

U.S. SILICA HOLDINGS, INC.

Form 10-Q

April 30, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2013

OR

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

Commission file number 001-35416

**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)

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  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of April 26, 2013, 52,989,768 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

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U.S. Silica Holdings, Inc.

FORM 10-Q

For the Quarter Ended March 31, 2013

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**Table of Contents****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)

	March 31, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 42,919	\$ 61,022
Accounts receivable, net	65,249	59,564
Inventories, net	42,776	39,835
Prepaid expenses and other current assets	7,686	6,738
Deferred income tax, net	10,122	10,108
Total current assets	168,752	177,267
Property, plant and mine development, net	429,611	414,218
Debt issuance costs, net	1,980	2,111
Goodwill	68,403	68,403
Trade names	10,436	10,436
Customer relationships, net	6,428	6,531
Other assets	8,451	7,844
Total assets	\$ 694,061	\$ 686,810
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Book overdraft	\$ 4,376	\$ 5,390
Accounts payable	30,307	37,333
Accrued liabilities	10,080	9,481
Accrued interest	154	2
Current portion of capital lease	489	
Current portion of long-term debt	2,434	2,433
Short-term debt	10,551	
Income tax payable	6,149	20,596
Current portion of deferred revenue	2,938	4,855
Total current liabilities	67,478	80,090
Long-term debt	252,383	252,992
Liability for pension and other post-retirement benefits	52,768	52,747
Deferred income tax, net	60,154	59,111
Other long-term obligations	10,323	10,176

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Total liabilities	443,106	455,116
<b>Commitments and contingencies</b>		
<b>Stockholders Equity:</b>		
Common stock	529	529
Preferred stock		
Additional paid-in capital	164,535	163,579
Retained earnings	100,008	82,731
Treasury stock, at cost	(364)	(970)
Accumulated other comprehensive loss	(13,753)	(14,175)
<b>Total stockholders equity</b>	<b>250,955</b>	<b>231,694</b>
Total liabilities and stockholders equity	\$ 694,061	\$ 686,810

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

**Table of Contents****U.S. SILICA HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited; in thousands, except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Sales	\$ 122,311	\$ 102,591
Cost of goods sold (excluding depreciation, depletion and amortization)	74,412	56,921
Operating expenses		
Selling, general and administrative	12,404	9,904
Depreciation, depletion and amortization	8,278	5,978
	20,682	15,882
Operating income	27,217	29,788
Other (expense) income		
Interest expense	(3,576)	(3,797)
Other income, net, including interest income	122	154
	(3,454)	(3,643)
Income before income taxes	23,763	26,145
Income tax expense	(6,486)	(7,032)
Net income	\$ 17,277	\$ 19,113
Earnings per share:		
Basic	\$ 0.33	\$ 0.37
Diluted	\$ 0.32	\$ 0.37

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

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(unaudited; in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	\$ 17,277	\$ 19,113
Other comprehensive loss:		
Unrealized loss on derivatives (net of tax of \$52 and \$(4) for the three months ended March 31, 2013 and 2012, respectively)	(81)	(7)
Pension and other post-retirement benefits liability adjustment (net of tax of \$218 and \$0 for the three months ended March 31, 2013 and 2012, respectively)	(341)	
Comprehensive income	\$ 16,855	\$ 19,106

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

**Table of Contents****U.S. SILICA HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited; in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net income	\$ 17,277	\$ 19,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	8,278	5,978
Debt issuance amortization	131	113
Original issue discount amortization	42	42
Deferred income taxes	1,029	410
(Gain)/loss on disposal of property, plant and equipment		(439)
Deferred revenue	(1,917)	(1,427)
Equity-based compensation	678	654
Excess tax benefit from equity-based compensation	(96)	
Other	(131)	(1,306)
Changes in assets and liabilities:		
Accounts receivable	(5,688)	(10,316)
Inventories	(2,941)	(2,629)
Prepaid expenses and other current assets	(948)	2,757
Income taxes	(14,351)	6,445
Accounts payable and accrued liabilities	(6,427)	(9,978)
Advisory services termination fee to holding company		(8,000)
Accrued interest	152	132
<b>Net cash provided by (used in) operating activities</b>	<b>(4,912)</b>	<b>1,549</b>
<b>Investing activities:</b>		
Capital expenditures	(22,707)	(14,986)
Proceeds from sale of property, plant and equipment		1,225
<b>Net cash used in investing activities</b>	<b>(22,707)</b>	<b>(13,761)</b>
<b>Financing activities:</b>		
Proceeds from issuance of common stock in initial public offering		50,000
Proceeds from options exercised	788	
Excess tax benefit from equity-based compensation	96	
Repayment of long-term debt	(650)	(650)
Change in book overdraft	(1,014)	(1,418)
Change in revolving credit facility	10,551	
Principal payments on capital lease obligations	(255)	
Financing fees		(1,304)
Common stock issuance costs		(8,974)
<b>Net cash provided by financing activities</b>	<b>9,516</b>	<b>37,654</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(18,103)</b>	<b>25,442</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>61,022</b>	<b>59,199</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 42,919</b>	<b>\$ 84,641</b>



**Non-cash financing activities:**

Contribution of note payable and accrued interest by holding company	\$		\$	16,692
Capital lease obligations incurred to acquire assets	\$	744	\$	

**Supplemental cash flow information:**

Cash paid during the period for:

Interest	\$	3,196	\$	3,131
Taxes	\$	20,076	\$	173

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

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**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 and issued 2,941,176 shares of our common stock, and we registered and certain of our stockholders sold 8,823,529 shares of common stock at an offering price of \$17.00 per share. On February 6, 2012, we issued 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 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 consolidated financial statements as of and for the three months ended March 31, 2013 and 2012 (the Financial Statements ), present our financial position, results of operations, and cash flows. 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 and for the three months ended March 31, 2013 and 2012 and as of the year ended December 31, 2012.

