations	\$ 53,762	\$ 21,335	\$ 17,649
Natural gas interests	—	2	15
Total capital expenditures	<u>\$ 53,762</u>	<u>\$ 21,337</u>	<u>\$ 17,664</u>

(11) Supplementary Financial Information for Oil and Gas Producing Activities (Unaudited)

Results of Operations from Oil and Gas Producing Activities

The Company's natural gas interests consist of royalty and non-operated working interests in wells drilled on the Company's approximately 3,800 acres of land located in Johnson County, Texas in the Barnett Shale Formation. The Company also has royalty and non-operated working interests in wells drilled from drillsites on the Company's property under a lease covering approximately 538 acres of land contiguous to the Company's Johnson County, Texas property.

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(dollars in thousands, except per share amounts)
Years Ended December 31, 2018, 2017 and 2016

The following sets forth certain information with respect to the Company's results of operations and costs incurred for its natural gas interests for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
<i>Results of Operations</i>			
Revenues	\$ 2,513	\$ 2,232	\$ 2,092
Production and operating costs	859	858	1,164
Depreciation and depletion	650	646	868
Results of operations before income taxes	1,004	728	60
Income tax expense (benefit)	155	145	(93)
Results of operations (excluding corporate overhead and interest costs)	<u>\$ 849</u>	<u>\$ 583</u>	<u>\$ 153</u>
<i>Costs Incurred</i>			
Development costs incurred	\$ —	\$ 2	\$ 15
Exploration costs	—	—	—
Capitalized asset retirement costs	—	—	—
Property acquisition costs	—	—	—
<i>Capitalized Costs</i>			
Natural gas properties - proved	\$ 18,414	\$ 18,414	\$ 18,412
Less: accumulated depreciation and depletion	12,198	11,546	10,900
Net capitalized costs for natural gas properties	<u>\$ 6,216</u>	<u>\$ 6,868</u>	<u>\$ 7,512</u>

Unaudited Oil and Natural Gas Reserve and Standardized Measure Information

The independent petroleum engineering firm of LaRoche Petroleum Consultants, Ltd. has been retained by the Company to estimate its proved natural gas reserves as of December 31, 2018 and December 31, 2017. The Company had retained the independent petroleum engineering firm of DeGolyer and MacNaughton to estimate its proved natural gas reserves as of December 31, 2016. No events have occurred since December 31, 2018 that would have a material effect on the estimated proved reserves.

The following information is presented with regard to the Company's natural gas reserves, all of which are proved and located in the United States. These rules require inclusion, as a supplement to the basic financial statements, of a standardized measure of discounted future net cash flows relating to proved natural gas reserves. The standardized measure, in management's opinion, should be examined with caution. The basis for these disclosures is the independent petroleum engineers' reserve studies, which contain imprecise estimates of quantities and rates of production of reserves. Revision of estimates can have a significant impact on the results. Also, development and production improvement costs in one year may significantly change previous estimates of proved reserves and their valuation. Values of unproved properties and anticipated future price and cost increases or decreases are not considered. Therefore, the standardized measure is not necessarily a "best estimate" of the fair value of gas properties or of future net cash flows.

In calculating the future net cash flows for its royalty and non-operated working interests in the table below as of December 31, 2018, 2017 and 2016, the Company utilized 12-month average prices of \$2.82, \$2.81 and \$2.65 per MCF of natural gas and \$25.57, \$20.23 and \$16.61 per BBL of natural gas liquids, respectively.

United States Lime & Minerals, Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)
Years Ended December 31, 2018, 2017 and 2016

Unaudited Summary of Changes in Proved Reserves

	Natural Gas (BCF) 2018	Natural Gas Liquids (MMBBLs) 2018	Natural Gas (BCF) 2017	Natural Gas Liquids (MMBBLs) 2017	Natural Gas (BCF) 2016	Natural Gas Liquids (MMBBLs) 2016
Proved reserves - beginning of year	4.6	0.7	3.9	0.5	5.3	0.7
Revisions of previous estimates	(0.3)	(0.0)	1.3	0.3	(0.9)	(0.1)
Extensions and discoveries	—	—	—	—	—	—
Production	(0.4)	(0.1)	(0.6)	(0.1)	(0.5)	(0.1)
Proved reserves - end of year	<u>3.9</u>	<u>0.6</u>	<u>4.6</u>	<u>0.7</u>	<u>3.9</u>	<u>0.5</u>
Proved developed reserves - end of year	<u>3.9</u>	<u>0.6</u>	<u>4.6</u>	<u>0.7</u>	<u>3.9</u>	<u>0.5</u>

