AG Mortgage Investment Trust, Inc.
Form S-11/A
January 18, 2012
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As filed with the Securities and Exchange Commission on January 18, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-11

Registration Statement

under

the Securities Act of 1933

of certain real estate companies

AG MORTGAGE INVESTMENT TRUST, INC.

New York, New York 10167

(212) 692-2000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Allan Krinsman, Esq.

General Counsel

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(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, or Securities Act, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

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 Securities Exchange Act of 1934, as amended, or the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion

Preliminary prospectus dated January 18, 2012

PROSPECTUS

4,000,000 Shares

AG Mortgage Investment Trust, Inc.

Common stock

AG Mortgage Investment Trust, Inc. is a Maryland real estate investment trust focused on investing in, acquiring and managing a diversified portfolio of residential mortgage assets, other real estate-related securities and financial assets, which we refer to as our target assets. We are externally managed by AG REIT Management, LLC, or our Manager, a subsidiary of Angelo, Gordon & Co., L.P., or Angelo, Gordon, a privately-held, SEC-registered investment adviser with approximately $22 billion under management as of September 30, 2011.

We are offering 4,000,000 shares of our common stock as described in this prospectus. Our common stock is traded on the New York Stock Exchange under the symbol MITT. The last reported sale price of our common stock on the NYSE was $19.60 on January 17, 2012.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with our taxable year ending December 31, 2011. To assist us in qualifying as a REIT, among other reasons, ownership of our outstanding common stock by any person is limited to 9.8%, subject to certain exceptions. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See Description of Common Stock Restrictions on Ownership and Transfer.

Investing in our common stock involves risks. See Risk Factors beginning on page 20 of this prospectus for a discussion of risks.

	Per share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, to us, before expenses	$	$

The underwriters may also purchase up to an additional 600,000 shares of common stock from us at the public offering price within 30 days after the date of this prospectus to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2012.

Joint Book-Running Managers

Deutsche Bank Securities	**BofA Merrill Lynch**	**Stifel Nicolaus Weisel**

The date of this prospectus is , 2012.

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You should rely only on the information contained in this prospectus, any free writing prospectus prepared by us or information to which we have referred you. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

TRADEMARKS AND TRADENAMES

All references in this prospectus to trademarks lacking the symbol are defined terms that reference the products, technologies or businesses bearing the trademark with this symbol. Angelo, Gordon & Co., L.P. licenses the Angelo, Gordon & Co., L.P. name and logo to us and our Manager in perpetuity for use in our business.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. References to Company, we, us and our refer to AG Mortgage Investment Trust, Inc., a Maryland real estate investment trust; references to Manager refer to AG REIT Management, LLC, our external manager; and references to Angelo, Gordon refer to Angelo, Gordon & Co., L.P., the parent of our Manager. References to common stock refer to our common stock, $0.01 par value per share. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters over-allotment option to purchase additional common stock is not exercised.

Our company

We are a Maryland real estate investment trust focused on investing in, acquiring and managing a diversified portfolio of residential mortgage assets, other real estate-related securities and financial assets, which we refer to as our target assets.

We are currently invested substantially in RMBS for which a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or a federally-chartered corporation such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac, guarantees payments of principal and interest on the securities. We refer to these securities as Agency RMBS. Our Agency RMBS investments include mortgage pass-through securities and may include collateralized mortgage obligations, or CMOs. We expect our portfolio, over time, will include a more significant portion of residential mortgage-backed securities, or RMBS, that are not issued or guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or non-Agency RMBS. Our non-Agency RMBS investments may include fixed- and floating-rate securities, including investment grade and non-investment grade. We also have the discretion to invest in other target assets, including commercial mortgage-backed securities, or CMBS, residential and commercial mortgage loans and asset-backed securities, or ABS.