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, 2012, as filed with the Securities and Exchange Commission ( SEC ) on February 26, 2013 (our 2012 Annual Report ). Certain terms not otherwise defined in this Quarterly Report on Form 10-Q, have the meanings specified in our 2012 Annual Report.

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of March 31, 2013, and December 31, 2012, the results of our operations for the three months ended March 31, 2013 and 2012, and our cash flows for the three months ended March 31, 2013 and 2012. 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 follow Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) guidance for identification and reporting of entities over which control is achieved through means other than voting rights. The guidance defines such entities as Variable Interest Entities ( VIEs ). As of March 31, 2013 and for the periods presented herein, we have identified no entities over which we maintain any level of control that would qualify for consolidation under ASC guidance.

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



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**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 us 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. We base our 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 March 31, 2013, the Income Statements for the three months ended March 31, 2013 and 2012; the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012; the Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012; and other information disclosed in the related notes, are unaudited. The Balance Sheet as of December 31, 2012 was derived from our audited consolidated financial statements as included in our 2012 Annual Report. The accompanying Financial Statements should be read in conjunction with the audited combined financial statements and related notes contained in our 2012 Annual Report.

***Recently Adopted Accounting Pronouncements***

In May 2011, the Financial Accounting Standards Board ( 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 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.

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

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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. We adopted this guidance, effective January 1, 2012 with no material impact on our Financial Statements.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

In September 2011, the FASB issued changes to increase the level of disclosure about an employer's participation in a multiemployer pension plan. These changes require that employers provide additional separate quantitative and qualitative disclosures for multiemployer pension plans and multiemployer other post-retirement benefit plans, including the significant multiemployer plan(s) in which an employer participates, the level at which an employer participates in the plan(s), the financial health of the plan(s) and the nature of the employer commitments to the plan(s). We adopted this guidance, effective January 1, 2012 with no material impact on our Financial Statements.

In July 2012, the FASB issued changes to the testing of indefinite-lived intangible assets 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 an indefinite-lived intangible asset is less than its carrying amount. In accordance with the amendment, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. In conducting a qualitative assessment, an entity should consider the extent to which relevant events and circumstances, both individually and in the aggregate, could have affected the significant inputs used to determine the fair value of the indefinite-lived intangible asset since the last assessment. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. We adopted this guidance, effective for the 2012 reporting period with no material impact on our Financial Statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (ASC Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. We adopted this guidance, effective for the 2013 reporting period with no material impact on our Financial Statements.

**NOTE C EARNINGS PER SHARE**

On November 25, 2008, we issued 1,000 shares of our common stock to our then sole stockholder, GGC USS Holdings, LLC, for an aggregate purchase price of \$10.00. The shares were issued in reliance on Section 4(2) of the Securities Act as the sale of the securities did not involve a public offering. Appropriate legends were affixed to the securities issued in this transaction. On July 8, 2011, our board of directors approved and we subsequently filed an amended and restated certificate of incorporation which, among other things, increased the authorized shares of common stock to 100 million shares. The amended and restated certificate of incorporation also created a 50,000-for-one split of our common stock. All of our common stock share and per share data contained in the financial statements has been retroactively adjusted to reflect this stock split for all periods presented.

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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.

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income available for stockholders:	\$ 17,277	\$ 19,113
Less dividends paid:		
Common stock		
Restricted shares of common stock		
Undistributed earnings	\$ 17,277	\$ 19,113
Allocation of undistributed earnings:		
Common stock	17,251	19,113
Restricted shares of common stock	26	
Basic shares outstanding:		
Common stock	52,866	51,939
Restricted shares of common stock	80	
	52,946	51,939
Diluted shares outstanding:		
Common stock	52,866	51,939
Dilutive effect of options	265	
	53,131	51,939
Restricted shares of common stock	80	
	53,211	51,939
Basic earnings per share:		
Common stock:		
Distributed earnings	\$	\$
Undistributed earnings	0.33	0.37
	\$ 0.33	\$ 0.37

Restricted shares of common stock:

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Distributed earnings	\$		\$
Undistributed earnings		0.33	
	\$	0.33	\$
Diluted earnings per share:			
Common stock			
Distributed earnings	\$		\$
Undistributed earnings		0.32	0.37
	\$	0.32	\$ 0.37

**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 Holdings shall be vested in the holders of the common stock. There were 52,987,227 shares of common stock issued and outstanding at March 31, 2013. As of March 31, 2012, there were 52,941,176 shares issued and outstanding. On April 29, 2013, the Company's board of directors declared a quarterly cash dividend of \$0.125 per share to common shareholders of record at the close of business on June 19, 2013, payable on July 3, 2013.

Management and our Board of Directors remain committed to evaluating additional ways of creating shareholder value. 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 may be 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.



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There are no shares of preferred stock issued or outstanding at March 31, 2013 and 2012. 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 March 31, 2013, 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. Of the 100,000 shares repurchased, 66,051 have been re-issued to satisfy employee option exercises leaving total treasury shares of 33,949 as of March 31, 2013.

***Stockholders' Equity***

The following table presents the activity included in stockholders' equity during the three months ended March 31, 2013.

