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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2012

OR

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

Commission file number 001-35416

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**U.S. Silica Holdings, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
Incorporation or Organization)

**26-3718801**  
(I.R.S. Employer  
Identification No.)

**8490 Progress Drive, Suite 300**  
**Frederick, Maryland 21701**  
(Address of Principal Executive Offices) (Zip Code)

**(301) 682-0600**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

As of November 2, 2012, 52,846,176 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

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FORM 10-Q  
For the Quarter Ended September 30, 2012

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

U.S. SILICA HOLDINGS, INC.  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share amounts)

	September 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 93,010	\$ 59,199
Accounts receivable, net	59,471	46,600
Inventories	36,228	29,307
Prepaid expenses and other current assets	8,599	8,561
Deferred income tax, net	11,171	28,007
Income tax receivable	—	3,895
<b>Total current assets</b>	<b>208,479</b>	<b>175,569</b>
Property, plant and mine development, net	393,756	336,788
Debt issuance costs, net	2,215	1,291
Goodwill	68,403	68,403
Trade names	10,436	10,436
Customer relationships, net	6,634	6,942
Other assets	7,266	6,367
<b>Total assets</b>	<b>\$ 697,189</b>	<b>\$ 605,796</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Book overdraft	\$ 6,498	\$ 5,588
Accounts payable	39,598	36,579
Accrued liabilities	9,415	9,875
Accrued interest	120	1,659
Current portion of long-term debt	6,364	6,364
Income tax payable	10,197	—
Current portion of deferred revenue	6,118	10,393
<b>Total current liabilities</b>	<b>78,310</b>	<b>70,458</b>
Long-term debt	253,600	255,425
Note payable to parent	—	15,000
Liability for pension and other post-retirement benefits	47,630	52,078
Deferred revenue	946	2,128
Deferred income tax, net	64,813	75,915
Other long-term obligations	13,702	12,858
<b>Total liabilities</b>	<b>459,001</b>	<b>483,862</b>
Commitments and contingencies		
<b>Stockholders' Equity:</b>		
Common stock	529	500
Preferred stock	—	—
Additional paid-in capital	162,911	103,757
Retained earnings	87,398	30,038
Treasury stock, at cost	(1,050)	—
Accumulated other comprehensive loss	(11,600)	(12,361)
<b>Total stockholders' equity</b>	<b>238,188</b>	<b>121,934</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 697,189</b>	<b>\$ 605,796</b>

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

## U.S. SILICA HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited; in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales	\$115,885	\$73,453	\$323,075	\$211,965
Cost of goods sold (excluding depreciation, depletion and amortization)	69,706	45,241	185,547	131,145
Operating expenses:				
Selling, general and administrative	10,135	5,215	29,757	16,491
Advisory fee to parent	—	313	—	938
Depreciation, depletion and amortization	5,968	5,295	17,920	15,636
	<u>16,103</u>	<u>10,823</u>	<u>47,677</u>	<u>33,065</u>
Operating income	30,076	17,389	89,851	47,755
Other (expense) income:				
Interest expense	(3,326)	(3,832)	(10,551)	(14,505)
Early extinguishment of debt	—	—	—	(6,043)
Other income, net, including interest income	348	197	681	534
	<u>(2,978)</u>	<u>(3,635)</u>	<u>(9,870)</u>	<u>(20,014)</u>
Income before income taxes	27,098	13,754	79,981	27,741
Income tax expense	(8,302)	(3,412)	(22,621)	(7,533)
Net income	<u>\$ 18,796</u>	<u>\$10,342</u>	<u>\$ 57,360</u>	<u>\$ 20,208</u>
Earnings per share:				
Basic	\$ 0.36	\$ 0.21	\$ 1.09	\$ 0.40
Diluted	\$ 0.36	\$ 0.21	\$ 1.09	\$ 0.40

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

## U.S. SILICA HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited; in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$18,796	\$10,342	\$57,360	\$20,208
Other comprehensive income:				
Unrealized gain (loss) on derivatives (net of tax of \$83 and \$108 for the three and nine months ended September 30, 2012, respectively, and \$(9) and \$55 for the three and nine months ended September 30, 2011, respectively)	2	(76)	163	(2)
Pension and other post-retirement benefits liability adjustment (net of tax of \$88 and \$381 for the three and nine months ended September 30, 2012, respectively, and \$— for the three and nine months ended September 30, 2011, respectively)	137	—	598	—
Comprehensive income	<u>\$18,935</u>	<u>\$10,266</u>	<u>\$58,121</u>	<u>\$20,206</u>

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

## U.S. SILICA HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in thousands)

	Nine Months Ended September 30,	
	2012	2011
<b>Operating activities:</b>		
Net income	\$ 57,360	\$ 20,208
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	17,920	15,636
Debt issuance amortization	381	188
Original issue discount amortization	126	115
Loss on early extinguishment of debt	—	6,043
Deferred income taxes	5,734	2,419
(Gain)/loss on disposal of property, plant and equipment	(469)	6
Deferred revenue	(5,457)	(4,754)
Equity-based compensation	1,662	682
Other	437	217
Changes in assets and liabilities:		
Accounts receivable	(13,102)	(8,705)
Inventories	(6,921)	(3,462)
Prepaid expenses and other current assets	(38)	(1,261)
Income taxes	14,092	1,061
Accounts payable and accrued liabilities	10,559	2,493
Advisory services termination fee to parent	(8,000)	—
Accrued interest	153	1,121
Liability for pension and other post-retirement benefits	(4,448)	(9,612)
Net cash provided by operating activities	<u>69,989</u>	<u>22,395</u>
<b>Investing activities:</b>		
Capital expenditures	(74,868)	(28,753)
Proceeds from sale of property, plant and equipment	1,255	61
Net cash used in investing activities	<u>(73,613)</u>	<u>(28,692)</u>
<b>Financing activities:</b>		
Proceeds from issuance of common stock in initial public offering	50,000	—
Repurchase of common stock	(1,072)	—
Issuance of treasury stock	22	—
Issuance of long-term debt	—	259,061
Repayment of long-term debt	(1,950)	(239,826)
Change in book overdraft	910	1,836
Prepayment penalties	—	(1,500)
Financing fees	(1,304)	(3,965)
Common stock issuance costs	(9,171)	—
Net cash provided by financing activities	<u>37,435</u>	<u>15,606</u>
Net increase in cash and cash equivalents	33,811	9,309
<b>Cash and cash equivalents, beginning of period</b>	<u>59,199</u>	<u>64,500</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 93,010</u>	<u>\$ 73,809</u>
<b>Non-cash financing activities:</b>		
Contribution of note payable and accrued interest by parent	\$ 16,692	—
<b>Supplemental cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 9,339	\$ 12,440
Taxes	\$ 3,253	\$ 4,034

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

**U.S. SILICA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited; dollars in thousands, except share and per share amounts)**

**NOTE A—ORGANIZATION**

U.S. Silica Holdings, Inc. (“Holdings,” and together with its subsidiaries “we,” “us” or the “Company”), formerly GGC USS Holdings, Inc., was organized as a holding company on November 14, 2008. On November 25, 2008, we acquired Hourglass Acquisitions I, LLC, whose only operating subsidiary was U.S. Silica Company (“U.S. Silica”).

On January 31, 2012, we completed an initial public offering of common stock (the “IPO”) through a Registration Statement on Form S-1 (File No. 333-175636), pursuant to which we registered 2,941,176 shares of our common stock, and we registered and certain of our stockholders sold 8,823,529 shares common stock at an offering price of \$17.00 per share. On February 6, 2012, we sold all 2,941,176 shares of common stock for an aggregate offering price of approximately \$50.0 million and the selling stockholders sold all 8,823,529 shares of common stock for an aggregate offering price of approximately \$150.0 million. As a result of the offering, we received net proceeds of approximately \$40.8 million, after deducting \$3.5 million of underwriting discounts and commissions and offering expenses of \$5.7 million.

On January 31, 2012, simultaneously with the initial public offering of our common stock, GGC USS Holdings, LLC, our parent and sole stockholder prior to the IPO and now our largest stockholder, contributed to us all of the stock of its wholly-owned subsidiary, GGC RCS Holdings, Inc., and its operating subsidiary, Coated Sand Solutions, LLC. Prior to this transaction, GGC RCS Holdings, Inc. had a \$15.0 million note payable to GGC USS Holdings, LLC which, together with accrued interest of \$1.7 million, was converted to an equity contribution by GGC USS Holdings, LLC, simultaneously with the IPO. Coated Sand Solutions, LLC is currently developing resin-coated sand proppants for sale into the Oil and Gas market for use in the hydraulic fracturing process.

**NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The condensed consolidated financial statements as of and for the three and nine months ended September 30, 2012 and 2011 (the “Financial Statements”), present the financial position, results of operations, and cash flows of the Company. In consideration of the contribution of GGC RCS Holdings, Inc. to us on January 31, 2012, we and our subsidiaries are presented on a consolidated basis with GGC RCS Holdings, Inc. as of the three and nine months ended September 30, 2012. As of December 31, 2011 and for the three and nine months ended September 30, 2011, we and our subsidiaries are presented on a combined basis with GGC RCS Holdings, Inc.

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles (“GAAP”). Although we believe our disclosures are adequate to make the information presented not misleading, you should read the Financial Statements in this report in conjunction with the combined financial statements and notes to those financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the Securities and Exchange Commission (“SEC”) on March 20, 2012 (our “2011 Annual Report”). Certain terms not otherwise defined in this Quarterly Report on Form 10-Q, have the meanings specified in our 2011 Annual Report.

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2012, and December 31, 2011, the results of our operations for the three and nine months ended September 30, 2012 and 2011, and our cash flows for the nine months ended September 30, 2012 and 2011. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities consolidated in these Financial Statements. We have also reclassified certain prior year amounts to conform to our 2012 presentation. These classifications relate specifically to the presentation of advisory fees paid to Golden Gate Capital and have no effect on our net income.

In order to make this report easier to read, we refer throughout to (i) our Condensed Consolidated Balance Sheets as our “Balance Sheets,” and (ii) our Condensed Consolidated Statements of Operations as our “Income Statements.”

U.S. SILICA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

**Use of Estimates**

The preparation of the Financial Statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to mineral reserves that are the basis for future cash flow estimates utilized in impairment calculations and units-of-production amortization calculations; environmental, reclamation and closure obligations; estimates of recoverable minerals; estimates of fair value for certain reporting units and asset impairments (including impairments of goodwill and other long-lived assets); write-downs of inventory to net realizable value; post-employment, post-retirement and other employee benefit liabilities; valuation allowances for deferred tax assets; reserves for contingencies and litigation; and the fair value and accounting treatment of financial instruments including derivative instruments. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions.

**Unaudited Interim Financial Statements**

The accompanying Balance Sheet as of September 30, 2012, the Income Statements for the three and nine months ended September 30, 2012 and 2011; the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011; the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011; and other information disclosed in the related notes, are unaudited. The Balance Sheet as of December 31, 2011 was derived from our audited consolidated financial statements as included in our 2011 Annual Report. The accompanying Financial Statements should be read in conjunction with the audited combined financial statements and related notes contained in our 2011 Annual Report.

**Recently Issued Accounting Pronouncements**

In July 2012, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update 2012-02, *Intangibles—Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment* (“ASU 2012-02”). The intent of ASU 2012-02 is to simplify how registrants test indefinite-lived intangible asset for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. ASU 2012-02 permits registrants to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with U.S. GAAP. An entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company will adopt the guidance on October 1, 2012, as required, and we believe the adoption of this guidance will not have a material impact on our financial position, results of operations or cash flows.

**Recently Adopted Accounting Pronouncements**

In May 2011, the FASB issued changes to conform existing guidance regarding fair value measurement and disclosure between GAAP and International Financial Reporting Standards. These changes both clarify the FASB’s intent about the application of existing fair value measurement and disclosure requirements and amend certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The clarifying changes relate to the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity’s stockholders’ equity, and disclosure of quantitative information about unobservable inputs used for Level 3 fair value measurements. The amendments relate to measuring the fair value of financial instruments that are managed within a portfolio; application of premiums and discounts in a fair value measurement; and additional disclosures concerning the valuation processes used and sensitivity of the fair value measurement to changes in unobservable inputs for those items categorized as Level 3, a reporting entity’s use of a nonfinancial asset in a way that differs from the asset’s highest and best use, and the categorization by level in the fair value hierarchy for items required to be measured at fair value for disclosure purposes only. We adopted this guidance, effective January 1, 2012, with no material impact on our Financial Statements.

In June 2011, the FASB issued changes to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive



## U.S. SILICA HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

statements; the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. We adopted this guidance, effective January 1, 2012, with no material impact on our Financial Statements. See Note D and Note L for related disclosures.

In September 2011, the FASB issued changes to the testing of goodwill for impairment. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of a reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, go directly to the two-step quantitative impairment test. These changes become effective for us for any goodwill impairment test performed on January 1, 2012 or later, although early adoption is permitted. We adopted this guidance, effective January 1, 2012 with no material impact on our Financial Statements.