We were incorporated in Maryland on March 1, 2011, and commenced operations in July 2011. On July 6, 2011, we successfully completed our initial public offering, or IPO, pursuant to which we sold 5,500,000 shares of our common stock to the public at a price of $20.00 per share for gross proceeds of $110.0 million. Concurrently with the consummation of our IPO, we completed a private placement in which we sold 3,205,000 units, with each unit consisting of one share of our common stock and one warrant to purchase 0.5 of a share of our common stock, at a price of $20.00 per unit. Each warrant has an exercise price of $20.50 per share. In addition, we sold 500,000 private placement shares of our common stock to AG Funds, an affiliate of Angelo, Gordon, and two of our officers, at a price of $20.00 per share. We refer to the concurrent July 6, 2011 private placement in this prospectus as the private placement. The gross proceeds to us from the private placement were $74.1 million. On July 20, 2011, the underwriters in our IPO exercised their over-allotment option to purchase an additional 800,000 shares of our common stock at a price of $20.00 per share for gross proceeds of $16.0 million. Collectively, we received net proceeds from our IPO, the private placement and the exercise of the underwriters over-allotment option of approximately $198.1 million after subtracting expenses incurred in connection with formation of $2.0 million.

The net proceeds from our IPO and private offering, as well as monies that we have borrowed under repurchase agreements have been deployed to purchase a $1.3 billion investment portfolio as of September 30, 2011, which primarily consisted of $1.2 billion in Agency RMBS, $58.4 million in non-Agency RMBS, $12.7 million in CMBS and $5.0 million in ABS. We have also entered into $728.0 million notional amount of pay-fixed receive-LIBOR swaps.

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We are externally managed by AG REIT Management LLC, our Manager, a subsidiary of Angelo, Gordon, and we benefit from the personnel, relationships and experience of our Manager s executive team and other personnel of Angelo, Gordon. Angelo, Gordon, is a privately-held, SEC-registered investment adviser with approximately $22 billion under management as of September 30, 2011. We believe the Angelo, Gordon platform, with extensive experience in RMBS, combined with extensive experience in CMBS, ABS, commercial real estate, net lease real estate, distressed credit, leveraged loans and private equity, enables us to selectively acquire assets to construct a diversified investment portfolio of target assets designed to produce attractive risk-adjusted returns through a combination of dividends and capital appreciation across a variety of market conditions and economic cycles.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with our current taxable year ending December 31, 2011. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended.

Our Manager

We are externally managed and advised by AG REIT Management, LLC, a subsidiary of Angelo, Gordon. Angelo, Gordon was founded in 1988 by John Angelo and Michael Gordon and is a privately-held firm with over 250 employees, including more than 90 investment professionals. Angelo, Gordon specializes in alternative investment activities for over 1,000 institutional and high net worth clients. Angelo, Gordon is an SEC-registered investment adviser with approximately $22 billion under management as of September 30, 2011. Angelo, Gordon s platform is composed of a broad range of alternative investment strategies, including RMBS, CMBS, ABS, commercial real estate, net lease real estate, distressed credit, leveraged loans and private equity. Angelo, Gordon is an established leader in the alternative investment field and its overall investment philosophy is credit and value-centric in that its investment process is based on a highly analytical framework and, with respect to RMBS, takes into account factors such as loan-level cash flows, historical and current borrower performance and collateral valuation. Angelo, Gordon s investment team is composed of complementary professionals with broad-based experience including buy-side and sell-side investment firms, rating agencies, accounting, derivatives, banking, public company, private equity and trading firms.

Pursuant to the terms of our management agreement with AG REIT Management LLC, our Manager provides us with our management team, including our officers, along with appropriate support personnel. Each of our officers is an employee of our Manager. We do not have any employees. Our Manager is at all times subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it.

Our strategies

Our investment strategy

We invest in a diversified pool of mortgage assets that generate attractive risk-adjusted returns to our investors over the long-term through a combination of dividends and capital appreciation. Our target assets include Agency RMBS, non-Agency RMBS, CMBS and other real estate-related assets. Since our IPO, the risk-reward profile of investment opportunities supported the deployment of a majority of our capital in Agency RMBS. Current labor, housing and economic fundamentals, together with U.S. monetary policy designed to keep interest rates low, have been supportive of our Agency RMBS investments. Overweighting of these investments was also favored by the relative ease of funding and superior liquidity. We also acquired a limited amount of Non-Agency RMBS, CMBS and ABS assets for our investment portfolio. We expect to gradually and opportunistically allocate more capital among Non-Agency RMBS, CMBS and ABS assets when we are presented with compelling investment returns.

As of September 30, 2011, 94.1% of our equity was invested in Agency RMBS, 4.5% in non-Agency RMBS, 1.0% in CMBS and 0.4% in other assets.