Unaudited Standardized Measure of Discounted Future Net Cash Flows

	2018	2017	2016
Future estimated gross revenues	\$ 25,759	\$ 26,786	\$ 17,908
Future estimated production and development costs	(10,095)	(11,170)	(8,402)
Future estimated net revenues	15,664	15,616	9,506
Future estimated income tax expense	(2,479)	(2,592)	(2,458)
Future estimated net cash flows	13,185	13,024	7,048
10% annual discount for estimated timing of cash flows	(6,695)	(6,448)	(2,851)
Standardized measure of discounted future estimated net cash flows	<u>\$ 6,490</u>	<u>\$ 6,576</u>	<u>\$ 4,197</u>

Unaudited Changes in Standardized Measure of Discounted Future Net Cash Flows

	2018	2017	2016
Standardized measure - beginning of year	\$ 6,576	\$ 4,197	\$ 5,286
Net change in sales prices and production costs	1,675	1,146	(1,403)
Sales of natural gas produced, net of production costs	(1,654)	(1,372)	(928)
Net change due to changes in quantity estimates	(590)	1,594	(1,732)
Previously estimated development costs incurred	—	—	—
Net change in income taxes	414	(155)	414
Accretion of discount	555	456	571
Timing of production of reserves and other	(486)	710	1,989
Standardized measure - end of year	<u>\$ 6,490</u>	<u>\$ 6,576</u>	<u>\$ 4,197</u>

United States Lime & Minerals, Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)
Years Ended December 31, 2018, 2017 and 2016

(12) Summary of Quarterly Financial Data (unaudited)

	2018			
	March 31,	June 30,	September 30,	December 31,
Revenues				
Lime and limestone operations	\$ 34,714	\$ 38,557	\$ 34,713	\$ 33,938
Natural gas interests	573	685	559	696
	\$ 35,287	\$ 39,242	\$ 35,272	\$ 34,634
Gross profit				
Lime and limestone operations	\$ 6,793	\$ 9,327	\$ 6,992	\$ 6,370
Natural gas interests	244	310	204	246
	\$ 7,037	\$ 9,637	\$ 7,196	\$ 6,616
Net income	\$ 4,262	\$ 6,638	\$ 4,554	\$ 4,231
Basic income per common share	\$ 0.76	\$ 1.19	\$ 0.81	\$ 0.76
Diluted income per common share	\$ 0.76	\$ 1.18	\$ 0.81	\$ 0.75
	2017			
	March 31,	June 30,	September 30,	December 31,
Revenues				
Lime and limestone operations	\$ 35,517	\$ 35,965	\$ 36,428	\$ 34,702
Natural gas interests	636	553	506	537
	\$ 36,153	\$ 36,518	\$ 36,934	\$ 35,239
Gross profit				
Lime and limestone operations	\$ 8,020	\$ 8,722	\$ 9,476	\$ 7,434
Natural gas interests	218	116	76	318
	\$ 8,238	\$ 8,838	\$ 9,552	\$ 7,752
Net income	\$ 4,620	\$ 5,278	\$ 5,667	\$ 11,583
Basic income per common share	\$ 0.83	\$ 0.95	\$ 1.02	\$ 2.08
Diluted income per common share	\$ 0.83	\$ 0.94	\$ 1.01	\$ 2.07

(13) Subsequent Event

On January 31, 2019, the Company declared a regular quarterly cash dividend of \$0.135 (13.5 cents) per share on the Company's common stock. This dividend is payable on March 15, 2019 to shareholders of record at the close of business on February 22, 2019.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES.