## NOTE C—EARNINGS PER SHARE

Basic income per common share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted income per common share is computed similarly to basic income per common share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. In accordance with the applicable accounting guidance for calculating earnings per share, we did not include in our calculation of diluted earnings per share for the applicable periods, stock options where the exercise prices were greater than the average market prices.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to U.S. Silica Holdings, Inc. stockholders:	\$18,796	\$10,342	\$57,360	\$20,208
	<u>\$18,796</u>	<u>\$10,342</u>	<u>\$57,360</u>	<u>\$20,208</u>
Weighted average common shares (thousands):				
Basic	52,873	50,000	52,585	50,000
Effect of employee stock based awards	14	—	43	—
Diluted	<u>52,887</u>	<u>50,000</u>	<u>52,628</u>	<u>50,000</u>
Net income attributable to U.S. Silica Holdings, Inc. stockholders, per common share:				
Basic	\$ 0.36	\$ 0.21	\$ 1.09	\$ 0.40
Diluted	\$ 0.36	\$ 0.21	\$ 1.09	\$ 0.40

U.S. SILICA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

**NOTE D—CAPITAL STRUCTURE AND ACCUMULATED COMPREHENSIVE INCOME**

***Common Stock***

Our Amended and Restated Certificate of Incorporation, authorizes up to 500,000,000 shares of common stock, par value of \$0.01. Subject to the rights of holders of any series of preferred stock, all of the voting power of the stockholders of the Corporation shall be vested in the holders of the common stock. There are 52,843,176 shares of common stock issued and outstanding at September 30, 2012. As of September 30, 2011, there were 50,000,000 shares issued and outstanding. We anticipate that we will retain all of our future earnings for use in the development and expansion of our business and for general corporate purposes. Any determination to pay dividends and other distributions in cash, stock, or property by Holdings in the future will be at the discretion of our Board of Directors and will be dependent on then-existing conditions, including our business conditions, our financial condition, results of operations, liquidity, capital requirements, contractual restrictions including restrictive covenants contained in our debt agreements, and other factors. Additionally, because we are a holding company, our ability to pay dividends on our common stock is limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions under the terms of the agreements governing our indebtedness.

***Preferred Stock***

Our Amended and Restated Certificate of Incorporation authorizes our Board of Directors to issue up to 10,000,000 shares, in the aggregate, of preferred stock, par value of \$0.01 in one or more series and to fix the preferences, powers and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including the dividend rate, conversion rights, voting rights, redemption rights and liquidation preference and to fix the number of shares to be included in any such series without any further vote or action by our stockholders.

There are no shares of preferred stock issued or outstanding at September 30, 2012 and 2011. At present, we have no plans to issue any preferred stock.

***Initial Public Offering***

On January 31, 2012, we completed an initial public offering of 2,941,176 shares of our common stock at an offering price of \$17.00 per share for an aggregate offering price of approximately \$50.0 million. As a result of the offering, we received net proceeds of approximately \$40.8 million, after deducting \$3.5 million of underwriting discounts and commissions and offering expenses of \$5.7 million.

Simultaneously with the initial public offering of our common stock, GGC USS Holdings, LLC, our parent and sole stockholder prior to the IPO and now our largest stockholder, contributed to us all of the stock of its wholly-owned subsidiary, GGC RCS Holdings, Inc., and its operating subsidiary, Coated Sand Solutions, LLC. Prior to this transaction, GGC RCS Holdings, Inc. had a \$15.0 million note payable to GGC USS Holdings, LLC, which, together with accrued interest of \$1.7 million, was converted to an equity contribution by GGC USS Holdings, LLC.

***Share Repurchase Program***

On June 11, 2012, our Board of Directors authorized us to repurchase up to \$25.0 million of our common stock. The authorization remains open for a period of 18 months, concluding on December 11, 2013. We are authorized to repurchase, from time to time, shares of our outstanding common stock on the open market or in privately negotiated transactions using available cash. The timing and amount of stock repurchases will depend on a variety of factors, including market conditions and corporate and regulatory considerations. The share repurchase program may be suspended, modified or discontinued at any time, and we have no obligation to repurchase any additional amount of our common stock under the program. We intend to make all repurchases in compliance with applicable regulatory guidelines and to administer the plan in accordance with applicable laws, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

As of September 30, 2012, we have repurchased 100,000 shares of our common stock, at an average price of \$10.72 and have the authorization to repurchase up to an additional \$23.9 million of our common stock under the program.

U.S. SILICA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

The following table presents the activity included in stockholders' equity during the nine months ended September 30, 2012.

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2011	\$ 500	\$103,757	\$30,038	\$ —	\$ (12,361)	\$ 121,934
Issuance of common stock (January 2012 initial public offering at \$17.00 per share, net of issuance costs of \$9,171)	29	40,800	—	—	—	40,829
Repurchase of common stock	—	—	—	(1,072)	—	(1,072)
Issuance of treasury stock	—	—	—	22	—	22
Capital contributed by parent	—	16,692	—	—	—	16,692
Equity-based compensation	—	1,662	—	—	—	1,662
Net income	—	—	57,360	—	—	57,360
Other comprehensive income	—	—	—	—	761	761
Balance at September 30, 2012	\$ 529	\$162,911	\$87,398	\$ (1,050)	\$ (11,600)	\$ 238,188

Accumulated comprehensive income (loss) consists of fair value adjustments associated with cash flow hedges and accumulated adjustments for net experience losses and prior service cost related to employee benefit plans. Accumulated other comprehensive income (loss), net of tax, at September 30, 2012 consisted of the following:

	Accumulated Other Comprehensive Income (Loss)
Unrealized loss on derivatives	\$ (246)
Pension and other post-retirement benefits liability adjustment	(11,354)
Accumulated other comprehensive income (loss)	\$ (11,600)

NOTE E—ACCOUNTS RECEIVABLE

At September 30, 2012 and December 31 2011, accounts receivable consisted of the following:

	September 30, 2012	December 31, 2011
Trade receivables	\$ 59,813	\$ 46,044
Less: Allowance for doubtful accounts	(1,010)	(779)
Net trade receivables	58,803	45,265
Other receivables	668	1,335
Total accounts receivable	\$ 59,471	\$ 46,600

Changes in our allowance for doubtful accounts during the nine months ended September 30, 2012 are as follows:

	Allowance for Doubtful Accounts
Beginning balance	\$ 779
Bad debt provision	240
Accounts written off	(9)
Ending balance	\$ 1,010

Our five largest customers accounted for approximately 30% and 28% of sales in the three months ended September 30, 2012 and 2011, respectively, and 29% and 27% during the nine months ended September 30, 2012 and 2011, respectively. No single individual customer accounted for more than 10% of sales in the nine months ended September 30, 2012 and 2011, respectively.

U.S. SILICA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

NOTE F—INVENTORIES

At September 30, 2012 and December 31, 2011, inventories consisted of the following:

	September 30, 2012	December 31, 2011
Supplies	\$ 13,197	\$ 12,671
Raw materials and work in process	9,267	8,671
Finished goods	13,764	7,965
Total inventories	<u>\$ 36,228</u>	<u>\$ 29,307</u>

Inventories include spare parts and supplies for routine facilities maintenance, raw stockpiles and silica and other industrial sand available for shipment. We value inventory at the lower of cost or market. Cost is determined using the first-in, first-out and average cost methods.

NOTE G—PROPERTY, PLANT AND MINE DEVELOPMENT

At September 30, 2012 property, plant and mine development consisted of the following:

	As of September 30, 2012		
	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Mining property and mine development	\$ 156,288	\$ (14,670)	\$ 141,618
Asset retirement cost	8,362	(1,121)	7,241
Land	32,917	—	32,917
Land improvements	10,796	(3,588)	7,208
Buildings	16,546	(3,933)	12,613
Machinery and equipment	159,918	(48,873)	111,045
Furniture and fixtures	581	(115)	466
	<u>385,408</u>	<u>(72,300)</u>	<u>313,108</u>
Construction-in-progress	80,648	—	80,648
	<u>\$466,056</u>	<u>\$ (72,300)</u>	<u>\$393,756</u>

At December 31, 2011 property, plant and mine development consisted of the following:

	As of December 31, 2011		
	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Mining property and mine development	\$155,182	\$ (11,486)	\$143,696
Asset retirement cost	8,362	(671)	7,691
Land	29,806	—	29,806
Land improvements	10,280	(2,831)	7,449
Buildings	17,380	(3,257)	14,123
Machinery and equipment	153,560	(37,297)	116,263
Furniture and fixtures	599	(67)	532
	<u>375,169</u>	<u>(55,609)</u>	<u>319,560</u>
Construction-in-progress	17,228	—	17,228
	<u>\$392,397</u>	<u>\$ (55,609)</u>	<u>\$336,788</u>

Depreciation, depletion and amortization expense, excluding accretion expense related to the asset retirement obligation, recognized during the three months ended September 30, 2012 and 2011 was \$5.8 million and \$5.2 million, respectively, and \$17.4 million and \$15.2 million for the nine months ended September 30, 2012 and 2011, respectively.

## U.S. SILICA HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

The amount of interest costs capitalized in property, plant and equipment was \$308 and \$188 for the three months ended September 30, 2012 and 2011, respectively, and \$541 and \$342 for the nine months ended September 30, 2012 and 2011, respectively.

As of September 30, 2012, we hold no assets under a capital lease obligation.

**NOTE H—ACCRUED LIABILITIES**

At September 30, 2012 and December 31, 2011, accrued liabilities consisted of the following:

	September 30, 2012	December 31, 2011
Accrued salaries and wages	\$ 2,029	\$ 2,215
Accrued vacation liability	2,581	2,669
Current portion of liability for pension and post-retirement benefits	1,695	1,510
Accrued healthcare liability	1,400	1,155
Other accrued liabilities	1,710	2,326
Total accrued liabilities	<u>\$ 9,415</u>	<u>\$ 9,875</u>

Other accrued liabilities consist of taxes payable, accrued rebates, accrued professional fees and other immaterial items.

**NOTE I—DEBT**

At September 30, 2012 and December 31, 2011, debt consisted of the following:

	September 30, 2012	December 31, 2011
Revolving line-of-credit: (expires October 31, 2015) (5.0% at September 30, 2012 and December 31, 2011)	\$ —	\$ —
Senior secured credit facility:		
Term loan facility (final maturity June 8, 2017) (4.75% at September 30, 2012 and December 31, 2011), net of unamortized original issue discount of \$717 and \$843, respectively	256,032	257,857
Short-term notes: (due December 14, 2012) (6.0% fixed)	3,932	3,932
Total debt	259,964	261,789
Less: current portion	(6,364)	(6,364)
Total long-term portion of debt	<u>\$ 253,600</u>	<u>\$ 255,425</u>

**Revolving Line-of-Credit**

As of September 30, 2012, the available borrowing base under our asset-based revolving line-of-credit (the “Revolver”) was \$35.0 million, with nothing drawn as of that date and \$10.0 million allocated for letters of credit and \$1.2 million reserved for derivatives, leaving \$23.8 million available for general corporate use under this revolving credit agreement.

## U.S. SILICA HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

**Debt Maturities**

As of September 30, 2012, contractual maturities of our debt are as follows:

2012	\$ 4,540
2013	2,433
2014	2,435
2015	2,436
2016	124,648
Thereafter	<u>123,472</u>
	<u>\$259,964</u>

On January 31, 2012, we amended our term loan facility (the "Term Loan") and our Revolver. The primary revisions to the Term Loan agreement were the elimination of a requirement to provide monthly financial reports, removal of financial covenant restrictions related to capital expenditures, provide flexibility to make investments and acquisitions and to incur indebtedness, and to provide a new subsidiary guarantee from Coated Sand Solutions, LLC. The revisions to the Revolver were primarily to revise the definitions used for this agreement to wording similar to that used for the Term Loan agreement.

The Term Loan is secured by substantially all of our assets with the exception of our accounts receivable and inventory, for which we have pledged as collateral under the Revolver. As of September 30, 2012, we are in compliance with all covenants in accordance with our debt agreements.

**NOTE J—ASSET RETIREMENT OBLIGATIONS**

Mine reclamation costs, or future remediation costs for inactive mines, are accrued based on management's best estimate at the end of each period of the costs expected to be incurred at a site. Such cost estimates include, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines are reflected in earnings in the period an estimate is revised.

As of September 30, 2012 and December 31, 2011, we had recorded a liability of \$10.0 million and \$9.5 million in other long-term obligations related to our asset retirement obligation. Changes in the asset retirement obligation during the nine month period ended September 30, 2012 and the year ended December 31, 2011 are as follows:

	September 30, 2012	December 31, 2011 <sup>(1)</sup>
Beginning balance	\$ 9,504	\$ 6,401
Liabilities settled/payments	—	—
Accretion expense	493	537
Additions, revisions of prior estimates and other	—	2,566
Ending balance	<u>\$ 9,997</u>	<u>\$ 9,504</u>

<sup>(1)</sup> Represents change in the asset retirement obligation during the 12-month period ended December 31, 2011.

**NOTE K—FAIR VALUE ACCOUNTING**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

*Cash equivalents*

Due to the short-term maturity, we believe that our cash equivalent instruments at September 30, 2012 and December 31, 2011 approximate their reported carrying values.

*Long-Term Debt, including current maturities*

We believe that the fair values of our long-term debt, including current maturities, approximates their carrying values and based on their effective interest rates compared to current market rates.