Our financing and hedging strategy

We expect to generate income principally from the yields earned on our investments and, to the extent that leverage is deployed, on the difference between the yields earned on our investments and our cost of borrowing and any hedging activities. Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our Investment Company Act exemption, to the extent leverage is deployed, we may use a number of sources to finance our investments.

We use leverage to increase potential returns to our stockholders and to fund the acquisition of our assets. Generally, we intend to use, on a debt-to-equity basis, up to 6 to 9 times leverage on our Agency RMBS assets. With respect to our non-Agency RMBS and CMBS assets, we intend to use 2 to 3 times leverage, except in conjunction with securitizations which provide term financings that may be available to us depending upon market conditions. For these asset classes based upon the equity allocation as of September 30, 2011 and on an aggregate debt-to-equity basis, we do not generally expect to exceed, on a debt-to-equity basis, an 8-to-1 leverage ratio. As of September 30, 2011 our aggregate debt-to-equity leverage ratio was 5.7-to-1, which reflects our current mix of Agency RMBS, non-Agency RMBS, CMBS and other assets. A lower leverage ratio reflects our Manager s consideration of a possible European sovereign debt and banking crisis which may subsequently impact U.S. capital funding markets.

We finance our investments in real estate securities primarily through short-term borrowings structured as repurchase agreements.

As of September 30, 2011, we had entered into master repurchase agreements, or MRAs, with sixteen counterparties, under which we have borrowed an aggregate $1.1 billion from thirteen of these counterparties. As of September 30, 2011, the borrowings under repurchase agreements had maturities between October 4, 2011 and January 20, 2012.

Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we utilize derivative financial instruments (or hedging instruments), including interest rate swap agreements and interest rate cap agreements, in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we may seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives are to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the cost of our financing. As of September 30, 2011, we had entered into $728.0 million notional of pay-fixed receive-LIBOR swaps that have variable maturities between February 2012 and July 2016.

Risk management strategy

Our overall portfolio strategy is designed to generate attractive returns through various phases of the economic cycle. We believe that our broad approach within the real estate market, which considers all major categories of real estate assets, allows us to invest in a variety of attractive investment opportunities and help

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insulate our portfolio from some of the risks that arise in a single collateral type or single risk strategy. The components of our risk management strategy are more fully described in Business Risk Management.

Our investments

Our target asset classes

We have thus far invested the preponderance of the proceeds of our IPO in Agency RMBS. We expect our portfolio, over time, will include a more significant portion of non-Agency RMBS. We also have the discretion to invest in other target assets (as described below).

Our target asset classes and the principal investments in which we invest are as follows:

Asset classes	Principal investments
Agency RMBS	RMBS for which a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or a federally-chartered corporation such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac, guarantees payments of principal and interest on the securities.
Non-Agency RMBS	Fixed- and floating-rate residential non-Agency RMBS, including investment grade and non-investment grade classes. The mortgage loan collateral for residential non-Agency RMBS consists of residential mortgage loans that do not generally conform to underwriting guidelines issued by U.S. government agencies or U.S. government-sponsored entities.
Other real estate-related assets and financial assets	
	Fixed- and floating-rate CMBS, including investment grade and non-investment grade classes. CMBS will be secured by, or evidence ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.
	Residential mortgage loans secured by residential real property, including prime, Alt-A and subprime mortgage loans.
	First or second lien loans, subordinate interests in first mortgages, bridge loans to be used in the acquisition, construction or redevelopment of a property and mezzanine financing secured by interests in commercial real estate.
	Other real estate structured finance products, mortgage servicing rights, other real estate-related loans and securities and other financial assets.

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Asset classes	Principal investments
	Investment grade and non-investment grade debt and equity tranches of securitizations backed by various asset classes including, but not limited to, small balance commercial mortgages, aircraft, automobiles, credit cards, equipment, manufactured housing, franchises, recreational vehicles and student loans. Investments in ABS generally are not qualifying income for purposes of the 75% asset test applicable to REITs and generally do not generate qualifying income for purposes of the 75% income test applicable to REITs. As a result we may be limited in our ability to invest in such assets.

Our board of directors has adopted a set of investment guidelines that outline our target assets and other criteria which are used by our Manager to evaluate specific investment opportunities as well as our overall portfolio composition. Our Manager makes day-to-day determinations as to the timing and percentage of our assets that will be invested in each of the approved asset classes. Our decisions depend upon prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our assets that will be invested in any one of our approved asset classes at any given time. We may change our strategy and policies without a vote of our stockholders. We believe that the diversification of our portfolio of assets and the flexibility of our strategy combined with our Manager s and its affiliates experience will enable us to achieve attractive risk-adjusted returns under a variety of market conditions and economic cycles.