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2012	\$ 529	\$ (970)	\$ 163,579	\$ 82,731	\$ (14,175)	\$ 231,694
Net Income				17,277		17,277
Unrealized loss on derivatives					81	81
Minimum pension liability					341	341
Proceeds from options exercised		606	182			788
Equity-based compensation			678			678
Excess tax benefit from equity-based compensation			96			96
Balance at March 31, 2013	\$ 529	\$ (364)	\$ 164,535	\$ 100,008	\$ (13,753)	\$ 250,955



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## U.S. SILICA HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

*Accumulated Other Comprehensive Income*

Accumulated other 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. The following table presents the changes in accumulated other comprehensive income by component during the three months ended March 31, 2013:

	For the Quarter Ended March 31, 2013		
	Unrealized loss on derivatives	Pension and other postretirement benefits liability	Total
Beginning Balance	\$ (183)	\$ (13,992)	\$ (14,175)
Other comprehensive income before reclassifications			
Amounts reclassified from accumulated other comprehensive income	81	341	422
Ending Balance	\$ (102)	\$ (13,651)	\$ (13,753)

The following table presents the reclassifications out of accumulated other comprehensive income (loss) during the three months ended March 31, 2013:

Details about accumulated other comprehensive income	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement of operations
<b>Gains and losses on derivatives</b>		
Interest rate contracts	\$ 133	Interest expense
	(52)	Tax expense
	\$ 81	Net of tax
<b>Amortization of postretirement benefits liability</b>		
Actuarial gains/(losses)	\$ 536	(1)
Prior service cost	23	(1)
	\$ 559	Total before tax
	(218)	Tax expense
	341	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ (422)</b>	<b>Net of tax</b>

<sup>(1)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see note Q).

**NOTE E ACCOUNTS RECEIVABLE**

At March 31, 2013 and December 31 2012, accounts receivable consisted of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Trade receivables	\$ 62,710	\$ 56,519
Less: Allowance for doubtful accounts	(1,056)	(1,053)
Net trade receivables	61,654	55,466
Other receivables	3,595	4,098
Total accounts receivable	\$ 65,249	\$ 59,564

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Changes in our allowance for doubtful accounts during the three months ended March 31, 2013 are as follows:

	<b>Allowance for Doubtful Accounts</b>
Beginning balance	\$ (1,053)
Bad debt provision	
Accounts recovered	(3)
Ending balance	\$ (1,056)

Our five largest customers accounted for approximately 23% and 26% of sales in the three months ended March 31, 2013 and 2012, respectively. No single individual customer accounted for more than 10% of sales in the three months ended March 31, 2013 and 2012.

**NOTE F INVENTORIES**

At March 31, 2013 and December 31, 2012, inventories consisted of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Supplies	\$ 14,298	\$ 13,472
Raw materials and work in process	8,544	10,720
Finished goods	19,934	15,643
Total inventories	\$ 42,776	\$ 39,835

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 March 31, 2013 property, plant and mine development consisted of the following:

	<b>Cost</b>	<b>As of March 31, 2013 Accumulated Depreciation/ Amortization</b>	<b>Net Book Value</b>
Mining property and mine development	\$ 163,538	\$ (16,835)	\$ 146,703

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Asset retirement cost	5,124	(661)	4,463
Land	25,824		25,824
Land improvements	29,366	(4,743)	24,623
Buildings	33,221	(4,892)	28,329
Machinery and equipment	235,294	(59,201)	176,093
Furniture and fixtures	945	(171)	774
	493,312	(86,503)	406,809
Construction-in-progress	22,802		22,802
	\$ 516,114	\$ (86,503)	\$ 429,611

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

At December 31, 2012 property, plant and mine development consisted of the following:

	As of December 31, 2012		
	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Mining property and mine development	\$ 163,538	\$ (15,778)	\$ 147,760
Asset retirement cost	5,124	(597)	4,527
Land	24,795		24,795
Land improvements	27,604	(4,034)	23,570
Buildings	31,558	(4,354)	27,204
Machinery and equipment	221,139	(53,599)	167,540
Furniture and fixtures	915	(142)	773
	474,673	(78,504)	396,169
Construction-in-progress	18,049		18,049
	\$ 492,722	\$ (78,504)	\$ 414,218

Depreciation, depletion and amortization expense, excluding accretion expense related to the asset retirement obligation, recognized during the three months ended March 31, 2013 and 2012 was \$8.2 million and \$5.8 million, respectively.

The amount of interest costs capitalized in property, plant and equipment was \$128 and \$65 for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, we hold \$744 assets under a capital lease obligation.

**NOTE H ACCRUED LIABILITIES**

At March 31, 2013 and December 31, 2012, accrued liabilities consisted of the following:

	March 31, 2013	December 31, 2012
Accrued salaries and wages	\$ 1,926	\$ 2,939
Accrued vacation liability	2,355	2,397
Current portion of liability for pension and post-retirement benefits	1,627	1,413
Accrued healthcare liability	1,316	1,278
Other accrued liabilities	2,856	1,454
Total accrued liabilities	\$ 10,080	\$ 9,481

We are self-insured for health care claims for eligible participating employees and qualified dependent medical claims, subject to deductibles and limitations. Our liabilities for claims incurred but not reported (IBNR) are determined based on an estimate of the ultimate aggregate liability for claims incurred. The estimate is calculated from actual historical claim rates and reviewed and adjusted periodically, as necessary.

Other accrued liabilities consist of taxes payable, accrued shipping costs, royalties payable, and other immaterial items.