## U.S. SILICA HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

*Derivative Instruments*

The estimated fair value of our derivative assets (interest rate caps) are recorded at each reporting period and are based upon widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative contract. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. We also incorporate credit valuation adjustments to appropriately reflect both our nonperformance risk as well as that of the respective counterparty in the fair value measurements.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of September 30, 2012, we have assessed that the impact of the credit valuation adjustments on the overall valuation of our derivative positions is not significant. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

In accordance with the fair value hierarchy, the following table presents the fair value as of September 30, 2012, of those derivative assets that we must measure at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate derivatives	\$ —	\$ —	\$ —	\$ —
Net asset	\$ —	\$ —	\$ —	\$ —

**NOTE L—DERIVATIVE INSTRUMENTS**

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposure to a wide variety of business and operation risks through management of our core business activities. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and unknown cash amounts, the value of which are determined by current interest rates. Interest rate derivatives are utilized in the normal course of business to manage our interest cost and the risk associated with changing interest rates. We do not use derivative financial instruments for trading or speculative purposes. By their nature, all such instruments involve risk, including the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract (credit risk) or the possibility that future changes in market price may make a financial instrument less valuable or more onerous (market risk). As is customary for these types of instruments, we do not require collateral or other security from other parties to these instruments. In management's opinion, there is no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments.

*Cash Flow Hedges of Interest Rate Risk*

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate cap agreements as part of our interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an upfront premium.

In connection with the Term Loan, we have entered into two interest rate cap agreements that effectively place an upper limit for one-month LIBOR at 4.0 percent on the interest rate charged for \$130.0 million of our floating rate Term Loan. On March 31, 2012, one of the agreements with a notional amount of \$100.0 million matured. Concurrently with the maturity, the notional amount of a second agreement with an original notional amount of \$30.0 million automatically increased to \$130.0 million per the terms of the contract. No additional expense was reclassified from accumulated other comprehensive income or recognized directly in earnings as a result of the maturity or adjustment.

We assess the effectiveness of our hedges in offsetting the variability in the cash flow of the hedged obligations on a quarterly basis. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in equity as accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the nine months ended September 30, 2012 and December 31, 2011, the Company had no ineffectiveness for such contracts.

**U.S. SILICA HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited; dollars in thousands, except share and per share amounts)**

The following table summarizes the fair value of our derivative instruments. See Note K for additional disclosures regarding the estimated fair values of our derivative instruments at September 30, 2012 and December 31, 2011.

	Maturity Date	September 30, 2012			December 31, 2011		
		Contract/Notional Amount	Carrying Amount	Fair Value	Contract/Notional Amount	Carrying Amount	Fair Value
Interest rate cap agreement <sup>(1)</sup>	2012				\$ 100 million	\$ —	\$ —
Interest rate cap agreement <sup>(1)</sup>	2013	\$130 million	\$ —	\$ —	\$ 30 million	\$ 11	\$ 11

<sup>(1)</sup> Agreements limit the LIBOR floating interest rate base to 4%.

We have designated these contracts as qualified cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and recognized in earnings in the same period or periods during which the hedged transaction affects earnings.

The following table summarizes the effect of our derivatives instruments on our income statements and our condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Deferred losses from derivatives in OCI, beginning of period	\$(248)	\$(458)	\$(409)	\$(532)
Gain (loss) recognized in OCI from derivative instruments	—	(72)	(11)	(229)
Gain (loss) reclassified from Accumulated OCI into income	2	(4)	174	227
Deferred losses from derivatives in OCI, end of period	\$(246)	\$(534)	\$(246)	\$(534)

**NOTE M—EQUITY-BASED COMPENSATION**

We recognize the cost of employee services rendered in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of the grant. Compensation expense for equity units is recognized, on a straight-line basis, net of forfeitures, over the requisite service period for the fair value of the awards that actually vest.

As of September 30, 2012, we maintain two equity incentive plans (i) the GGC USS Holdings, LLC Management Equity Program (the “Equity Program”), and (ii) the U.S. Silica Holdings, Inc. 2011 Incentive Compensation Plan (the “2011 Plan”). The Equity Program granted Class C and Class D member units in the parent company, GGC USS Holdings, LLC, to three members of executive management; two of which continue to be employed by the Company at September 30, 2012. The 2011 Plan provides for grants of stock options, stock appreciation rights, restricted stock and other incentive-based awards.

For awards granted under the Equity Program, we recognized \$55 of compensation expense during each of the three months ended September 30, 2012 and 2011, and \$164 and \$205 during the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, there was \$354 of total unrecognized compensation expense related to equity incentive shares, which is expected to be recognized over a weighted-average period of approximately 1.75 years.

For awards granted under the 2011 Plan, we recognized \$459 and \$1,498 of compensation expense during the three and nine months ended September 30, 2012, respectively, and \$477 of compensation expense during the three and nine months ended September 30, 2011. As of September 30, 2012, there was \$5.1 million of total unrecognized compensation expense related to equity incentive awards, which is expected to be recognized over a weighted-average period of approximately 2.93 years.



**U.S. SILICA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited; dollars in thousands, except share and per share amounts)****NOTE N—LEASES**

We are obligated under certain operating leases and rental agreements for railroad cars, office space, mining property, mining/processing equipment and transportation and other equipment. Future minimum annual commitments under such operating leases at September 30, 2012 are as follows:

2012	\$10,548
2013	10,182
2014	7,469
2015	6,774
2016	5,356
Thereafter	9,212
Total future lease commitments	<u>\$49,541</u>

Expense related to operating leases and rental agreements was \$3.2 million and \$1.7 million for the three months ended September 30, 2012 and 2011, respectively, and \$8.7 million and \$4.9 million for the nine months ended September 30, 2012 and 2011, respectively.

**NOTE O—COMMITMENTS AND CONTINGENCIES**

Our operating subsidiary, U.S. Silica, has been named as a defendant in various product liability claims alleging damages caused by silica exposure. Almost all of the claims pending against us arise out of alleged use of our silica products in foundries or as an abrasive blast media, and involve various other defendants. Prior to 1986, U.S. Silica had numerous insurance policies and an indemnity from a former owner that cover silicosis claims. Some of those coverages are currently being litigated, however we believe the policies and indemnity will remain in force. During the nine months ended September 30, 2012, one new claim has been brought against us. As of September 30, 2012, there were 103 active silica-related products liability claims pending in which U.S. Silica is a defendant. Although the outcomes of these claims cannot be predicted with certainty, in the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on our financial position or results of operations.

We have recorded estimated liabilities for these claims in other long-term obligations as well as estimated recoveries under the indemnity agreement and an estimate of future recoveries under insurance in other assets on our combined balance sheets. As of September 30, 2012 and December 31, 2011, other noncurrent assets included \$319 and \$511, respectively, for insurance for third-party products liability claims and other long-term obligations included \$1.1 million and \$1.5 million, respectively, in third-party products claims liability.

**NOTE P—INCOME TAXES**

We evaluate our deferred tax assets periodically to determine if valuation allowances are required. Ultimately, the realization of deferred tax assets is dependent upon generation of future taxable income during those periods in which temporary differences become deductible and/or credits can be utilized. To this end, management considers the level of historical taxable income, the scheduled reversal of deferred tax liabilities, tax-planning strategies and projected future taxable income. Based on these considerations, and the carry-forward availability of a portion of the deferred tax assets, management believes it is more likely than not that we will realize the benefit of the deferred tax assets.

At the end of each reporting period as presented, there were no material amounts of interest and penalties recognized in the statement of operations or balance sheets. We have no material unrecognized tax benefits or any known material tax contingencies at September 30, 2012 and December 31, 2011. Tax returns filed with the IRS for the years 2009 through 2011 along with tax returns filed with numerous state entities remain subject to examination.

In accordance with generally accepted accounting principles, it is our practice at the end of each interim reporting period to make our best estimate of the effective tax rate expected to be applicable for the full fiscal year. Estimates are revised as additional information becomes available.

The largest permanent item in computing both our effective tax rate and taxable income is the deduction allowed for statutory depletion. The deduction for statutory depletion does not necessarily change proportionately to changes in income before income taxes.

U.S. SILICA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

**NOTE Q—PENSION AND POST-RETIREMENT BENEFITS**

The Company maintains a noncontributory defined benefit pension plan covering certain employees. Net periodic pension benefit cost recognized for the three and nine months ended September 30, 2012 and 2011, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost	\$ (280)	\$ (287)	\$ (839)	\$ (770)
Interest cost	(1,183)	(1,189)	(3,550)	(2,927)
Expected return on plan assets	1,345	1,204	4,036	2,883
Amortization of prior service cost	(6)	3	(20)	22
Amortization of net (gain) loss	(270)	(151)	(809)	(467)
Net periodic benefit cost	<u>\$ (394)</u>	<u>\$ (420)</u>	<u>\$ (1,182)</u>	<u>\$ (1,259)</u>

In addition, the Company provides defined benefit post-retirement healthcare and life insurance benefits to some employees. Net periodic post-retirement benefit cost recognized for the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost	\$ (33)	\$ (32)	\$ (149)	\$ (130)
Interest cost	(192)	(197)	(785)	(792)
Expected return on plan assets	1	1	3	3
Amortization of net (gain) loss	(29)	—	(219)	(87)
Net periodic benefit cost	<u>\$ (253)</u>	<u>\$ (228)</u>	<u>\$ (1,150)</u>	<u>\$ (1,006)</u>

We contributed \$1.7 million and \$4.8 million to the qualified pension plan during the three and nine months ended September 30, 2012, respectively, and \$2.1 million and \$11.0 million during the three and nine months ended September 30, 2011, respectively. Total expected employer funding contributions during the fiscal year ending December 31, 2012 are \$4.8 million for the pension plan, and \$1.4 million for the post-retirement medical and life plan.

**NOTE R—OBLIGATIONS UNDER GUARANTEES**

We have indemnified St. Paul Travelers (“Travelers”) against any loss Travelers may incur in the event that holders of surety bonds, issued on our behalf by Travelers, execute the bonds. As of September 30, 2012, Travelers had \$4.6 million in bonds outstanding for us. The majority of these bonds (\$4.4 million) relate to reclamation requirements issued by various governmental authorities. Reclamation bonds remain outstanding until the mining area is reclaimed and the authority issues a formal release. The remaining bonds relate to such indefinite purposes as licenses, permits, and tax collection.

We have indemnified Safeco Insurance Company of America (“Safeco”) against any loss Safeco may incur in the event that holders of surety bonds, issued on our behalf by Safeco, execute the bonds. As of September 30, 2012, Safeco had \$513 in bonds outstanding for us. These are all reclamation bonds.

U.S. Silica is the contingent guarantor of Kanawha Rail Corporation’s (“KRC”) obligations as lessee of 200 covered hopper railroad cars, which are used by U.S. Silica to ship sand to its customers. KRC’s obligation as lessee includes paying monthly rent of \$66 until June 30, 2013, maintaining the cars, paying for any cars damaged or destroyed, and indemnifying all other parties to the lease transaction against liabilities including any loss of certain tax benefits. By separate agreement between U.S. Silica and KRC, KRC may, upon the occurrence of certain events, assign the lease obligations to U.S. Silica, but none of these events have occurred.

**NOTE S—RELATED PARTY TRANSACTIONS**

*Advisory Agreement*

In connection with our acquisition by an affiliate of Golden Gate Capital (the “Golden Gate Capital Acquisition”), we entered into an Advisory Agreement with Golden Gate Capital (the “Advisory Agreement”) whereby Golden Gate Capital

U.S. SILICA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

agreed to provide business and organizational strategy and financial and advisory services. Such services included support and assistance to management with respect to negotiating and analyzing acquisitions and divestitures, negotiating and analyzing financing alternatives, preparing financial projections, monitoring compliance with financing agreements, marketing functions and searching for and hiring management personnel.

As compensation for these services, we agreed to pay Golden Gate Capital (1) an annual advisory fee in the aggregate amount equal to \$1.3 million, payable quarterly in arrears, and (2) a transaction fee of 1.25% of the aggregate value of each transaction resulting in a change in control of our parent LLC or its subsidiaries, along with each acquisition, divestiture, recapitalization and financing. In addition to the fees described above, we also reimbursed Golden Gate Capital for all out-of-pocket costs incurred by Golden Gate Capital in connection with its activities under the Advisory Agreement, and indemnified Golden Gate Capital from and against all losses, claims, damages and liabilities related to the performance of its duties under the Advisory Agreement.

On February 6, 2012, we paid \$8.0 million to Golden Gate Capital to terminate the advisory agreement previously entered into in connection with the Golden Gate Capital Acquisition. The \$8.0 million termination fee was accrued for at December 31, 2011 and no additional expense has been recognized during the nine months ended September 30, 2012. Advisory fees paid to Golden Gate Capital during the three and nine months ended September 30, 2011 totaled \$0.3 million and \$0.9 million, respectively. These expenses are included in other operating expenses and presented as advisory fees to parent within our income statements.