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2018, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in the 2013 "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

Grant Thornton LLP, the Company's independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting, which appears elsewhere in this Report on Form 10-K.

Changes in internal control over financial reporting. 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.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information appearing under “Election of Directors,” “Nominees for Director,” “Executive Officers Who Are Not Directors” and “Corporate Governance” in the definitive Proxy Statement for the Company’s 2019 Annual Meeting of Shareholders (the “2019 Proxy Statement”) is hereby incorporated by reference in answer to this Item 10. The Company anticipates that it will file the 2019 Proxy Statement with the SEC on or before April 30, 2019.

ITEM 11. EXECUTIVE COMPENSATION.

The information appearing under “Executive Compensation” and “Compensation of Directors” in the 2019 Proxy Statement is hereby incorporated by reference in answer to this Item 11.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information appearing under “Voting Securities and Principal Shareholder,” “Shareholdings of Company Directors and Executive Officers” and “Executive Compensation” in the 2019 Proxy Statement is hereby incorporated by reference in answer to this Item 12.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information appearing under “Voting Securities and Principal Shareholder” and “Corporate Governance” in the 2019 Proxy Statement is hereby incorporated by reference in answer to this Item 13.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information appearing under “Independent Auditors” in the 2019 Proxy Statement is hereby incorporated by reference in answer to this Item 14.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

- (a) 1. The following financial statements are included in Item 8:
- Reports of Independent Registered Public Accounting Firm
 - Consolidated Financial Statements:
 - Consolidated Balance Sheets as of December 31, 2018 and 2017;
 - Consolidated Statements of Income for the Years Ended December 31, 2018, 2017 and 2016;
 - Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016;
 - Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016;
 - Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016; and
 - Notes to Consolidated Financial Statements.
2. All financial statement schedules are omitted because they are not applicable or are immaterial or the required information is presented in the consolidated financial statements or the related notes.

(b) Exhibits

The Exhibit Index set forth below is incorporated by reference in response to this Item.

EXHIBIT INDEX

- 3.1 Articles of Amendment to the Articles of Incorporation of Scottish Heritable, Inc. dated as of January 25, 1994 (incorporated by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, File Number 000-04197).
- 3.2 Restated Articles of Incorporation of the Company dated as of May 14, 1990 (incorporated by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, File Number 000-04197).
- 3.3 [Amended and Restated Bylaws of United States Lime & Minerals, Inc. as of April 26, 2013 \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 1, 2013, File Number 000-04197\).](#)
- 10.1.1 [Form of stock option grant agreement under the United States Lime & Minerals, Inc. 2001 Long-Term Incentive Plan, as Amended and Restated \(incorporated by reference to Exhibit 10.2.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, File Number 000-04197\).](#)
- 10.1.2 [Form of restricted stock grant agreement under the United States Lime & Minerals, Inc. 2001 Long-Term Incentive Plan, as Amended and Restated \(incorporated by reference to Exhibit 10.2.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, File Number 000-04197\).](#)
- 10.1.3 [United States Lime & Minerals, Inc. 2001 Long-Term Incentive Plan, as Amended and Restated \(incorporated by reference to Exhibit A to the Company's definitive Proxy Statement for its Annual Meeting of Shareholders held on May 2, 2014, File Number 000-04197\).](#)