**Table of Contents****U.S. SILICA HOLDINGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited; dollars in thousands, except share and per share amounts)****NOTE I DEBT**

At March 31, 2013 and December 31, 2012, debt consisted of the following:

	March 31, 2013	December 31, 2012
Revolving line-of-credit: (expires October 31, 2016) (5.0% at March 31, 2013 and December 31, 2012)	\$ 10,551	\$
Senior secured credit facility:		
Term loan facility (final maturity June 8, 2017) (4.75% at March 31, 2013 and December 31, 2012), net of unamortized original issue discount of \$633 and \$675, respectively	254,817	255,425
Total debt	265,368	255,425
Less: current portion	(12,985)	(2,433)
Total long-term portion of debt	\$ 252,383	\$ 252,992

***Revolving Line-of-Credit***

As of March 31, 2013, the available borrowing base under our asset-based revolving line-of-credit (the Revolver) was \$50.0 million, with \$10.6 million drawn as of that date and \$10.4 million allocated for letters of credit leaving \$29.0 million available for general corporate use under this revolving credit agreement. Since the agreement contains a lock-box arrangement whereby receipts from customers are automatically used to repay any borrowings, amounts outstanding under the agreement are classified as a current liability.

***Debt Maturities***

As of March 31, 2013, contractual maturities of our debt are as follows:

2013	\$ 12,376
2014	2,435
2015	2,436
2016	124,648
2017	123,473
Thereafter	
	\$ 265,368

On December 31, 2012, we amended our Revolver. The primary revisions to the Revolver included an increase of the commitment under the Revolver from \$35 million to \$50 million, and the letter of credit sublimit from \$15 million to \$20 million; provided, however, that the aggregate principal amount of the loans and letters of credit obligations outstanding at any one time shall not exceed the borrowing base as calculated pursuant to the agreement. The amendment also extended the termination date of the Revolver from October 31, 2015 to October 31,

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2016, reduced prices and fees on borrowings, letters of credit and unused commitments and added an additional subsidiary, Coated Sand Solutions, LLC, as a co-borrower.

On January 31, 2012, we amended our senior secured term loan facility (the Term Loan ). The primary revisions to the Term Loan were to eliminate a requirement to provide monthly financial reports, to remove financial covenant restrictions related to capital expenditures, to provide flexibility to make investments and acquisitions and to incur indebtedness, and to provide a new subsidiary guarantee from Coated Sand Solutions, LLC.

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 March 31, 2013, 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.

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As of March 31, 2013 and December 31, 2012, we had recorded a liability of \$6.8 million and \$6.7 million in other long-term obligations related to our asset retirement obligation. Changes in the asset retirement obligation during the three month period ended March 31, 2013 and the year ended December 31, 2012 are as follows:

	<b>March 31, 2013</b>	<b>December 31, 2012 <sup>(1)</sup></b>
Beginning balance	\$ 6,659	\$ 9,504
Liabilities settled/payments		
Accretion expense	114	658
Additions, revisions of prior estimates and other		(3,503)
Ending balance	\$ 6,773	\$ 6,659

<sup>(1)</sup> Represents change in the asset retirement obligation during the 12-month period ended December 31, 2012.

**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 March 31, 2013 and December 31, 2012 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.

*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 March 31, 2013, 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.

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In accordance with the fair value hierarchy, the following table presents the fair value as of March 31, 2013, of those derivative assets that we must measure at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
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.

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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 three months ended March 31, 2013 and December 31, 2012, we had no ineffectiveness for such contracts.

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 March 31, 2013 and December 31, 2012.

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

<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.

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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 months ended March 31, 2013 and 2012.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred losses from derivatives in OCI, beginning of period	\$ (183)	\$ (409)
Gain (loss) recognized in OCI from derivative instruments		(7)
Gain (loss) reclassified from Accumulated OCI into income	81	
Deferred losses from derivatives in OCI, end of period	\$ (102)	\$ (416)

**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 March 31, 2013, 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 GGC USS Holdings, LLC to three members of executive management; one of whom continues to be employed by us at March 31, 2013. 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 \$27 and \$55 of compensation expense during the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, there was \$173 of total unrecognized compensation expense related to equity incentive shares, which is expected to be recognized over a weighted-average period of approximately 1.59 years.

For awards granted under the 2011 Plan, we recognized \$651 and \$599 of compensation expense during the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, there was \$6.8 million of total unrecognized compensation expense related to equity incentive awards, which is expected to be recognized over a weighted-average period of approximately 2.97 years.

**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 March 31, 2013 are as follows:

2013	10,969
2014	8,357
2015	7,617
2016	5,980
2017	4,138

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Thereafter	5,696
<b>Total future lease commitments</b>	<b>\$ 42,757</b>

Expense related to operating leases and rental agreements was \$3.3 million and \$2.6 million for the three months ended March 31, 2013 and 2012, respectively.

We also have an obligation under capital lease of \$489 as of March 31, 2013. It is expected that this obligation will be paid in full by December 31, 2013.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE O COMMITMENTS AND CONTINGENCIES**

Our operating subsidiary, U.S. Silica Company ( U.S. Silica ), has been named as a defendant in various product liability claims alleging silica exposure causing silicosis. During the three months ended March 31, 2013, no new claims were brought against U.S. Silica. As of March 31, 2013, there were 93 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.

For periods prior to 1986, U.S. Silica had numerous insurance policies and an indemnity from a former owner that covered silicosis claims. In the fourth quarter of 2012, U.S. Silica settled all rights under the indemnity and its underlying insurance policies receiving \$5.1 million from the parties involved. As a result of the settlement, the indemnity and related policies are no longer available to U.S. Silica and U.S. Silica will not seek reimbursement for any defense costs or claim payments. Other insurance policies, however, continue to remain available to U.S. Silica.