*Promissory Note*

On December 22, 2010, GGC RCS Holdings, Inc., entered into a \$15.0 million promissory note with GGC USS Holdings, LLC, our parent and then sole stockholder prior to the IPO and now largest stockholder. The note provided working capital for a new subsidiary and matures on December 22, 2015. The note bore interest at 10%. Outstanding principal and interest under the note was payable upon demand, but no later than the maturity date. Upon sole election by the parent, any unpaid interest could be paid in cash on December 22 of each year until the maturity date. Interest on the note was recorded in interest expense in the Income Statements and any unpaid interest was included in accrued interest on the Balance Sheets. On January 31, 2012, simultaneously with the IPO, GGC USS Holdings, LLC contributed to us all of the stock of GGC RCS Holdings, Inc. and converted the \$15.0 million promissory note, including \$1.7 million of accrued interest, to equity.

**NOTE T—SEGMENT REPORTING**

Our business is organized into two reportable segments, Oil & Gas Proppants and Industrial & Specialty Products, based on end markets. The reportable segments are consistent with how management views the markets that we serve and the financial information reviewed by the chief operating decision maker. We manage our Oil & Gas Proppants and Industrial & Specialty Products businesses as components of an enterprise for which separate information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance.

An operating segment's performance is primarily evaluated based on segment contribution margin, which excludes certain corporate costs not associated with the operations of the segment. These corporate costs are separately stated below and include costs that are related to functional areas such as operations management, corporate purchasing, accounting, treasury, information technology, legal and human resources. We believe that segment contribution margin, as defined above, is an appropriate measure for evaluating the operating performance of our segments. However, this measure should be considered in addition to, not a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with generally accepted accounting principles. The other accounting policies of each of the two reporting segments are the same as those in the summary of significant accounting policies included in Note B.

In the Oil & Gas Proppants segment, we serve the oil and gas recovery market providing fracturing sand, or "frac sand," which is pumped down oil and natural gas wells to prop open rock fissures and increase the flow rate of natural gas and oil from the wells.

The Industrial & Specialty Products segment consists of over 200 products and materials used in a variety of industries including, container glass, fiberglass, specialty glass, flat glass, building products, fillers and extenders, foundry products, chemicals, recreation products and filtration products.

## U.S. SILICA HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except share and per share amounts)

The following table presents sales and segment contribution margin for the reporting segments and other operating results not allocated to the reported segments for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales:				
Oil and Gas Proppants	\$ 64,538	\$24,246	\$172,845	\$ 69,322
Industrial and Specialty Products	51,347	49,207	150,230	142,643
Total sales	115,885	73,453	323,075	211,965
Segment contribution margin:				
Oil and Gas Proppants	34,236	15,633	102,563	43,828
Industrial and Specialty Products	14,184	13,730	40,568	38,495
Total segment contribution margin	48,420	29,363	143,131	82,323
Operating activities excluded from segment cost of goods sold	(2,241)	(1,151)	(5,603)	(1,503)
Selling, general and administrative	(10,135)	(5,215)	(29,757)	(16,491)
Advisory fee to parent	—	(313)	—	(938)
Early extinguishment of debt	—	—	—	(6,043)
Depreciation, depletion and amortization	(5,968)	(5,295)	(17,920)	(15,636)
Interest expense	(3,326)	(3,832)	(10,551)	(14,505)
Other income, net, including interest income	348	197	681	534
Income before income taxes	<u>\$ 27,098</u>	<u>\$13,754</u>	<u>\$ 79,981</u>	<u>\$ 27,741</u>

Asset information, including capital expenditures and depreciation, depletion, and amortization, by segment is not included in reports used by management in its monitoring of performance and, therefore, is not reported by segment. As of September 30, 2012 and December 31, 2011, goodwill of \$68.4 million has been allocated to these segments with \$33.3 million assigned to Oil & Gas Proppants and \$35.1 million to Industrial and Specialty Products.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q and the related notes included elsewhere in this report.

Management's discussion and analysis of financial condition and results of operations ("MD&A"), is organized into the following sections:

- *Overview* — A general description of our business, our strategic initiatives and the commercial silica industry.
- *Results of Operations* — An analysis of our consolidated and combined results of operations for the interim periods presented in our Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.
- *Liquidity and Capital Resources* — An analysis of our cash flows, sources and uses of cash, contractual obligations and other items that may impact our financial position.
- *Critical Accounting Estimates* — A discussion of accounting policies that require critical judgments and estimates.
- *Recent Accounting Pronouncements* — A summary of accounting pronouncements which have been issued by relevant accounting standards.

In addition to disclosing financial results that are determined in accordance with United States generally accepted accounting principles, or GAAP, we also use certain non-GAAP financial information, such as:

- Segment contribution margin, and
- Net income (loss) adjusted to remove interest, taxes, depreciation, amortization, impairment, and other special items in order to arrive at Adjusted EBITDA as defined in our term loan facility.

Segment contribution margin and Adjusted EBITDA are not recognized measures under GAAP and should not be considered alternatives to or superior to expense and profitability measures derived in accordance with GAAP. For a detailed description of the non-GAAP measures used in this MD&A, please see the discussion under "How We Evaluate Our Business" on page 25 and "Non-GAAP Financial Performance Measures" beginning on page 32.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "may," "will," "should," "can have," "likely" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- fluctuations in demand for commercial silica;
- the cyclical nature of our customers' businesses;
- operating risks that are beyond our control, such as changes in the price and availability of transportation, natural gas or electricity; unusual or unexpected geological formations or pressures; cave-ins, pit wall failures or rock falls; or unanticipated ground, grade or water conditions;
- our dependence on two of our plants for a significant portion of our sales;
- the level of activity in the natural gas and oil industries;

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- decreased demand for frac sand or the development of either effective alternative proppants or new processes to replace hydraulic fracturing;
- federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing and the potential for related regulatory action or litigation affecting our customers' operations;
- our rights and ability to mine our properties and our renewal or receipt of the required permits and approvals from governmental authorities and other third parties;
- our ability to implement our capacity expansion plans within our current timetable and budget and our ability to secure off-take agreements for our increased production capacity, and the actual operating costs once we have completed the capacity expansion;
- our ability to succeed in competitive markets;
- loss of, or reduction in, business from our largest customers;
- increasing costs or a lack of dependability or availability of transportation services or infrastructure;
- increases in the prices of, or interruptions in the supply of, natural gas and electricity, or any other energy sources;
- increases in the price of diesel fuel;
- diminished access to water;
- our ability to effectively integrate the manufacture of resin-coated sand with our existing processes;
- our ability to successfully complete acquisitions or integrate acquired businesses;
- our ability to make capital expenditures to maintain, develop and increase our asset base and our ability to obtain needed capital or financing on satisfactory terms;
- our ability to repurchase some or all of our shares we anticipate purchasing pursuant to our repurchase program;
- substantial indebtedness and pension obligations;
- restrictions imposed by our indebtedness on our current and future operations;
- the accuracy of our estimates of mineral reserves and resource deposits;
- substantial costs of mine closures;
- a shortage of skilled labor and rising costs in the mining industry;
- our ability to attract and retain key personnel;
- our ability to maintain satisfactory labor relations;
- our reliance on trade secrets and contractual restrictions, rather than patents, to protect our proprietary rights;
- silica-related health issues and corresponding litigation;
- our significant unfunded pension obligations and post-retirement health care liabilities;
- our ability to maintain effective quality control systems at our mining, processing and production facilities;
- seasonal and severe weather conditions;
- fluctuations in our sales and results of operations due to seasonality and other factors;
- interruptions or failures in our information technology systems;
- the impact of a terrorist attack or armed conflict;
- our failure to maintain adequate internal controls;
- extensive and evolving environmental, mining, health and safety, licensing, reclamation and other regulation (and changes in their enforcement or interpretation);

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- our ability to acquire, maintain or renew financial assurances related to the reclamation and restoration of mining property; and
- other factors included and disclosed in Part I, Item 1A, “Risk Factors” of our 2011 Annual Report.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2011 Annual Report. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other filings with the SEC, including this Quarterly Report on Form 10-Q, and public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof. We undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

### **Overview**

We are the second largest domestic producer of commercial silica, a specialized mineral that is a critical input into a variety of attractive end markets. During our 112-year history, we have developed core competencies in mining, processing, logistics and materials science that enable us to produce and cost-effectively deliver products to customers across these markets. In our largest end market, Oil and Gas Proppants, our frac sand is used to stimulate and maintain the flow of hydrocarbons in oil and natural gas wells. This segment of our business has experienced rapid growth due to recent technological advances in the hydraulic fracturing process, which have made the extraction of large volumes of oil and natural gas from U.S. shale formations economically feasible. Our silica is also used as an economically irreplaceable raw material in a wide range of industrial applications, including glassmaking and chemical manufacturing. Additionally, in recent years a number of attractive new end markets have developed for our high-margin, performance silica products, including solar panels, specialty coatings, wind turbines, polymer additives and geothermal energy systems.

We operate 13 facilities across the United States and control 312 million tons of reserves. We own one of the largest frac sand processing plants in the United States and control approximately 145 million tons of reserves that can be processed to meet American Petroleum Institute (API) frac sand size specifications. Our operations are organized into two segments based on end markets served: (1) Oil & Gas Proppants and (2) Industrial & Specialty Products. Our segments are complementary because our ability to sell to a wide range of customers across end markets allows us to maximize recovery rates in our mining operations, optimize our asset utilization and reduce the cyclicity of our earnings.

### **Recent Trends and Outlook**

From 1980 to 2008, U.S. commercial silica industry volumes generally grew in line with U.S. industrial production, primarily influenced by the manufacture of glass, building materials, foundry moldings and chemicals. Beginning in 2004, demand for Oil and Gas Proppants supplemented growth in Industrial and Specialty Products end markets. The economic downturn of 2008 and 2009 decreased demand for commercial silica products, particularly in the glassmaking, foundry, building products, chemicals and fillers and extenders end markets. With the recent economic recovery, however, we estimate overall demand for commercial silica grew in excess of 45%, to approximately 39.0 million tons in 2010. Trends continuing to drive overall demand for commercial silica include:

- *Increased demand in the Oil and Gas Proppants end market.* The increased demand for frac sand has historically been driven by the growth in the use of hydraulic fracturing as a means to extract hydrocarbons from oil and gas bearing formations. Since 2002, the average annual growth rate in the North American horizontal rig count has approached 40% per annum. Based on independent third party market data and our internal estimates, we believe frac sand demand has grown 35% in average over the last five years with hydraulic operations in the U.S. using about 17.0 million tons of sand in 2010 and 28.7 million tons of sand in 2011. We believe this historical growth will continue at a deliberate pace over the mid-to-long term as demand for these hydrocarbons will continue to drive production volumes. Furthermore, the growth in demand will also continue to be driven as a result of improved drill rig productivity that is allowing wells to be drilled faster,

increases in the number of stages, or density, and increases in the length of the lateral wells. According to The Freedonia Group Inc., based on these factors demand for all proppants is projected to increase approximately 15% per annum, on average through 2015.

- *Continued resurgence of demand in industrial end markets and continued growth in specialty end markets.* The economic downturn resulting from the financial crisis negatively impacted demand for our products in Industrial and Specialty Products end markets, most notably in the glassmaking, building products, foundry and chemicals end markets. This drop coincided with a similar drop in key economic demand drivers, including housing starts, light vehicle sales, repair and remodel activity and industrial production. To the extent these demand drivers recover to historical levels (which is difficult to predict given current economic uncertainty), we expect to see a corresponding increase in the demand for our commercial silica. In addition, to the extent commercial silica products continue to be used in key alternative energy markets, we anticipate continued volume growth in specialty end markets such as solar panels and geothermal energy systems as well as increased use of commercial silica in new applications, such as specialty coatings and polymer additives.
- *Continued increases in prices of commercial silica.* Increases in demand and constrained supply have led to continued price increases in the last several years. The United States Geological Survey (USGS), in a report dated February 2011, estimated an industry-wide average price of \$23.86 per ton in 2006 relative to a \$31.53 per ton price in 2010, which represents a 7.2% annual increase. For reference, our overall average realized price per ton, excluding transportation, was \$25.81 in 2006, \$35.22 in 2010, \$40.07 in 2011, and \$46.24 through the first nine months of 2012. While we have seen some variability in pricing due to a slight decline in rig count as a result of softening market pricing for natural gas, we expect that these trends are short-term in nature and that the long-term continued growth of horizontal drilling, combined with increased innovation in specialty markets will exert some level of continued longer-term upward pressure on prices in both of our operating segments.

During the first half of 2012, as natural gas prices declined, we saw certain E&P's curtailing their drilling efforts in dry gas basins and redeploying their drilling rigs to oil and liquid rich basins due to the higher market price of oil and liquids relative to natural gas. This shift in drilling activity resulted in increased demand for coarser grade frac sands relative to the finer grades typically used for drilling dry natural gas. During the third quarter of 2012 as natural gas prices began to recover, demand for our finer grade sands has also increased in select basins. Because of our logistics capabilities, we are able to service our customers and ship materials to the basins where demand calls for it.

Additionally, in connection with lower natural gas demand and natural gas prices, the North American land rig count has slightly decreased. We believe this trend for active North American horizontal rigs will continue for the remainder of 2012. While this has created challenges for many service companies in the domestic oil and gas sector, we continue to see modest growth in demand for frac sand driven by continued innovation in the hydraulic fracturing process, which has led to the increased use of proppants due to longer laterals, more stages, and greater proppant density per stage.