- 10.2 [Employment Agreement effective as of January 1, 2015 between United States Lime & Minerals, Inc. and Timothy W. Byrne, including Cash Performance Bonus Award Agreement dated as of January 1, 2015 between United States Lime and Minerals, Inc. and Timothy W. Byrne, set forth as Exhibit A thereto \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, File Number 000-04197\).](#)
- 10.3 [Oil and Gas Lease Agreement dated as of May 28, 2004 between Texas Lime Company and EOG Resources, Inc. \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, File Number 000-04197\).](#)
- 10.4 [Credit Agreement dated as of August 25, 2004 among United States Lime & Minerals, Inc., each Lender from time to time a party thereto, and Wells Fargo Bank, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 31, 2004, File Number 000-04197\).](#)
- 10.5 [Security Agreement dated as of August 25, 2004 among United States Lime & Minerals, Inc., Arkansas Lime Company, Colorado Lime Company, Texas Lime Company and U. S. Lime Company—Houston, in favor of Wells Fargo Bank, N.A., as Administrative Agent \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 31, 2004, File Number 000-4197\).](#)
- 10.6 [Second Amendment to Credit Agreement dated as of October 19, 2005 among United States Lime & Minerals, Inc., each Lender from time to time a party thereto, and Wells Fargo Bank, N.A., as Administrative Agent \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 20, 2005, File Number 000-04197\).](#)
- 10.7 [Amended and Restated Confirmation dated October 14, 2005 entered into by and between United States Lime & Minerals, Inc. and Wells Fargo Bank, N.A. \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated October 20, 2005, File Number 000-04197\).](#)
- 10.8 [Third Amendment to Credit Agreement dated as of March 30, 2007 among United States Lime & Minerals, Inc., each Lender from time to time a party thereto, and Wells Fargo Bank, N.A., as Administrative Agent \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 30, 2007, File Number 000-04197\).](#)
- 10.9 [Fourth Amendment to Credit Agreement dated as of June 1, 2010 among United States Lime & Minerals, Inc., each Lender from time to time a party thereto, and Wells Fargo Bank, N.A., as Administrative Agent \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 1, 2010, File Number 000-04197\).](#)
- 10.10 [Fifth Amendment to Credit Agreement dated as of May 7, 2015 among United States Lime & Minerals, Inc., each lender from time to time a party thereto, and Wells Fargo Bank, N.A., as Administrative Agent \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, File Number 000-04197\).](#)
- 10.11 [Sixth Amendment to Credit Agreement dated as of October 27, 2016 among United States Lime & Minerals, Inc., each lender from time to time a party thereto, and Wells Fargo Bank, N.A., as administrative agent \(incorporated by reference to exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, File Number 000-04197\).](#)
- 21.1 [Subsidiaries of the Company.](#)

23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Independent Petroleum Engineers.
23.3	Consent of Independent Petroleum Engineers.
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.
32.1	Section 1350 Certification by Chief Executive Officer.
32.2	Section 1350 Certification by Chief Financial Officer.
95.1	Mine Safety Disclosures.
99.1	Report of Independent Petroleum Engineers.
101	Interactive Data Files.

Exhibits 10.1.1 through 10.2 are management contracts or compensatory plans or arrangements required to be filed as exhibits.

ITEM 16. FORM 10-K SUMMARY.

Not Applicable.

SUBSIDIARIES OF THE COMPANY

Arkansas Lime Company, an Arkansas Corporation
Colorado Lime Company, a Colorado Corporation
Texas Lime Company, a Texas Corporation
U.S. Lime Company, a Texas Corporation
U.S. Lime Company—Shreveport, a Louisiana Corporation
U.S. Lime Company—St. Clair, a Delaware Corporation
U.S. Lime Company—Transportation, a Texas Corporation
U.S. Lime Company—O & G, LLC, a Texas LLC
ACT Holdings, Inc., a Texas Corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 1, 2019, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of United States Lime & Minerals, Inc. on Form 10-K for the year ended December 31, 2018. We consent to the incorporation by reference of said reports in the Registration Statements of United States Lime & Minerals, Inc. on Forms S-8 (File No. 333-161410 and File No. 333-196697).

/s/ GRANT THORNTON LLP

Dallas, Texas
March 1, 2019

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

March 1, 2019

United States Lime & Minerals, Inc.
5429 LBJ Freeway, Suite 230
Dallas, Texas 75240

Ladies and Gentlemen:

We consent to the use of the name DeGolyer and MacNaughton, to references to DeGolyer and MacNaughton, and to the inclusion of information taken from our report entitled "Report as of December 31, 2016 on Reserves and Revenue of Certain Properties owned by United States Lime & Minerals, Inc." under the sections "Item—Business—Natural Gas Interests" and "Item 8—Notes to Consolidated Financial Statements" in the United States Lime & Minerals, Inc. Annual Report on Form 10-K for the year ended December 31, 2018, to be filed with the United States Securities and Exchange Commission on or about March 1, 2019. We also consent to the incorporation by reference of said use, references, and our report of third party dated February 6, 2017, in the Registration Statements of United States Lime & Minerals, Inc. on Forms S-8 (File No. 333-161410 and File No. 333-196697).