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 consolidated balance sheets. As of March 31, 2013 and December 31, 2012, other noncurrent assets included \$247 for insurance for third-party products liability claims and other long-term obligations included \$1.2 million and \$1.3 million, respectively, in third-party products claim 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 March 31, 2013 and December 31, 2012. 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.



**Table of Contents****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**

We maintain a noncontributory defined benefit pension plan covering certain employees. Net periodic pension benefit cost recognized for the three months ended March 31, 2013 and 2012 are as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Service cost	\$ 320	\$ 275
Interest cost	1,049	1,160
Expected return on plan assets	(1,265)	(1,301)
Amortization of prior service cost	21	2
Amortization of net (gain) loss	455	353
Net periodic benefit cost	\$ 580	\$ 489

In addition, we provide defined benefit post-retirement healthcare and life insurance benefits to some employees. Net periodic post-retirement benefit cost recognized for the three months ended March 31, 2013 and 2012 are as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Service cost	\$ 58	\$ 58
Interest cost	253	296
Expected return on plan assets	(1)	(1)
Amortization of net (gain) loss	74	95
Net periodic benefit cost	\$ 384	\$ 448

We contributed \$0 and \$2.2 million to the qualified pension plan during the three months ended March 31, 2013 and 2012, respectively. Total expected employer funding contributions during the fiscal year ending December 31, 2013 are \$2.3 million for the pension plan, and \$1.3 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 March 31, 2013, Travelers had \$4.7 million in bonds outstanding for us. The majority of these bonds (\$4.6 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.

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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 March 31, 2013, 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 199 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 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.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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 was recognized during the year ended December 31, 2012 or as of the three months ended March 31, 2013.

*Promissory Note*

On December 22, 2010, GGC RCS Holdings, Inc., entered into a \$15.0 million promissory note with GGC USS Holdings, LLC, our 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 250 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.

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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 months ended March 31, 2013 and 2012:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Sales:</b>		
Oil and Gas Proppants	\$ 73,582	\$ 53,810
Industrial and Specialty Products	48,729	48,781
Total sales	122,311	102,591
<b>Segment contribution margin:</b>		
Oil and Gas Proppants	36,162	35,065
Industrial and Specialty Products	13,246	12,357
Total segment contribution margin	49,408	47,422
Operating activities excluded from segment cost of goods sold	(1,509)	(1,752)
Selling, general and administrative	(12,404)	(9,904)
Depreciation, depletion and amortization	(8,278)	(5,978)
Interest expense	(3,576)	(3,797)
Other income, net, including interest income	122	154
Income before income taxes	\$ 23,763	\$ 26,145

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 March 31, 2013 and December 31, 2012, goodwill of \$68.4 million has been allocated to these segments with \$47.7 million assigned to Oil & Gas Proppants and \$20.7 million to Industrial and Specialty Products.

**NOTE U SUBSEQUENT EVENTS**

On April 29, 2013, the Company's board of directors declared a quarterly cash dividend of \$0.125 per share to common shareholders of record at the close of business on June 19, 2013, payable on July 3, 2013.

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### **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 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 27 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, 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;

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;

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;

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);

silica-related health issues and corresponding litigation;

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 2012 Annual Report.



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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 2012 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 113-year history, we have developed core competencies in mining, processing, logistics and materials science that enable us to produce and cost-effectively deliver over 250 products to customers across these markets. In our largest end market, Oil & 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 is experiencing 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 high-performance glass, specialty coatings, polymer additives and geothermal energy systems.

We operate 15 facilities across the United States and control 306 million tons of reserves. We own one of the largest frac sand processing plants in the United States and control approximately 143 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**

U. S. demand for industrial silica has been growing steadily. According to The Freedonia Group, Inc. ( Freedonia ), demand for industrial silica sand grew at a 4% compound annual growth rate ( CAGR ) from 2001 to 2011. This increase in demand was driven primarily by hydraulic fracturing, which grew at a 27% CAGR from 2001 to 2011, according to a Freedonia report dated October 2012. More recently, the recovery of the U.S. housing and automotive markets has also positively affected silica related to those markets such as glass, building materials, foundry and fillers and extenders. Trends driving the acceleration in demand include:

*Increased demand in the oil and gas proppants end market.* The increased demand for frac sand has been driven by the growth in the use of hydraulic fracturing as a means to extract hydrocarbons from shale formations. According to a Freedonia report dated October 2012, domestic proppant producers are expected to experience annual increases in demand of 8.0% through 2016. We significantly expanded our sales efforts to the frac sand market in 2008 and have since experienced rapid growth in our sales associated with our oil and gas activities.

*Rebound 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 commercial silica. In addition, to

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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 high performance glass and geothermal energy systems as well as the increased use of commercial silica in new applications such as specialty coatings and polymer additives.

*Rapid increases in prices of commercial silica.* Rapid increases in demand and constrained supply have led to rapid increases in price in the last several years. We expect continued growth of horizontal drilling, increased innovation in specialty markets and supply tightness to exert continued upward pressure on prices in both of our operating segments.

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### **Our Strategy**

The key drivers of our growth strategy include:

*Expand our oil and gas proppant production capacity and product portfolio.* Beginning in 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 an entirely new processing circuit. In the first quarter of 2013, our new resin-coated sand facility became fully operational. We expect this facility will resin coat up to 400 million pounds of sand annually and will significantly expand our addressable oil and gas proppant market. During the second half of 2012, we expanded our production capacity with the development of a Greenfield site and construction of a production facility near Sparta, Wisconsin and expect the facility to be fully operational in the second half of 2013. We expect this new facility will increase our annual production by 1,700,000 tons when fully operational.