## **Our Strategy**

The key drivers of our growth strategy include:

- *Expand our proppant production capacity and product portfolio.* During the fourth quarter of 2011, we executed several initiatives to increase our frac sand production capacity and augment our proppant product portfolio. At our Ottawa, Illinois facility, we implemented operating improvements and installed a new dryer and six mineral separators to increase our annual frac sand production capacity by 900,000 tons. At our Rockwood, Michigan facility, we added 250,000 tons of annual frac sand production capacity by installing a new processing circuit. We are also currently constructing a new resin-coated sand facility that has the capacity to produce up to 400 million pounds of resin-coated sand annually, which will be operational in the first quarter of 2013. We expect to continue to fund this project through a combination of cash on our balance sheet and cash generated from our operations.
- *Increase our exposure to attractive industrial and specialty products end markets.* We intend to increase our exposure and market share in certain Industrial and Specialty Products end markets that we believe are poised for growth. For example, at our Rockwood facility, we have doubled our production capacity for low-iron silica, which is used to maximize light transmission in ultra-clear architectural glass and solar panels. Additionally, in 2010 we opened a representative office in Shanghai, China to market our fine ground silica products across the Asia Pacific region for use in specialty end markets. We are also exploring opportunities to grow our presence in the specialty coatings and polymer additives end markets, where our ultra-fine ground silica is used to enhance strength, scratch resistance and stability.



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- *Optimize product mix and further develop value-added capabilities to maximize margins.* We will continue to actively manage our product mix at each of our plants to ensure we are maximizing our profit margins. This requires us to use our proprietary expertise in balancing key variables, such as mine geology, processing capacities, transportation availability, customer requirements and pricing. We also expect to continue investing in ways to increase the value we provide to our customers by expanding our product offerings, increasing our transportation assets, improving our supply chain management and upgrading our information technology. We hope to use these strategies to increase our operating income faster than our tons sold into the future.
- *Evaluate both Greenfield and Brownfield expansion opportunities.* We will continue to leverage our reputation, processing capabilities and infrastructure to increase production, as well as explore other opportunities to expand our reserve base. We may accomplish this by developing Greenfield projects, where we can capitalize on our technical knowledge of geology, mining and processing and our strong reputation within local communities. In December 2011, we acquired additional ore reserves near Sparta, Wisconsin. We commenced construction of this production facility during the second quarter of 2012 and expect the facility to be completed and fully operational in the second quarter of 2013. Additionally, we may pursue “bolt on” and other opportunistic acquisitions, taking advantage of our asset footprint, our management’s experience with high-growth businesses and our strong customer relationships. We may also evaluate international acquisitions as unconventional oil and natural gas drilling expands globally.
- *Maintain financial strength and flexibility.* We intend to maintain financial strength and flexibility to enable us to pursue acquisitions and new growth opportunities as they arise. As of September 30, 2012, we had \$93.0 million of cash on hand and \$23.8 million of available borrowings under our credit facilities.

### **How We Generate Our Sales**

We derive our sales by mining and processing minerals that our customers purchase for various uses. Our sales are primarily a function of the price per ton realized and the volumes sold. In some instances, our sales also include a charge for transportation services we provide to our customers. Our transportation revenue fluctuates based on a number of factors, including the volume of product we transport under contract, service agreements with our customers, the mode of transportation utilized and the distance between our plants and customers.

We primarily sell our products under short-term price agreements or at prevailing market rates. For a limited number of customers, we sell under long-term, competitively-bid supply agreements. As of November 2, 2012, we have nine take-or-pay supply agreements with nine of our customers in the Oil and Gas Proppants end market with initial terms expiring between 2012 and 2016. These agreements define, among other commitments, the volume of product that our customers must purchase, the volume of product that we must provide and the price that we will charge and that our customers will pay for each product. Prices under these agreements are generally fixed and subject to upward adjustment in response to certain cost increases. As a result, our realized prices may not grow at rates consistent with broader industry pricing. For example, during periods of rapid price growth, our realized prices may grow more slowly than those of competitors, and during periods of price decline, our realized prices may outperform industry averages. Additionally, at the time the take-or-pay supply agreements were signed, two of these customers provided advance payments for future shipments aggregating \$27.0 million (\$7.1 million of these payments was recorded on the balance sheet as deferred revenue as of September 30, 2012). A percentage of these advance payments is recognized as revenue with each ton of applicable product shipped to the customer. Collectively, sales to customers with supply agreements accounted for nearly 31% of our total sales revenues during both the three months ended September 30, 2012 and 2011, and 18% of our total sales revenues during both the nine months ended September 30, 2012 and 2011, respectively.

We invoice the majority of our customers on a per shipment basis, although for some larger customers, we consolidate invoices weekly or monthly. The amounts invoiced include the amount charged for the product, transportation costs (if paid by us) and costs for additional services as applicable, such as costs related to transload the product from railcars to trucks for delivery to the customer site.

### **The Costs of Conducting Our Business**

The principal expenses involved in conducting our business are labor costs, electricity and drying fuel costs, maintenance and repair costs for our mining and processing equipment and facilities and transportation costs. We believe the majority of our operating costs are relatively stable in price, but can vary significantly based on the volume of product produced. We benefit from owning the majority of the mineral deposits that we mine and having long-term mineral rights leases or supply agreements for our other primary sources of raw material, which limit royalty payments.

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Operating labor costs represented our largest spend category at approximately 12% and 17% of our sales during the three months ended September 30, 2012 and 2011, respectively, and approximately 13% and 17% of our sales during the nine months ended September 30, 2012 and 2011, respectively. We employ a mix of union and non-union labor, with 52% of our workforce being unionized as of September 30, 2012. Our union contracts stipulate annual escalation factors for certain wages and benefits.

We incur significant electricity and drying fuel (principally natural gas) costs in connection with the operation of our processing facilities. Energy costs directly related to the production of our products represented 4% and 8% of our total sales during the three months ended September 30, 2012 and 2011, respectively, and approximately 5% and 8% of our total sales during the nine months ended September 30, 2012 and 2011, respectively.

We capitalize the costs of our mining equipment and generally depreciate it over its expected useful life. Depreciation, depletion and amortization costs represented approximately 5% and 7% of our sales during the three months ended September 30, 2012 and 2011, respectively and 6% and 7% of our sales during the nine months ended September 30, 2012 and 2011, respectively. Preventive and remedial repair and maintenance costs that do not involve the replacement of major components of our equipment and facilities are expensed as incurred. These repair and maintenance costs can be significant due to the abrasive nature of our products and represented approximately 5% and 7% of our sales during the three months ended September 30, 2012 and 2011, respectively, and approximately 6% and 8% of our sales during the nine months ended September 30, 2012 and 2011, respectively.

We also provide a range of logistical services to our customers, including management of truck, rail and barge shipments of our products. Total related transportation costs represented approximately 22% and 15% of sales during the three months ended September 30, 2012 and 2011, respectively, and approximately 19% and 14% of sales during the nine months ended September 30, 2012 and 2011, respectively. During the last twelve months, transportation costs, as a percentage of total revenue, have continued to increase in connection with our increased in-basin transload activity. These costs, together with costs for additional logistical services, are billed back to our customers.

Additionally, we incur expenses related to our corporate operations, including costs for the sales and marketing, research and development, finance, legal, and environmental, health and safety functions of our organization. These costs are principally driven by personnel expenses. In total, our selling, general and administrative costs represented approximately 9% and 9% of sales during the three and nine months ended September 30, 2012, respectively, and 9% and 8% of sales during the three and nine months ended September 30, 2011, respectively. As a public company, we will continue to incur additional legal, accounting, insurance and other expenses that we had not incurred prior to 2012 as a private company, including costs associated with public company reporting requirements. These requirements include compliance with the Sarbanes-Oxley Act of 2002 as well as other rules implemented by the SEC, and applicable stock exchange rules.

Our effective income tax rate was approximately 28% and 27% of pretax earnings in the nine months ended September 30, 2012 and 2011, respectively. Historically, our actual effective tax rates have been lower than the statutory effective rate primarily due to the benefit received from statutory percentage depletion allowances.

### **How We Evaluate Our Business**

Our management team evaluates our business using a variety of financial and operational metrics to analyze our performance. Our business is organized into two segments, Oil & Gas Proppants and Industrial & Specialty Products. We evaluate the performance of these segments based on their volumes sold, average realized price and contribution margin earned. Additionally, we consider a number of factors in evaluating the performance of the business as a whole, including total volumes sold, average realized price, segment contribution margin and Adjusted EBITDA. We view these metrics as important factors in evaluating our profitability and review these measurements frequently to analyze trends and make decisions.

#### *Segment Contribution Margin*

Segment contribution margin, a non-GAAP measure, is a key metric that management uses to evaluate our operating performance and to determine resource allocation between segments. Segment contribution margin excludes certain corporate costs not associated with the operations of the segment. These unallocated costs include costs related to corporate functional areas such as sales, production and engineering, corporate purchasing, accounting, treasury, information technology, legal and human resources.

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### *Adjusted EBITDA*

Adjusted EBITDA, a non-GAAP measure, is included in this report because it is a key metric used by management to assess our operating performance and by our lenders to evaluate our covenant compliance. Our target performance goals under our incentive compensation plan are tied, in part to our Adjusted EBITDA. In addition, our revolving credit facility (the "Revolver") contains a fixed charge coverage ratio covenant that we must meet if our excess availability (as defined in the Revolver) falls below \$10.0 million, and our Term Loan contains a consolidated leverage ratio covenant that we must meet at the end of each fiscal quarter, both of which are calculated based on our Adjusted EBITDA. Noncompliance with the financial ratio covenants contained in the Revolver and the Term Loan could result in the acceleration of our obligations to repay all amounts outstanding under those agreements. Moreover, the Revolver and the Term Loan contain covenants that restrict, subject to certain exceptions, our ability to make permitted acquisitions, incur additional indebtedness, make restricted payments (including dividends) and retain excess cash flow based, in some cases, on our ability to meet leverage ratios calculated based on our Adjusted EBITDA.

### **Results of Operations for the Three Months Ended September 30, 2012 and 2011**

	<b>For the Three Months Ended September 30,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>'12 vs. '11</b>
Sales			
Oil & Gas Proppants	\$ 64,538	\$ 24,246	>100.0%
Industrial & Specialty Products	51,347	49,207	4.3%
Total Sales	<u>\$ 115,885</u>	<u>\$ 73,453</u>	57.8%

### *Sales*

Sales increased \$42.4 million, or 58%, to \$115.9 million for the three months ended September 30, 2012 compared to \$73.5 million for the three months ended September 30, 2011. Oil & Gas Proppants sales increased by \$40.3 million, accounting for nearly 95% of the total sales growth. Industrial & Specialty Products sales increased \$2.1 million, representing 5% of the growth in overall sales.

Oil & Gas Proppants sales increased \$40.3 million, or 166%, to \$64.5 million for the three months ended September 30, 2012 compared to \$24.2 million for the three months ended September 30, 2011. The growth in sales revenue was driven by a combination of increases in volume and pricing. Oil & Gas Proppants volume increased 310.2 thousand tons, or 68%, to 769.0 thousand tons during the three months ended September 30, 2012, driven by year over year growth in the demand for our frac sands and natural proppants. Period over period in response to the continued growth in hydraulic fracturing activity and in an effort to meet demand, we have reallocated certain production from industrial end markets to the Oil and Gas Proppants end market.

Industrial & Specialty Products sales increased \$2.1 million, or 4%, to \$51.3 million for the three months ended September 30, 2012 compared to \$49.2 million for the three months ended September 30, 2011. Period over period growth was driven primarily by pricing with volumes nearly flat, declining only marginally by 4.4 thousand tons, or less than 1%, as we continue to optimize our product mix to maximize margins and profitability.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased \$4.9 million, or 94%, to \$10.1 million for the three months ended September 30, 2012 compared to \$5.2 million for the three months ended September 30, 2011 driven by approximately \$1.3 million of year over year increases in employee compensation and benefits related to headcount increase in our sales and marketing function to support the continued growth in our oil and gas business as well as increases in corporate headcount to support our transformation as a public company. Additionally, we continue to incur additional public company costs as well as costs related to growth and expansion initiatives, which include legal, audit and accounting, and consulting and advisory services expenses, which have grown nearly \$1.0 million period over period.

### *Depreciation, Depletion and Amortization*

Depreciation, depletion and amortization expense was \$6.0 million and \$5.3 million for the three months ended September 30, 2012, and 2011, respectively. Year over year increases have been driven by continued increases in capital spending combined with increased depletion due to additional volume of mined silica sands. We expect depreciation, depletion and amortization expense to continue to grow due to a significant increase in capital spending in 2012 for assets which will be placed into service during the fourth quarter of 2012 and first half of 2013.

### *Operating Income*

Operating income increased \$12.7 million, or 73%, to \$30.1 million for the three months ended September 30, 2012 compared to \$17.4 million for the three months ended September 30, 2011 guided by a 58% increase in sales and a 4% increase in gross margin.

### *Interest Expense*

Interest expense decreased \$0.5 million, or 13%, to \$3.3 million for the three months ended September 30, 2012 compared to \$3.8 million for the three months ended September 30, 2011. These savings during the three months ended

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September 30, 2012, were due to the conversion to equity of the \$15.0 million note payable to our former parent in connection with our initial public offering in January 2012. The note had a stated interest rate equal to 10.0%. The refinancing transaction and the conversion of the note payable drove a reduction in the effective interest rate on our debt for the three months ended September 30, 2012 to 5.06%, compared to an effective rate of 5.32% for the three months ended September 30, 2011.