Very truly yours,

/s/ LaRoche Petroleum Constants, Ltd.
LaRoche Petroleum Consultants, Ltd.
By LPC, Inc. General Partner

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

March 1, 2019

United States Lime & Minerals, Inc.
5429 LBJ Freeway, Suite 230
Dallas, Texas 75240

Ladies and Gentlemen:

We consent to the use of the name DeGolyer and MacNaughton, to references to DeGolyer and MacNaughton, and to the inclusion of information taken from our "Report as of December 31, 2016 on Reserves and Revenue of Certain Properties owned by United States Lime & Minerals, Inc." under the sections "Item—Business—Natural Gas Interests" and "Item 8—Notes to Consolidated Financial Statements" in the United States Lime & Minerals, Inc. Annual Report on Form 10-K for the year ended December 31, 2018. We also consent to the incorporation by reference of said use, references, and our letter report dated February 6, 2017 in the Registration Statements of United States Lime & Minerals, Inc. on Forms S-8 (File No. 333-161410 and File No. 333-196697).

Very truly yours,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON

Texas Registered Engineering Firm F-716

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

I, Timothy W. Byrne, certify that:

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

Dated: March 1, 2019

/s/ Timothy W. Byrne
Timothy W. Byrne
President and Chief Executive Officer

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

I, Michael L. Wiedemer, certify that:

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

Dated: March 1, 2019

/s/ MICHAEL L. WIEDEMER

Michael L. Wiedemer

Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 1, 2019

/s/ TIMOTHY W. BYRNE

Timothy W. Byrne
President and Chief Executive Officer

SECTION 1350 CERTIFICATION BY THE CHIEF FINANCIAL OFFICER

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 1, 2019

/s/ Michael Wiedemer

Michael Wiedemer

Vice President and Chief Financial Officer

MINE SAFETY DISCLOSURES

The following disclosures are provided pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of SEC Regulation S-K, which 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 Federal Mine Safety and Health Act of 1977 (the "Mine Act").

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

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

The table that follows reflects citations, orders, violations and proposed assessments issued to the Company by MSHA during the year ended December 31, 2018 and any pending legal actions as of December 31, 2018. 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 year ended December 31, 2018 were taken from the MSHA system as of February 28, 2019.

Additional information follows about MSHA references used in the table:

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

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

Mine(1)	Section 104 S & S Citations	Section 104(b) Orders	Section 104(d) Citations and Orders	Section 110(b)(2) Violations	Section 107(a) Orders	Proposed MSHA Assessments(2) (\$ in thousands)	Fatalities	Pending Legal Actions(3)
Texas Lime Company	1	—	—	—	—	1.4	—	—
Arkansas Lime Company Plant	—	—	—	—	—	0.8	—	—
Limedale Quarry	1	—	—	—	—	0.4	—	—
Colorado Lime Company Monarch Quarry	—	—	—	—	—	—	—	—
Salida Plant	—	—	—	—	—	—	—	—
Delta Plant	—	—	—	—	—	—	—	—
U.S. Lime Company—St. Clair	6	—	—	—	—	17.0	—	1

- (1) The definition of a mine under section 3 of the Mine Act includes the mine, as well as other items used in, or to be used in, or resulting from, the work of extracting and processing limestone, such as roads, land, structures, facilities, equipment, machines, tools, kilns, and other property. These other items associated with a single mine have been aggregated in the totals for that mine.
- (2) The proposed MSHA assessments issued during the reporting period do not necessarily relate to the citations or orders issued by MSHA during the reporting period or to any pending contests reported above.
- (3) Includes any pending legal action before the Commission involving such mine as of December 31, 2018. Any pending legal actions were initiated by the Company and may include multiple citations or orders. The pending legal actions may relate to the citations or orders issued by MSHA during the reporting period or to citations or orders issued in prior periods. There was one legal action resolved and none instituted during the reporting period.