*Increase our presence in industrial and specialty products end markets.* We intend to increase our presence and market share in certain industrial and specialty products end markets that we believe are poised for growth. We will continue to work toward transforming our industrial and specialty product segment from a commodity business to a more value-driven approach by developing capabilities and products that assist in enabling us to increase our presence in larger, more profitable markets.

*Optimize product mix and further develop value-added capabilities to maximize margins.* We continue to actively manage our product mix at each of our plants to ensure we maximize 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. In 2012, while our tons sold increased by 14%, we believe this expertise helped enable us to increase our operating income by 96%. 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, upgrading our information technology, and creating a world class customer service model.

*Expand our supply chain network and leverage our logistics capabilities to meet our customers' needs in each strategic oil and gas basin.* We continue to expand our transload network to ensure product is available to meet the growing in-basin needs of our customers. This approach allows us to provide strong customer service and puts us in a position to take advantage of opportunistic spot market sales. Our plant sites are strategically located to provide access to all Class I railroads, which enables us to cost effectively send product to each of the strategic basins in North America. We can ship product by truck, barge and rail with an ability to connect to short-line railroads as necessary to meet our customers' evolving in-basin product needs. For example, in 2013, we anticipate opening our San Antonio, Texas unit-train receiving transload facility, which was built in partnership with BNSF railroad to support the Eagle Ford basin market. We believe that our supply chain network and logistics capabilities are a competitive advantage that enables us to provide superior service for our customers. We will continue to make strategic investments and develop partnerships with transload operators and transportation providers that will enhance our portfolio of supply chain services that we can provide to customers.

*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. Additionally, we may pursue 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.

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*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. On December 31, 2012, we amended our Revolver to, among other items, increase the availability under the agreement by \$15.0 million and extend the termination date of the agreement to October 31, 2016. As of March 31, 2013, we had \$42.9 million of cash on hand and \$29.0 million of available borrowings under our credit facilities.

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### **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 contracts. As of April 30, 2013, we have eight take-or-pay supply agreements with eight of our customers in the Oil & Gas Proppants segment with initial terms expiring between 2013 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. As discussed in Part I, Item 1A of our 2012 Annual Report Risk Factors A large portion of our sales is generated by our top customers, and the loss of, or significant reduction in, purchases by our largest customers could adversely affect our operations, these customers may not continue to purchase the same levels of product in the future due to a variety of reasons, contract requirements notwithstanding. 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 (\$2.9 million of these payments was recorded on the balance sheet as deferred revenue as of March 31, 2013). 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 30% and 28% of our total sales revenues during the three months ended March 31, 2013 and 2012, 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.

Operating labor costs represented our largest spend category at approximately 12% and 13% of our sales during the three months ended March 31, 2013 and 2012, respectively. We employ a mix of union and non-union labor, with 50% of our workforce being unionized as of March 31, 2013. 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 5% of our total sales during each of the three months ended March 31, 2013 and 2012.

We capitalize the costs of our mining equipment and generally depreciate it over its expected useful life. Depreciation, depletion and amortization costs represented approximately 7% and 6% of our sales during the three months ended March 31, 2013 and 2012, 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 4% and 6% of our sales during the three months ended March 31, 2013 and 2012, respectively.

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

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principally driven by personnel expenses. In total, our selling, general and administrative costs represented approximately 10% of sales during each of the three months ended March 31, 2013 and 2012. As a public company, we will continue to incur additional legal, accounting, insurance and other expenses that we had not incurred 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. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make certain financial reporting and other activities more time consuming and costly.

Our effective income tax rate was approximately 27% of pretax earnings in each of the three months ended March 31, 2013 and 2012. 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.

*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 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 the 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 March 31, 2013 and 2012**

	For the Three Months Ended March 31,		Percent
	2013	2012	Change
			13 vs. 12
Sales			
Oil & Gas Proppants	\$ 73,582	\$ 53,810	36.7%
Industrial & Specialty Products	48,729	48,781	<0.1%
Total Sales	\$ 122,311	\$ 102,591	19.2%

*Sales*

Sales increased \$19.7 million, or 19%, to \$122.3 million for the three months ended March 31, 2013 compared to \$102.6 million for the three months ended March 31, 2012. Oil & Gas Proppants sales increased by \$19.8 million, accounting for 100% of the total sales growth.

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Industrial & Specialty Products sales decreased \$0.1 million as compared to the same period in 2012.

Oil & Gas Proppants sales increased \$19.8 million, or 37%, to \$73.6 million for the three months ended March 31, 2013 compared to \$53.8 million for the three months ended March 31, 2012. The growth in sales revenue was driven by a

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combination of increases in volume and transportation revenue and expense. Oil & Gas Proppants volume increased 241.6 thousand tons, or 36%, to 920.6 thousand tons during the three months ended March 31, 2013, 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 decreased \$0.1 million, or less than 1%, to \$48.7 million for the three months ended March 31, 2013 compared to \$48.8 million for the three months ended March 31, 2012. Period over period sales volume remained fairly consistent, declining only marginally by 99.0 thousand tons, or 9.3%, as we continue to optimize our product mix to maximize margins and profitability.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased \$2.5 million, or 25%, to \$12.4 million for the three months ended March 31, 2013 compared to \$9.9 million for the three months ended March 31, 2012 driven by approximately \$1.9 million of non-recurring expenses related to a secondary offering of our common stock by Golden Gate Capital in March 2013 and business development activities related to our growth initiatives. Also, 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 expenses, which increased nearly \$1.0 million period over period.