### *Provision for Income Taxes*

The provision for income taxes increased \$4.9 million, or 143%, to \$8.3 million for the three months ended September 30, 2012, compared to \$3.4 million for the three months ended September 30, 2011 driven by an increase in pre-tax income of 97%. The effective tax rates were 31% for the three months ended September 30, 2012 and 25% for the three months ended September 30, 2011. The increased effective tax rate for the three months ended September 30, 2012 was primarily associated with the filing of our prior year tax returns and revisions to the estimated current year statutory depletion deduction and domestic production deduction.

### *Net Income/Loss*

Net income was \$18.8 million and \$10.3 million for the three months ended September 30, 2012, and 2011, respectively. Year over year increases are due to the factors noted above.

## **Results of Operations for the Nine Months Ended September 30, 2012 and 2011**

	<b>For the Nine Months Ended September 30,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>'12 vs. '11</b>
<b>Sales</b>			
Oil & Gas Proppants	\$ 172,845	\$ 69,322	>100.0%
Industrial & Specialty Products	150,230	142,643	5.3%
Total Sales	<u>\$ 323,075</u>	<u>\$ 211,965</u>	52.4%

### *Sales*

Sales increased \$111.1 million, or 52.4%, to \$323.1 million for the nine months ended September 30, 2012 compared to \$212.0 million for the nine months ended September 30, 2011. Oil & Gas Proppants sales increased by \$103.5 million, accounting for nearly 93% of the total sales growth. Industrial & Specialty Products sales increased \$7.6 million, representing 7% of the growth in overall sales.

Oil & Gas Proppants sales increased \$103.5 million, or 149%, to \$172.8 million for the nine months ended September 30, 2012 compared to \$69.3 million for the nine months ended September 30, 2011. The growth in sales revenue was driven by a combination of increases in volume and pricing. Oil & Gas Proppants volume increased 705.3 thousand tons, or 49%, to 2.133 million tons during the nine months ended September 30, 2012, driven by continued growth in the demand for our frac sands and natural proppants. In response to the continued growth in hydraulic fracturing activity and in an effort to meet demand, we have reallocated certain production from industrial end markets to the Oil & Gas Proppants end market.

Industrial & Specialty Products sales increased \$7.6 million, or 5%, to \$150.2 million for the nine months ended September 30, 2012 compared to \$142.6 million for the nine months ended September 30, 2011. The improvement in sales was due to increases in pricing across most of our end markets combined with an increase in volumes of 17.2 thousand tons, or 1%, to 3.277 million tons during the nine months ended September 30, 2012. Volume growth in our Industrial & Specialty Products segment remains constrained as we continue to optimize our product mix to maximize margins and profitability.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased \$13.3 million, or 80%, to \$29.8 million for the nine months ended September 30, 2012 compared to \$16.5 million for the nine months ended September 30, 2011 driven by approximately \$6.8 million of year over year increases in employee compensation and benefits related to headcount increase in our sales and marketing function to support the continued growth in our oil and gas business as well as increases in corporate headcount to support our transformation as a public company. We continue to incur additional public company costs as well as costs related to growth and expansion initiatives, which include legal, audit and accounting, and consulting and advisory services expenses, which have grown nearly \$2.7 million year over year. Additionally, we incurred additional compensation expense of \$1.0 million related to awards of equity instruments to certain management and employees. As a percentage of sales, selling, general and administrative expenses increased 1.4% over prior year.

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### *Depreciation, Depletion and Amortization*

Depreciation, depletion and amortization expense was \$17.9 million and \$15.6 million for the nine months ended September 30, 2012, and 2011, respectively. Year over year increases have been driven by continued increases in capital spending combined with increased depletion due to additional volume of mined silica sands. We expect depreciation, depletion and amortization expense to continue to grow due to a significant increase in capital spending in 2012 for assets which will be placed into service during the fourth quarter of 2012 and the first half of 2013.

### *Operating Income*

Operating income increased \$42.1 million, or nearly 88%, to \$89.9 million for the nine months ended September 30, 2012 compared to \$47.8 million for the nine months ended September 30, 2011 guided by a 52% increase in sales and a 12% increase in gross margin.

### *Interest Expense*

Interest expense decreased \$4.0 million, or 27%, to \$10.6 million for the nine months ended September 30, 2012 compared to \$14.5 million for the nine months ended September 30, 2011. These savings during the nine months ended September 30, 2012, were due to a refinancing of the Term Loan and repayment of the Mezzanine Loan Facility in the second quarter of 2011, as well as the conversion to equity of the \$15.0 million note payable to our former parent in connection with our initial public offering in January 2012. The note had a stated interest rate equal to 10.0%. The refinancing transaction and the conversion of the note payable drove a reduction in the effective interest rate on our debt for the nine months ended September 30, 2012 to 5.04%, compared to an effective rate of 6.40% for the nine months ended September 30, 2011.

### *Provision for Income Taxes*

The provision for income taxes increased \$15.1 million, or 208%, to \$22.6 million for the nine months ended September 30, 2012, compared to \$7.5 million for the nine months ended September 30, 2011 driven by an increase in pre-tax income of 188%. The effective tax rates were 28% for the nine months ended September 30, 2012 and 27% for the nine months ended September 30, 2011.

### *Net Income/Loss*

Net income was \$57.4 million and \$20.2 million for the nine months ended September 30, 2012, and 2011, respectively. Year over year increases are due to the factors noted above.

## **Liquidity and Capital Resources**

### **Overview**

Our principal liquidity requirements have historically been to service our debt, to meet our working capital, capital expenditure and mine development expenditure needs, to pay dividends to our stockholder, and to finance acquisitions. We have historically met our liquidity and capital investment needs with funds generated through operations. We have historically funded our acquisitions through borrowings under our credit facilities and equity investments. Our working capital is the amount by which current assets exceed current liabilities and is a measure of our ability to pay our liabilities as they become due. As of September 30, 2012, our working capital was \$130.2 million and we had \$23.8 million of availability under the Revolver. See “—Credit Facilities—Revolver.”

We believe that cash generated through operations and our financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures and scheduled debt payments for at least the next 12 months. We anticipate that we will retain all of our future earnings for use in the development and expansion of our business and for general corporate purposes. Any determination to pay dividends and other distributions in cash, stock, or property by Holdings in the future will be at the discretion of our Board of Directors and will be dependent on then-existing conditions, including our business conditions, our financial condition, results of operations, liquidity, capital requirements, contractual restrictions including restrictive covenants contained in debt agreement, and other factors. Additionally, because we are a holding company, our ability to pay dividends on our common stock is limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions under the terms of the agreements governing our indebtedness.

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### **Cash Flow Analysis**

A summary of operating, investing and financing activities is shown in the following table:

	For the Nine Months Ended September 30,		Percent Change '12 vs. '11
	2012	2011	
<b>Net cash provided by (used in):</b>			
Operating activities	\$ 69,989	\$ 22,395	>100.0%
Investing activities	(73,613)	(28,692)	>100.0%
Financing activities	37,435	15,606	>100.0%

#### *Net Cash Provided by Operating Activities*

Operating activities consist primarily of net income adjusted for non-cash items, including depreciation and amortization, deferred revenue, deferred income taxes, equity-based compensation and the effect of working capital changes.

Net cash provided by operating activities was \$70.0 million for the nine months ended September 30, 2012 compared to \$22.4 million for the nine months ended September 30, 2011. This \$47.6 million increase in cash provided by operations was primarily the result of a \$42.1 million improvement in operating income driven by an increase in sales of 52.4%, offset by a one-time termination fee payment related to the Advisory Agreement of \$8.0 million which was accrued at December 31, 2011 and made during the first quarter of 2012 and the net build in working capital year over year of \$5.5 million. Several non-cash adjustments during the nine months ended September 30, 2012 and 2011, including a \$6.0 million loss related to the early extinguishment of debt in 2011, netted to a minimal impact on cash flows for each period presented.

#### *Net Cash Used in Investing Activities*

Investing activities consist primarily of capital expenditures for growth and maintenance.

Net cash used in investing activities was \$73.6 million in the nine months ended September 30, 2012. This use of cash is due to capital expenditures which totaled \$74.9 million for the nine months ended September 30, 2012, partially offset by proceeds of \$1.3 million received from the sale of a building and various equipment. Capital expenditures in 2012 have been primarily for the construction of our resin coating production facility in Rochelle, Illinois and the engineering, procurement and construction of a Greenfield raw sand plant in Sparta, Wisconsin. Additionally, we have invested \$7.0 million for new equipment, maintenance and upgrades to improve efficiency at our current production facilities, and acquired \$0.7 million of additional land and reserves during the period.

Net cash used in investing activities was \$28.8 million for the nine months ended September 30, 2011. This use of cash is primarily due to capital expenditures to expand our production capacity at two of our facilities.

Management anticipates that our capital expenditures for 2012 will be approximately \$98-108 million, which is primarily associated with our two new facilities in Rochelle, Illinois and Sparta, Wisconsin which are currently under construction. We anticipate that this amount will be sufficient to complete these projects.

#### *Net Cash Provided by Financing Activities*

Financing activities consisted primarily of equity issuances and repurchases, capital contributions, borrowings and repayments related to the ABL and Term Loan Facilities, as well as fees and expenses paid in connection with our credit facilities and outstanding checks from our customers.

Net cash provided by financing activities was \$37.4 million in the nine months ended September 30, 2012. During the period, we amended and restated the Term Loan to reduce the covenants and restrictions on our activities. In connection with the amendment, we incurred \$1.3 million in financing fees which have been capitalized and are being amortized over the remaining life of the loan.

On January 31, 2012, we completed an initial public offering of 2,941,176 shares of our common stock at an offering price of \$17.00 per share for an aggregate offering price of approximately \$50.0 million (the "IPO"). As a result of the IPO, we received net proceeds of approximately \$40.8 million, after deducting \$3.5 million of underwriting discounts and commissions and offering expenses of \$5.7 million.

Simultaneously with the IPO, GGC USS Holdings, LLC, our parent and sole stockholder prior to the IPO and now largest stockholder, contributed to us all of the stock of its wholly-owned subsidiary, GGC RCS Holdings, Inc., whose operating subsidiary is Coated Sand Solutions, LLC. Prior to this transaction, GGC RCS Holdings, Inc. had a \$15.0 million note payable to GGC USS Holdings, LLC which, together with accrued interest of \$1.7 million, was converted to an equity contribution by GGC USS Holdings, LLC simultaneously to the IPO.

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Additionally, during the nine months ended September 30, 2012, we made scheduled principal repayments on our outstanding debt of \$1.95 million.

Net cash provided by financing activities during the nine months ended September 30, 2011 was \$15.6 million. During the period, we refinanced the Term Loan and increased the outstanding principal by \$95.0 million to \$260 million. \$75.0 million of the proceeds was used to prepay the Mezzanine Loan Facility in full. We incurred financing fees of \$3.9 million and a repayment penalty of \$1.5 million in connection with the refinancing.

### **Share Repurchase Program**

On June 11, 2012, the Board of Directors authorized the repurchase up to \$25.0 million of our common stock. The authorization remains open for a period of 18 months, concluding on December 11, 2013. We are authorized to repurchase, from time to time, shares of our outstanding common stock on the open market or in privately negotiated transactions. Stock repurchases will be funded using our available cash. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. The share repurchase program may be suspended, modified or discontinued at any time and we have no obligation to repurchase any additional amount of our common stock under the program. We intend to make all repurchases in compliance with applicable regulatory guidelines and to administer the plan in accordance with applicable laws, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

During the first nine months of 2012, we purchased 100,000 shares pursuant to the authorization for \$1.072 million as outlined in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program(1)
June 2012	20,000	\$ 10.74	20,000	
August 2012	80,000	\$ 10.70	80,000	
Total as of September 30, 2012	100,000	\$ 10.72	100,000	\$ 23,928,275

<sup>(1)</sup> The program covering the repurchase of up to \$25.0 million of our common stock was announced on June 12, 2012. This program expires on December 11, 2013.

Subsequent to September 30, 2012, we repurchased no additional shares of our common stock. As of November 2, 2012, we have the authorization to repurchase up to \$23.9 million of our common stock under the program.

### **Credit Facilities**

#### *Revolver*

On August 9, 2007, we entered into the Revolver with various banks and other financial institutions as lenders thereunder and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association) as administrative agent and lender. The Revolver provides for borrowings in the aggregate amount of up to \$35.0 million, with a letter of credit facility sublimit of \$15.0 million; provided, however, that the aggregate principal amount of the loans and letter of credit obligations outstanding at any one time shall not exceed the applicable borrowing base.

Borrowing availability under the Revolver is determined by a formula that considers eligible accounts receivable and inventory less any outstanding letters of credit plus a reserve for derivatives. We had no borrowings outstanding as of September 30, 2012, and had \$10.0 million of outstanding letters of credit and \$1.2 million reserved against derivative agreements, leaving \$23.8 million of available borrowings under the Revolver.

Borrowings under the Revolver are subject to the accuracy of representations and warranties in all material respects and the absence of any defaults under the Revolver and the Term Loan.