Pattern or Potential Pattern of Violations. During the year ended December 31, 2018, 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.

January 28, 2019

Mr. Michael Wiedemer
 United States Lime & Minerals, Inc.
 5429 LBJ Freeway, Suite 230
 Dallas, TX 75240

Dear Mr. Wiedemer:

At your request, LaRoche Petroleum Consultants, Ltd. (LPC) has estimated the proved developed producing reserves and future net cash flow, as of December 31, 2018, to the United States Lime & Minerals, Inc. (U.S. Lime) interest in certain properties located in Newark East Field in Johnson County, Texas. The work for this report was completed as of the date of this letter. This report was prepared to provide U.S. Lime with U.S. Securities and Exchange Commission (SEC) compliant reserve estimates. It is our understanding that the properties evaluated by LPC comprise 100 percent (100%) of U.S. Lime's proved reserves. We believe the assumptions, data, methods, and procedures used in preparing this report, as set out below, are appropriate for the purpose of this report. This report has been prepared using constant prices and costs and conforms to our understanding of the SEC guidelines, reserves definitions, and applicable financial accounting rules.

Summarized below are LPC's estimates of net reserves and future net cash flow. Future net cash flow is after deducting estimated production and ad valorem taxes, operating expenses, and future capital expenditures but before consideration of federal income taxes. The discounted cash flow values included in this report are intended to represent the time value of money and should not be construed to represent an estimate of fair market value. We estimate the net reserves and future net cash flow to the U.S. Lime interest, as of December 31, 2018, to be:

Category	Net Reserves			Future Net Cash Flow(\$)	
	Oil (Barrels)	Gas (Mcf)	NGL (Barrels)	Total	Present Worth at 10%
Proved Developed Producing	72	3,891,741	578,150	15,634,350	7,712,324

The oil reserves include crude oil and condensate. Oil and natural gas liquids (NGL) reserves are expressed in barrels which are equivalent to 42 United States gallons. Gas reserves are expressed in thousands of standard cubic feet (Mcf) at the contract temperature and pressure bases.

The estimated reserves and future net cash flow shown in this report are for proved developed producing reserves. No study was made to determine whether proved developed non-producing or proved undeveloped reserves might be established for these properties. This report does not include any value that could be attributed to interests in undeveloped acreage.

Estimates of reserves for this report were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The reserves in this report have been estimated using deterministic methods. The method or combination of methods utilized in the evaluation of each reservoir included consideration of the stage of development of the reservoir, quality and completeness of basic data, and production history. Recovery from various reservoirs and leases was estimated after consideration of the type of energy inherent in the reservoirs, the structural positions of the properties, and reservoir and well performance. In some instances, comparisons were made to similar properties where more complete data were available. We have used all methods and procedures that we considered necessary under the circumstances to prepare this report. We have excluded from our consideration all matters to which the controlling interpretation may be legal or accounting rather than engineering or geoscience.

The estimated reserves and future cash flow amounts in this report are related to hydrocarbon prices. Historical prices through December 31, 2018 were used in the preparation of this report as required by SEC guidelines; however, actual future prices may vary significantly from the SEC prices. In addition, future changes in environmental and administrative regulations may significantly affect the ability of U.S. Lime to produce oil and gas at the projected levels. Therefore, volumes of reserves actually recovered and amounts of cash flow actually received may differ significantly from the estimated quantities presented in this report.

Benchmark prices used in this report are based on the twelve-month, unweighted arithmetic average of the first day of the month price for the period January through December 2018. Gas prices used in this report are referenced to a Henry Hub price of \$3.10 per MMBtu, as published in the Platts Gas Daily, and are adjusted for energy content, transportation fees, and regional price differentials. Oil and NGL prices are referenced to a West Texas Intermediate crude oil price of \$65.56 per barrel at Cushing, Oklahoma and are adjusted for gravity, crude quality, transportation fees, and regional price differentials. These reference prices are held constant in accordance with SEC guidelines. The weighted-average prices after adjustments over the life of the properties are \$59.51 per barrel for oil, \$2.82 per Mcf for gas, and \$25.57 per barrel for NGL.