### *Depreciation, Depletion and Amortization*

Depreciation, depletion and amortization expense was \$8.3 million and \$6.0 million for the three months ended March 31, 2013, and 2012, respectively. Year over year increases have been driven by continued increases in capital spending associated with our growth and capacity expansion initiatives 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 anticipated growth in capital spending in 2013.

### *Operating Income*

Operating income decreased \$2.6 million, or 9%, to \$27.2 million for the three months ended March 31, 2013 compared to \$29.8 million for the three months ended March 31, 2012 guided by a 19% increase in sales and offset by a 12% decrease in gross margin as well as increases in selling, general and administrative expense of 25% and depreciation, depletion and amortization expense of 38%.

### *Interest Expense*

Interest expense decreased \$0.2 million, or 6%, to \$3.6 million for the three months ended March 31, 2013 compared to \$3.8 million for the three months ended March 31, 2012. These savings during the three months ended March 31, 2013 were primarily due to principal reductions.

### *Provision for Income Taxes*

The provision for income taxes decreased \$0.5 million, or 8%, to \$6.5 million for the three months ended March 31, 2013, compared to \$7.0 million for the three months ended March 31, 2012 driven by a decrease in pre-tax income of 9%. The effective tax rates were 27% for each of the three months ended March 31, 2013 and 2012.

### *Net Income/Loss*

Net income was \$17.3 million and \$19.1 million for the three months ended March 31, 2013, and 2012, respectively. The year over year decrease is 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 return cash to our stockholders, 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 March 31, 2013, our working capital was \$101.3 million and we had \$29.0 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, scheduled debt payments for at least the next 12 months and any dividends declared such as the one declared by the Company's Board of Directors on April 29, 2013 of \$0.125 per share to common shareholders of record at the close of business on June 19, 2013, payable on July 3, 2013.

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Management and our Board of Directors remain committed to evaluating additional ways of creating shareholder value. 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 agreements, and other factors. Additionally, because we are a holding company, our ability to pay dividends on our common stock may be 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.

**Cash Flow Analysis**

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

	For the Three Months Ended March 31,		Percent Change 13 vs. 12
	2013	2012	
<b>Net cash provided by (used in):</b>			
Operating activities	\$ (4,912)	\$ 1,549	>(100)%
Investing activities	(22,707)	(13,761)	65.0%
Financing activities	9,516	37,654	(74.7)%

*Net Cash Provided by (Used in) 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 used in operating activities was \$4.9 million for the three months ended March 31, 2013 compared to net cash provided by operating activities of \$1.5 million for the three months ended March 31, 2012. This \$6.4 million increase in cash used in operations was primarily the result of a \$2.6 million decrease in operating income and the net build in working capital year over year of \$4.1 million.

*Net Cash Used in Investing Activities*

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

Net cash used in investing activities was \$22.7 million in the three months ended March 31, 2013. This use of cash is due to capital expenditures which totaled \$22.7 million for the three months ended March 31, 2013. Capital expenditures in 2013 have been primarily for the continuing engineering, procurement and construction of our Greenfield raw sand plant in Sparta, Wisconsin. Additionally, we invested \$3.3 million for the construction of our transloads in San Antonio, TX, Fairmont, WV and East Liverpool, OH during the three months ended March 31, 2013.

Net cash used in investing activities was \$13.8 million for the three months ended March 31, 2012. This use of cash is primarily due to capital expenditures which totaled \$15.0 million for the three months ended March 31, 2012 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.

Management anticipates that our capital expenditures for 2013 will be approximately \$50-60 million, which is primarily associated with growth and maintenance capital. We anticipate that this amount will be sufficient to complete these capacity expansions.

*Net Cash Provided by Financing Activities*

Financing activities consist primarily of equity issuances, capital contributions, borrowings and repayments related to the Revolver and Term Loan, 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 \$9.5 million in the three months ended March 31, 2013. During the period, we had an increase in borrowings under our revolving credit facility of \$10.6 million, which was offset by a \$0.7 million repayment of our long-term debt and \$0.3 million in principal payments on our capital lease obligation.

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Net cash provided by financing activities during the three months ended March 31, 2012 was \$37.7 million. 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.

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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 aggregate proceeds of approximately \$50.0 million (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 Holdings, our 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 Holdings, which, together with accrued interest of \$1.7 million, was converted to an equity contribution by GGC Holdings, simultaneously to the IPO.

**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.

The following table presents the total number of shares of our common stock that we purchased during the first quarter of fiscal 2013, the average price paid per share, the number of shares that we purchased as part of our publicly announced repurchase program, and the approximate dollar value of shares that still could have been purchased at the end of the applicable fiscal period pursuant to our June 2012 repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as of the End of the Period	
			Part of Publicly Announced Program(1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program(1)
January 2013		\$		
February 2013		\$		
March 2013		\$		
Total as of March 31, 2013		\$		\$ 23,928,275

(1) 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 March 31, 2013, we repurchased no additional shares of our common stock. As of April 30, 2013, 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.

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

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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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On December 31, 2012, we again amended our Revolver. The primary revisions to the Revolver included an increase of the commitment under the Agreement from \$35 million to \$50 million, and the letter of credit sublimit from \$15 million to \$20 million; provided, however, that the aggregate principal amount of the loans and letters of credit obligations outstanding at any one time shall not exceed the borrowing base as calculated pursuant to the Agreement. The amendment also extended the termination date of the Revolver from October 31, 2015 to October 31, 2016, reduced prices and fees on borrowings, letters of credit and unused commitments and added an additional subsidiary, Coated Sand Solutions, as a co-borrower.