On January 31, 2012, the Revolver was amended and restated to reduce the covenants and restrictions on our activities. The Revolver, as amended, contains customary covenants and restrictions on our activities related to, among other things: the incurrence of additional indebtedness; liens; dividends and distributions; investments, acquisitions and speculative transactions; contingent obligations; transactions with affiliates; fundamental changes to our business, property and assets; insurance; sale lease-backs; the ability to change the nature of our business, our fiscal year and our accounting policies; the ability to amend or waive any of the terms of any permitted subordinated debt, the Term Loan and our organizational documents; designations of senior debt other than the Revolver obligations and the Term Loan obligations; and the performance of material contracts, including intellectual property licenses. The Revolver also requires that we maintain (a) during any fiscal quarter, if excess availability falls below \$6.5 million, a fixed charge coverage ratio of not less than 1.10 to 1.00 until excess availability is equal to or greater than \$10.0 million and (b) aggregate excess availability of not less than \$5.0 million at all times.



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### *Term Loan*

On November 25, 2008, in connection with our acquisition by an affiliate of Golden Gate Capital (the “Golden Gate Capital Acquisition”), we entered into the Term Loan with various banks and other financial institutions as lenders thereunder and BNP Paribas, as administrative agent. On May 7, 2010, the Term Loan was amended and restated to, among other things, (1) increase the aggregate principal amount available thereunder from \$102.0 million to \$165.0 million and (2) add an incremental term loan facility in the maximum aggregate principal amount of \$25.0 million. On June 8, 2011, the Term Loan was again amended and restated to, among other things, (1) further increase the aggregate principal amount available thereunder to \$260.0 million and (2) increase the maximum aggregate principal amount under the incremental Term Loan to \$50.0 million (or \$100.0 million if the total leverage ratio on a pro forma basis would not exceed 3x).

On January 27, 2012, we again amended and restated the Term Loan to reduce the covenants and restrictions on our activities. The Term Loan, as amended, contains customary covenants and restrictions on our activities related to, among other things: the incurrence of additional indebtedness; liens and negative pledges; dividends and distributions; investments and acquisitions; contingent obligations; transactions with stockholders (holders of at least 10% of the equity securities) and affiliates; fundamental changes to our business, property and assets; sale lease-backs; the ability to change the nature of our business, our fiscal year and our accounting policies; the ability to amend or waive any of the terms of the Revolver and other material agreements; designations of senior debt other than the Term Loan obligations and the Revolver obligations; and the performance of material contracts, including real property leases and intellectual property licenses.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are likely to have a current or future material effect on our financial condition, changes in financial condition, sales, expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Contractual Obligations**

There have been no significant changes to our “Contractual Obligations” table in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2011 Annual Report, other than three new rail car lease agreements that were signed for 106 rail cars which will be paid at \$77 thousand per month over the next three to six years.

As of September 30, 2012, debt had decreased by \$1.8 million to \$260.0 million compared to \$261.8 million at December 31, 2011, due to scheduled principal repayments of \$1.95 million, net of the amortization of the original issue discount of \$126 thousand. As of September 30, 2012, future debt payments, plus interest, totaled \$313.0 million and are due as follows: \$7.7 million in 2012; \$14.7 million in 2013; \$14.6 million in 2014; \$14.5 million in 2015; \$135.8 million in 2016; and \$125.7 million thereafter.

As described in Note N, future minimum lease payments totaled \$49.5 million and are due as follows: \$10.5 million in 2012; \$10.2 million in 2013; \$7.5 million in 2014; \$6.8 million in 2015; \$5.4 million in 2016; and \$9.2 million thereafter.

### **Environmental Matters**

We are subject to various federal, state and local laws and regulations governing, among other things, hazardous materials, air and water emissions, environmental contamination and reclamation and the protection of the environment and natural resources. We have made, and expect to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures. We may also from time to time incur fines and penalties associated with noncompliance with such laws and regulations. In particular, on September 8, 2011 we voluntarily disclosed potential violations of air emission permits at our Rockwood, Michigan facility to the EPA and the Michigan Department of Environmental Quality, and while no proceedings have been instituted at this time by either agency we could incur penalties or be subject to other requirements in the future as a result of such potential violations. As of September 30, 2012, we had \$10.0 million accrued for future reclamation costs, as compared to \$9.5 million as of December 31, 2011.

We discuss certain environmental matters relating to our various production and other facilities, certain regulatory requirements relating to human exposure to crystalline silica and our mining activity and how such matters may affect our business in the future under Item 1A, “Risk Factors” and Part II, Item 1, “Legal Proceedings” in our 2011 Annual Report.



## **Non-GAAP Financial Performance Measures**

### ***Segment Contribution Margin***

Oil & Gas Proppants contribution margin increased \$18.6 million, or 119%, to \$34.2 million for the three months ended September 30, 2012 compared to \$15.6 million for the three months ended September 30, 2011. Oil & Gas Proppants contribution margin increased \$58.7 million, or nearly 134%, to \$102.6 million for the nine months ended September 30, 2012 compared to \$43.8 million for the nine months ended September 30, 2011 due to the factors noted above.

Industrial & Specialty Products contribution margin increased \$0.5 million, or 3%, to \$14.2 million for the three months ended September 30, 2012 compared to \$13.7 million for the three months ended September 30, 2011. Industrial & Specialty Products contribution margin increased \$2.1 million, or 5%, to \$40.6 million for the nine months ended September 30, 2012 compared to \$38.5 million for the nine months ended September 30, 2011 due to the factors noted above.

Segment contribution margin is not a measure of our financial performance under GAAP. For more detail on the reconciliation of segment contribution margin to its most directly comparable GAAP financial measure, income (loss) before income taxes, see Note T to our Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ***Adjusted EBITDA***

Adjusted EBITDA is not a measure of our financial performance or liquidity under GAAP and should not be considered as an alternative to net income as a measure of operating performance, cash flows from operating activities as a measure of liquidity or any other performance measure derived in accordance with GAAP. Additionally, Adjusted EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Adjusted EBITDA contains certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized, and excludes certain non-recurring charges. Management compensates for these limitations by relying primarily on our GAAP results and by using Adjusted EBITDA only supplementally. Our measure of Adjusted EBITDA is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the methods of calculation.

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The following table sets forth a reconciliation of net income, the most directly comparable GAAP financial measure, to Adjusted EBITDA.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$18,796	\$10,342	\$ 57,360	\$20,208
Total interest expense, net of interest income	3,276	3,823	10,422	14,481
Provision for taxes	8,302	3,412	22,621	7,533
Total depreciation, depletion and amortization expenses	5,968	5,295	17,920	15,636
EBITDA	36,342	22,872	108,323	57,858
Non-recurring expense (income) <sup>(1)</sup>	(30)	(1,295)	(469)	(1,295)
Transaction expenses <sup>(2)</sup>	—	—	156	6,043
Permitted management fees and expenses <sup>(3)</sup>	—	312	—	938
Non-cash incentive compensation <sup>(4)</sup>	515	532	1,662	682
Post-employment expenses (excluding service costs) <sup>(5)</sup>	335	11	1,344	1,267
Other adjustments allowable under our existing credit agreements <sup>(6)</sup>	357	763	602	862
Adjusted EBITDA	<u>\$37,519</u>	<u>\$23,195</u>	<u>\$ 111,618</u>	<u>\$66,354</u>

(1) Includes the gain on the sale of assets.

(2) Includes fees and expenses related to the January 27, 2012 amendment of our Term Loan and Revolver.

(3) Includes fees and expense paid to Golden Gate Capital for ongoing consulting and management services provided pursuant to an Advisory Agreement entered into in connection with the Golden Gate Capital Acquisition; this Advisory Agreement was terminated in connection with our IPO.

(4) Includes vesting of incentive equity compensation issued to our employees.

(5) Includes net pension cost and net post-retirement cost relating to pension and other post-retirement benefit obligations during the applicable period, but in each case excluding the service cost relating to benefits earned during such period. See Note Q to our Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(6) Reflects miscellaneous adjustments permitted under our existing credit agreements, including such items as expenses related to reviewing growth initiatives and potential acquisitions.

### Critical Accounting Estimates

Our unaudited condensed consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe that the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our 2011 Annual Report.

### Recent Accounting Pronouncements

New accounting guidance that we have recently adopted, as well as accounting guidance that has been recently issued but not yet adopted by us, are included in Note B to our Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Availability of Reports; Website Access; Other Information

Our internet address is <http://www.ussilica.com>. Through “Investor Relations” — “SEC Filings” on our home page, we make available free of charge our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our proxy statements, our Current Reports on Form 8-K, SEC Forms 3, 4 and 5 and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our reports filed with the SEC are also made available to read and copy at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on its website at [www.sec.gov](http://www.sec.gov).

Copies of our Corporate Governance Guidelines, our Audit Committee and Compensation and Governance Committee

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charters, the Code of Conduct for our Board of Directors and Code of Conduct and Ethics for U.S. Silica employees (including the chief executive officer, chief financial officer and corporate controller) can also be found on our website. Any amendments or waivers to the Code of Business Ethics applicable to the chief executive officer, chief financial officer and corporate controller can also be found in the “Investor Relations” section of the U.S. Silica website. Stockholders may also request a free copy of these documents from: U.S. Silica Holdings, Inc., attn.: Investor Relations, 8490 Progress Drive, Suite 300, Frederick, Maryland 21701 (phone: (855) SILICA-7), or [IR@ussilica.com](mailto:IR@ussilica.com).

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

We are exposed to certain market risks, which exist as a part of our ongoing business operations. We use derivative instruments, where appropriate, to manage these risks. As a matter of policy, we do not engage in trading or speculative transactions. Refer to Note L to our Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our derivative financial instruments.

**Interest Rate Risk**

We may use interest rate derivatives in the normal course of our business to manage our interest cost and the risks associated with changing interest rates. These hedge agreements are used to exchange the difference between fixed and variable-rate interest amounts to an agreed-upon notional principal amount. We do not use derivative financial instruments for trading or speculative purposes. By their nature, all such instruments involve risk, including the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract (credit risk) or the possibility that future changes in market price may make a financial instrument less valuable or more onerous (market risk). As is customary for these types of instruments, we do not require collateral or other security from other parties to these instruments. In management's opinion, there is no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments.

The estimated fair value of our derivative assets (interest rate caps) are recorded at each reporting period and are based upon widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative contract. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. We also incorporate credit valuation adjustments to appropriately reflect both our nonperformance risk as well as that of the respective counterparty in the fair value measurements.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of September 30, 2012, we have assessed that the impact of the credit valuation adjustments on the overall valuation of our derivative positions is not significant. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The following table summarizes the fair value of our derivative instruments at September 30, 2012 and December 31, 2011.

	Maturity Date	September 30, 2012			December 31, 2011		
		Contract/Notional Amount	Carrying Amount	Fair Value	Contract/Notional Amount	Carrying Amount	Fair Value
Interest rate cap agreement <sup>(1)</sup>	2012				\$ 100 million	\$ —	\$—
Interest rate cap agreement <sup>(1)</sup>	2013	\$130 million	\$ —	\$—	\$ 30 million	\$ 11	\$ 11

<sup>(1)</sup> Agreements limit the LIBOR floating interest rate base to 4%.

We have designated these contracts as qualified cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and recognized in earnings in the same period or periods during which the hedged transaction affects earnings. We had no ineffective contracts as of September 30, 2012.

A hypothetical increase in interest rates by 1.0% would have changed our interest expense by \$0.3 million for the three months ended September 30, 2012 and \$0.9 million for the nine months ended September 30, 2012. A decrease in interest rates would have had no effect on our interest expense as our debt subject to variable interest rates has a floor which the market rate was below for the duration of the period.

**Market Risk**

We are exposed to various market risks, including changes in interest rates. Market risk related to interest rates is the potential loss arising from adverse changes in interest rates. We do not believe that inflation has a material impact on our financial position or results of operations during periods covered by the financial statements included in this Quarterly Report on Form 10-Q.

**Credit Risk**

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. We examine the

creditworthiness of third-party customers to whom we extend credit and manage our exposure to credit risk through credit analysis, credit approval, credit limits and monitoring procedures, and for certain transactions, we may request letters of credit, prepayments or guarantees, although collateral is generally not required.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2012. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

##### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended September 30, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In addition to the matter described below, we are subject to various legal proceedings, claims, and governmental inspections, audits or investigations arising out of our business which cover matters such as general commercial, governmental regulations, antitrust and trade regulations, product liability, environmental, intellectual property, employment and other actions. Although the outcomes of these routine claims cannot be predicted with certainty, in the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on our financial position or results of operations.

Prolonged inhalation of excessive levels of respirable crystalline silica dust can result in silicosis, a disease of the lungs. Breathing large amounts of respirable silica dust over time may injure a person's lungs by causing scar tissue to form. Crystalline silica in the form of quartz is a basic component of soil, sand, granite and most other types of rock. Cutting, breaking, crushing, drilling, grinding and abrasive blasting of or with crystalline silica containing materials can produce fine silica dust, the inhalation of which may cause silicosis, lung cancer and possibly other diseases including immune system disorders such as scleroderma. Sources of exposure to respirable crystalline silica dust include sandblasting, foundry manufacturing, crushing and drilling of rock, masonry and concrete work, mining and tunneling, and cement and asphalt pavement manufacturing.