Lease and well operating expenses are based on data obtained from U.S. Lime. U.S. Lime does not operate any of these properties. Leases and wells include all direct expenses as well as general and administrative overhead costs allowed under the specific joint operating agreements. Lease and well operating costs are held constant in accordance with SEC guidelines.

Capital costs and timing of all investments have been provided by U.S. Lime and are included as required for workovers, new development wells, and production equipment. U.S. Lime has represented to us that they are not aware of any plans for further development on the properties. U.S. Lime's estimates of the cost to plug and abandon the wells net of salvage value are included and scheduled at the end of the economic life of individual properties. These costs are also held constant.

LPC has made no investigation of possible gas volume and value imbalances that may have resulted from the overdelivery or underdelivery to the U.S. Lime interest. Our projections are based on the U.S. Lime interest receiving its net revenue interest share of estimated future gross oil, gas, and NGL production.

Technical information necessary for the preparation of the reserve estimates herein was furnished by U.S. Lime or was obtained from state regulatory agencies and commercially available data sources. No special tests were obtained to assist in the preparation of this report. For the purpose of this report, the individual well test and production data as reported by the above sources were accepted as represented together with all other factual data presented by U.S. Lime including the extent and character of the interest evaluated.

An on-site inspection of the properties has not been performed nor has the mechanical operation or condition of the wells and their related facilities been examined by LPC. In addition, the costs associated with the continued operation of uneconomic properties are not reflected in the cash flows.

The evaluation of potential environmental liability from the operation and abandonment of the properties is beyond the scope of this report. In addition, no evaluation was made to determine the degree of operator compliance with current environmental rules, regulations, and reporting requirements. Therefore, no estimate of the potential economic liability, if any, from environmental concerns is included in the projections presented herein.

The reserves included in this report are estimates only and should not be construed as exact quantities. They may or may not be recovered; if recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. These estimates should be accepted with the understanding that future development, production history, changes in regulations, product prices, and operating expenses would probably cause us to make revisions in subsequent evaluations. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geological data; therefore, our conclusions represent informed professional judgments only, not statements of fact.

The results of our third-party study were prepared in accordance with the disclosure requirements set forth in the SEC regulations and intended for public disclosure as an exhibit in filings made with the SEC by U.S. Lime.

U.S. Lime makes filings on Form 10-K with the SEC under the 1934 Exchange Act. Furthermore, U.S. Lime has certain registration statements filed with the SEC under the 1933 Securities Act into which any subsequently filed Form 10-K is incorporated by reference. We have consented to the incorporation by reference in the registration statements on Form S-3 and Form S-8 of U.S. Lime of the references to our name as well as to the references to our third-party report for U.S. Lime which appears in the December 31, 2018 annual report on Form 10-K and/or 10-K/A of U.S. Lime. Our written consent for such use is included as a separate exhibit to the Form 10-K filing made with the SEC by U.S. Lime.

We have provided U.S. Lime with a digital version of the original signed copy of this report letter. In the event there are any differences between the digital version included in filings made by U.S. Lime and the original signed report letter, the original signed letter report shall control and supersede the digital version.

The technical persons responsible for preparing the reserve estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. The technical person primarily responsible for overseeing the preparation of reserves estimates herein is Joe A. Young. Mr. Young is a Professional Engineer licensed in the State of Texas who has 37 years of engineering experience in the oil and gas industry. He has prepared and overseen preparation of reports for public filings for LPC for the past 22 years. LPC is an independent firm of petroleum engineers, geologists, and geophysicists and is not employed on a contingent basis. Data pertinent to this report are maintained on file in our office.

Very truly yours,

LaRoche Petroleum Consultants, Ltd.
State of Texas Registration Number F-1360
By LPC, Inc. General Partner

/s/ Paul J. Szatkowski

Paul J. Szatkowski
Senior Engineer

/s/ Joe A. Young

Joe A. Young
Licensed Professional Engineer
State of Texas No. 62866