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 \$10.6 million of borrowings outstanding as of March 31, 2013 and \$10.4 million of outstanding letters of credit, which left \$29.0 million available 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.

*Term Loan*

On November 25, 2008, in connection with our acquisition by an affiliate of Golden Gate Capital, 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 facility to \$50.0 million (or \$100.0 million if the total leverage ratio on a pro forma basis would not exceed 3x).

On January 31, 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 II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our 2012 Annual Report, other than in connection with three new rail car lease agreements for the lease of 449 rail cars. As of March 31, 2013, only 65 of these cars were received and added to the fleet which will be leased at \$28 thousand per month over the next three to six years. The remaining rail cars will be received as they come available over the next six months.

As of March 31, 2013, debt had increased by \$10.0 million to \$265.4 million compared to \$255.4 million at December 31, 2012, due to scheduled principal repayments of \$0.7 million, offset by borrowing on the Revolver of \$10.6 million. As of March 31, 2013, future debt payments, plus interest, totaled \$301.6 million and are due as follows: \$11.0 million in 2013; \$14.6 million in 2014; \$14.5 million in 2015; \$135.8 million in 2016; \$125.7 million in 2017; and \$0 million thereafter.

As described in Note N, future minimum lease payments totaled \$42.8 million and are due as follows: \$11.0 million in 2013; \$8.4 million in 2014; \$7.6 million in 2015; \$6.0 million in 2016; \$4.1 million in 2017; and \$5.7 million thereafter.



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### **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 March 31, 2013, we had \$6.8 million accrued for future reclamation costs, as compared to \$6.7 million as of December 31, 2012.

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 Part I, Item 1A, Risk Factors and Part I, Item 3, Legal Proceedings in our 2012 Annual Report.

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

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

Oil & Gas Proppants contribution margin increased \$1.1 million, or 3%, to \$36.2 million for the three months ended March 31, 2013 compared to \$35.1 million for the three months ended March 31, 2012 due to the factors noted above.

Industrial & Specialty Products contribution margin increased \$0.9 million, or 7%, to \$13.2 million for the three months ended March 31, 2013 compared to \$12.4 million for the three months ended March 31, 2012 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.



**Table of Contents****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.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	\$ 17,277	\$ 19,113
Total interest expense, net of interest income	3,552	3,763
Provision for taxes	6,486	7,032
Total depreciation, depletion and amortization expenses	8,278	5,978
<b>EBITDA</b>	<b>35,593</b>	<b>35,886</b>
Non-recurring expense (income) <sup>(1)</sup>		(439)
Transaction expenses <sup>(2)</sup>		156
Non-cash incentive compensation <sup>(3)</sup>	678	654
Post-employment expenses (excluding service costs) <sup>(4)</sup>	586	605
Other adjustments allowable under our existing credit agreements <sup>(5)</sup>	1,930	125
<b>Adjusted EBITDA</b>	<b>\$ 38,787</b>	<b>\$ 36,987</b>

- (1) Includes the gain on sale of assets for the three months ended March 31, 2013, and 2012, respectively.
- (2) Includes fees and expenses related to the January 27, 2012 amendment of our Term Loan and Revolver.
- (3) Includes vesting of incentive equity compensation issued to our employees.
- (4) 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 Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.
- (5) Reflects miscellaneous adjustments permitted under our existing credit agreements, including such items as expenses related to a secondary stock offering by Golden Gate Capital and 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 2012 Annual Report.

**Recent Accounting Pronouncements**

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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.

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**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 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 Conduct and 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).

**Table of Contents****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 March 31, 2013, 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 March 31, 2013 and December 31, 2012.

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

<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 March 31, 2013.

Assuming that LIBOR is greater than the 1.0% minimum base rate on the Term Loan, a hypothetical increase or decrease in interest rates by 1.0% would have changed our interest expense by \$0.2 for the three months ended March 31, 2013 and \$0.3 for the three months ended March 31, 2012.

**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**

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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.

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**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 March 31, 2013. 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 March 31, 2013, 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 March 31, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**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 ten, three and two new silicosis cases filed in 2010, 2011 and 2012, respectively. During the first three months of 2013, no additional claims were brought against us. As of April 30, 2013, there are a total of approximately 92 active silica-related products liability claims pending in which we were a defendant and approximately 3,147 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. Prior to the fourth quarter of 2012, we had insurance policies for both our predecessors that cover certain claims for alleged silica exposure for periods prior to certain dates in 1985 and 1986 (with respect to certain insurance). As a result of a settlement with a former owner and its insurers in the fourth quarter of 2012, some of these policies are no longer available to us and we will not seek reimbursement for any defense costs or claim payments from these policies. Other insurance policies, however, continue to remain available to us and will continue to make such payments on our behalf.

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 do not have insurance coverage. Any such pending or future claims or inadequacies of our insurance coverage 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 our 2012 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 March 31, 2013, there have been no material changes to the risk factors disclosed in Item 1A of Part I in our 2012 Annual Report.

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**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.



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**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 30th day of April, 2013.

U.S. Silica Holdings, Inc.

/s/ DONALD A. MERRIL

Name: Donald A. Merril

Title: Chief Financial Officer

(Principal Financial Officer)

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**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
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 Donald A. Merrill, Chief Financial Officer.				
32.1*	Section 1350 Certification by Bryan A. Shinn, Chief Executive Officer.				
32.2*	Section 1350 Certification by Donald A. Merrill, 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

+ Management contract or compensatory plan/arrangement

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.