Since at least 1975, we and/or our predecessors have been named as a defendant, usually among many defendants, in numerous lawsuits brought by or on behalf of current or former employees of our customers alleging damages caused by silica exposure. Prior to 2001, the number of silicosis lawsuits filed annually against the commercial silica industry remained relatively stable and was generally below 100, but between 2001 and 2004 the number of silicosis lawsuits filed against the commercial silica industry substantially increased. This increase led to greater scrutiny of the nature of the claims filed, and in June 2005 the U.S. District Court for the Southern District of Texas issued an opinion in the former federal silica multi-district litigation remanding almost all of the 10,000 cases then pending in the multi-district litigation back to the state courts from which they originated for further review and medical qualification, leading to a number of silicosis case dismissals across the United States. In conjunction with this and other favorable court rulings establishing "sophisticated user" and "no duty to warn" defenses for silica producers, several states, including Texas, Ohio and Florida, have passed medical criteria legislation that requires proof of actual impairment before a lawsuit can be filed.

As a result of the above developments, the filing rate of new claims against us over the past three years has decreased to below pre-2001 levels, and we were named as a defendant in two, ten and three new silicosis cases filed in 2009, 2010 and 2011, respectively. During the first nine months of 2012, one additional claim was brought against us. As of November 2, 2012, there are a total of approximately 104 active silica-related products liability claims pending in which we were a defendant and approximately 3,152 inactive claims. Almost all of the claims pending against us arise out of the alleged use of our silica products in foundries or as an abrasive blast media, and involve various other defendants. We have insurance policies and an indemnity from a former owner that cover certain claims for alleged silica exposure for periods prior to certain dates in 1985 (with respect to the indemnity and certain insurance) and 1986 (with respect to the balance of the insurance). Although the scope of coverage under those policies is currently being litigated, we believe, based on currently available information, they and the indemnity will remain in force.

The silica-related litigation brought against us to date has not resulted in material liability to us. However, we continue to have silica-related products liability claims filed against us, including claims that allege silica exposure for periods for which we have neither insurance nor indemnity coverage. Any such pending or future claims or inadequacies of our insurance coverage or indemnity could have a material adverse effect on our business, reputation or results of operations. For more information regarding silica-related litigation, see Part I, Item 1A of 2011 Annual Report "Risk Factors—Risks Related to Our Business—Silica-related health issues and litigation could have a material adverse effect on our business, reputation or results of operations."

### ITEM 1A. RISK FACTORS

As of September 30, 2012, there have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our 2011 Annual Report.

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

**Share Repurchase Program**

Information required by this item is set forth in Part I Item 2 of this Quarterly Report on Form 10-Q under the caption “Liquidity and Capital Resources — Share Repurchase Program” and is incorporated herein by reference.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Safety is one of our core values, and we strive for excellence in the achievement of a workplace free of injuries and occupational illnesses. Our health and safety leadership team has developed comprehensive safety policies and standards, which include detailed standards and procedures for safe production, addresses topics such as employee training, risk management, workplace inspection, emergency response, accident investigation and program auditing. We place special emphasis on the importance of continuous improvement in occupational health, personal injury avoidance and prevention, emergency preparedness, and property damage elimination. In addition to strong leadership and involvement from all levels of the organization, these programs and procedures form the cornerstone of our safety initiatives, ensuring that employees are provided a safe and healthy environment and are intended as a means to reduce workplace accidents, incidents and losses, comply with all mining-related regulations and provide support for both regulators and the industry to improve mine safety. While we want to have productive operations in full regulatory compliance, we know it is equally essential that we motivate and train our people to think, practice and feel a personal responsibility for health and safety on and off the job.

All of our production facilities are classified as mines and are subject to regulation by the Federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”). MSHA inspects our mines on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. Following passage of The Mine Improvement and New Emergency Response Act of 2006, MSHA significantly increased the numbers of citations and orders charged against mining operations. The dollar penalties assessed for citations issued has also increased in recent years. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Quarterly Report filed on Form 10-Q.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The information called for by this Item is incorporated herein by reference from the Exhibit Index included in this Quarterly Report on Form 10-Q.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 2nd day of November, 2012.

U.S. Silica Holdings, Inc.

/s/ WILLIAM A. WHITE

Name: William A. White

Title: Chief Financial Officer  
(Principal Financial Officer)



**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference</b>			
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>
3.1	Second Amended and Restated Certificate of Incorporation of U.S. Silica Holdings, Inc., effective January 31, 2012.	8-K	001-35416	3.1	February 6, 2012
3.2	Second Amended and Restated Bylaws of U.S. Silica Holdings, Inc., effective January 31, 2012.	8-K	001-35416	3.2	February 6, 2012
4.1	Specimen Common Stock Certificate.	S-1/A	333-175636	4.1	December 7, 2011
4.2	Registration Rights Agreement, dated January 31, 2012, by and between U.S. Silica Holdings, Inc. and GGC USS Holdings, LLC.	8-K	001-35416	4.2	February 6, 2012
31.1*	Rule 13a-14(a)/15(d)-14(a) Certification by Bryan A. Shinn, Chief Executive Officer.				
31.2*	Rule 13a-14(a)/15(d)-14(a) Certification by William A. White, Chief Financial Officer.				
32.1*	Section 1350 Certification by Bryan A. Shinn, Chief Executive Officer.				
32.2*	Section 1350 Certification by William A. White, Chief Financial Officer.				
95.1*	Mine Safety Disclosure				
99.1*	Consent of The Freedomia Group, Inc.				
101*	101.INS XBRL Instance				
	101.SCH XBRL Taxonomy Extension Schema				
	101.CAL XBRL Taxonomy Extension Calculation				
	101.LAB XBRL Taxonomy Extension Labels				
	101.PRE XBRL Taxonomy Extension Presentation				
	101.DEF XBRL Taxonomy Extension Definition				

\* Filed herewith

We will furnish any of our shareowners a copy of any of the above Exhibits not included herein upon the written request of such shareowner and the payment to U.S. Silica Holdings, Inc. of the reasonable expenses incurred in furnishing such copy or copies.

**CERTIFICATION**

I, Bryan A. Shinn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Silica Holdings, Inc. (the "Company") for the quarter ended September 30, 2012;
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)) 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 combined and consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Reserved;
  - 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: November 2, 2012

/s/ BRYAN A. SHINN

Name: Bryan A. Shinn

Title: Chief Executive Officer

**CERTIFICATION**

I, William A. White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Silica Holdings, Inc. (the "Company") for the quarter ended September 30, 2012;
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)) 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 combined and consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Reserved;
  - 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: November 2, 2012

/s/ WILLIAM A. WHITE

Name: William A. White

Title: Chief Financial Officer

**SECTION 1350 CERTIFICATION**

I, Bryan A. Shinn, Chief Executive Officer, U.S. Silica Holdings, Inc. (the "Company"), hereby certify, on the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- i. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2012 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2012

/s/ BRYAN A. SHINN

Name: Bryan A. Shinn

Title: Chief Executive Officer

A signed copy of this original statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

**SECTION 1350 CERTIFICATION**

I, William A. White, Chief Financial Officer, U.S. Silica Holdings, Inc. (the "Company"), hereby certify, on the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- i. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2012 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2012

/s/ WILLIAM A. WHITE

Name: William A. White

Title: Chief Financial Officer

A signed copy of this original statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

### Mine Safety Disclosure

The following disclosures are provided pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”) and Item 104 of 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”).

*Mine Safety Information.* Whenever the Federal Mine Safety and Health Administration (“MSHA”) believes a violation of the Mine Act, any health or safety standard or any regulation has occurred, it may issue a citation which describes the alleged violation and fixes a time within which the U.S. mining operator must abate the alleged violation. In some situations, such as when MSHA believes that conditions pose a hazard to miners, MSHA may issue an order removing miners from the area of the mine affected by the condition until the alleged hazards are corrected. When MSHA issues a citation or order, it generally proposes a civil penalty, or fine, as a result of the alleged violation, that the operator is ordered to pay. Citations and orders can be contested and appealed, and as part of that process, are often reduced in severity and amount, and are sometimes dismissed. The number of citations, orders and proposed assessments vary depending on the size and type (underground or surface) of the mine as well as by the MSHA inspector(s) assigned.

*Mine Safety Data.* The following provides additional information about references used in the table below to describe the categories of violations, orders or citations issued by MSHA under the Mine Act:

- *Section 104 S&S Citations:* Citations received from MSHA under section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard.
- *Section 104(b) Orders:* 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:* 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:* Flagrant violations issued by MSHA under section 110(b)(2) of the Mine Act.
- *Section 107(a) Orders:* Orders issued by MSHA under section 107(a) of the Mine Act for situations in which MSHA determined an “imminent danger” (as defined by MSHA) existed.

The following table details the violations, citations and orders issued to us by MSHA during the quarter ended September 30, 2012:

Mine <sup>(1)</sup>	Section 104 S&S Citations <sup>(2)</sup> (#)	Section 104(b) Orders (#)	Section 104(d) Citations and Orders (#)	Section 110(b)(2) Violations (#)	Section 107(a) Orders (#)	Proposed Assessments <sup>(3)</sup> (\$)	Mining Related Fatalities (#)
Ottawa, IL	—	—	—	—	—	\$ —	—
Mill Creek, OK	—	—	—	—	—	—	—
Pacific, MO	—	—	—	—	—	—	—
Berkeley Springs, WV	—	—	—	—	—	—	—
Mapleton Depot, PA	—	—	—	—	—	—	—
Kosse, TX	—	—	—	—	—	—	—
Mauricetown, NJ	—	—	—	—	—	—	—
Columbia, SC	—	—	—	—	—	—	—
Montpelier, VA	—	—	—	—	—	—	—
Rockwood, MI	—	—	—	—	—	—	—
Jackson, TN	—	—	—	—	—	—	—
Dubberly, LA	—	—	—	—	—	—	—
Batesville, AR	—	—	—	—	—	—	—
Hurtsboro, AL	—	—	—	—	—	—	—
Sparta, WI	—	—	—	—	—	—	—

- (1) The definition of 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 minerals, such as land, structures, facilities, equipment, machines, tools and minerals preparation facilities. Unless otherwise indicated, any of these other items associated with a single mine have been aggregated in the totals for that mine. MSHA assigns an identification number to each mine and may or may not assign separate identification numbers to related facilities such as preparation facilities. We are providing the information in the table by mine rather than MSHA identification number because that is how we manage and operate our mining business and we believe this presentation will be more useful to investors than providing information based on MSHA identification numbers.
- (2) 21 Section 104 S&S Citations were subject to contest as of September 30, 2012.
- (3) Represents the total dollar value of the proposed assessment from MSHA under the Mine Act pursuant to the citations and/or orders preceding such dollar value in the corresponding row.

*Pattern or Potential Pattern of Violations.* During the quarter ended September 30, 2012, none of the mines operated by us received written notice from MSHA of (a) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under section 104(e) of the Mine Act or (b) the potential to have such a pattern.

*Pending Legal Actions.* The following information provides a summary of legal actions pending before the Federal Mine Safety and Health Review Commission (the Commission) as of September 30, 2012, as well as the aggregate number of legal actions instituted and resolved during 2012. The Commission is an independent adjudicative agency established by the Mine Act 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. The following provides additional information of the types of proceedings that may be brought before the Commission:

- *Contest Proceedings:* A contest proceeding may be filed by an operator to challenge the issuance of a citation or order issued by MSHA.
- *Civil Penalty Proceedings:* A civil penalty proceeding may be filed by an operator to challenge a civil penalty MSHA has proposed for a violation contained in a citation or order. U.S. Silica does not institute civil penalty proceedings based solely on the assessment amount of proposed penalties. Any initiated adjudications address substantive matters of law and policy instituted on conditions that are alleged to be in violation of mandatory standards of the Mine Act.
- *Discrimination Proceedings:* Involves a miner's allegation that he or she has suffered adverse employment action because he or she engaged in activity protected under the Mine Act, such as making a safety complaint. Also includes temporary reinstatement proceedings involving cases in which a miner has filed a complaint with MSHA stating that he or she has suffered discrimination and the miner has lost his or her position.

- *Compensation Proceedings:* A compensation proceeding may be filed by miners entitled to compensation when a mine is closed by certain closure orders issued by MSHA. The purpose of the proceeding is to determine the amount of compensation, if any, due to miners idled by the orders.
- *Temporary Relief:* Applications for temporary relief are applications filed under section 105(b)(2) of the Mine Act for temporary relief from any modification or termination of any order.
- *Appeals:* An appeal may be filed by an operator to challenge judges' decisions or orders to the Commission, including petitions for discretionary review and review by the Commission on its own motion.

During 2012, we had no legal actions instituted or resolved; as of September 30, 2012, we had no pending legal actions.



[Freedonia Letterhead]

**CONSENT OF THE FREEDONIA GROUP, INC.**

We hereby consent to the references to our company's name in the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2012 (the "Quarterly Report") of U.S. Silica Holdings, Inc. (the "Company") and the quotation by the Company in the Quarterly Report from Table IV-4 from our report World Well Stimulation Materials, April 2011. We also hereby consent to the filing of this letter as an exhibit to the Quarterly Report.

THE FREEDONIA GROUP, INC.

By: /s/ CORINNE GANGLOFF

Name: Corinne Gangloff

Title: Media Relations Director

October 29, 2012