Our investment portfolio

The following table summarizes our investment portfolio as of September 30, 2011:

		Premium	Amortized	Gross Unrealized (1)			Weighted Average	
	Current Face	(Discount)	Cost	Gains	Losses	Fair Value	Coupon	Yield
Agency RMBS:								
15 Year Fixed Rate	$ 878,441,239	$ 27,200,550	$ 905,641,789	$ 13,553,579	$ (309,386)	$ 918,885,982	3.50%	2.76%
20 Year Fixed Rate	82,389,263	2,536,978	84,926,241	2,046,442		86,972,683	4.06%	3.40%
30 Year Fixed Rate	184,581,876	9,247,516	193,829,392	753,370		194,582,762	4.00%	3.25%
Interest Only	46,178,111	(36,137,763)	10,040,348		(3,209,024)	6,831,324	5.50%	6.65%
Non-Agency RMBS	81,815,722	(23,089,388)	58,726,334	597,354	(946,989)	58,376,699	4.20%	7.00%
CMBS	20,000,000	(4,467,852)	15,532,148		(2,790,888)	12,741,260	5.82%	11.28%
ABS	5,000,000	(593)	4,999,407		(2)	4,999,405	3.68%	3.69%
Total	$ 1,298,406,211	$ (24,710,552)	$ 1,273,695,659	$ 16,950,745	$ (7,256,289)	$ 1,283,390,115	3.76%	3.18%

(1) We have chosen to make a fair value election pursuant to ASC 825 for our securities portfolios. Unrealized gains and losses are recognized in current period earnings in the unrealized gain (loss) on real estate securities line item.

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Financing and hedging activities

The following table presents certain information regarding our repurchase agreements as of September 30, 2011:

	Agency RMBS		Non-Agency RMBS /CMBS /ABS	
Repurchase Agreements Maturing Within:	**Balance**	**Weighted Average Rate**	**Balance**	**Weighted Average Rate**
30 days or less	$ 806,763,885	0.26%	$ 2,134,000	1.72%
31-60 days	224,086,000	0.30%	15,696,000	1.47%
61-90 days			14,440,000	1.50%
Greater than 90 days	25,616,000	0.33%		
Total / Weighted Average	$ 1,056,465,885	0.27%	$ 32,270,000	1.50%

We entered into MRAs with sixteen counterparties, under which we have outstanding debt with thirteen of these counterparties at September 30, 2011. At September 30, 2011, we did not have greater than 10% of stockholders equity at risk with any individual counterparty.

The following table presents information about our currently-paying and forward-starting, one- and three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements, as of September 30, 2011:

Maturity	Notional Amount	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
2012	$ 100,000,000	0.354%	0.230%	0.39
2013	182,000,000*	0.535%	0.231%	2.06
2014	204,500,000*	1.000%	0.248%	2.83
2015	174,025,000	1.436%	0.243%	3.84
2016	67,500,000*	1.738%	0.233%	4.88
Total / Weighted Average	$ 728,025,000	0.968%	0.239%	2.74

* These figures include forward starting swaps with a total notional amount of $130.0 million and a weighted average start date of December 9, 2011. Weighted average rates shown are inclusive of rates corresponding to the terms of the swap as if the swap were effective as of September 30, 2011.

Investment policies

We comply with investment policies and procedures and investment guidelines that are approved by our board of directors and implemented by our Manager. We review our investment portfolio and our compliance with our investment policies, procedures and guidelines at each regularly scheduled meeting of our board of directors. Our independent directors do not review or approve individual investment, leverage or hedging decisions made by our Manager.

Our board of directors has adopted the following guidelines, among others, for our investments and borrowings:

- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause us to be regulated as an investment company under the Investment Company Act; and

our investments will be in our target assets.

These investment guidelines may be changed by our board of directors without the approval of our stockholders.

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Distribution policy

On September 19, 2011, we declared a dividend of $0.40 per share of common stock to stockholders of record as of September 30, 2011 and paid such dividend on October 27, 2011. On December 14, 2011, we declared a dividend of $0.70 per share of common stock to stockholders of record as of December 30, 2011 and expect to pay such dividend on January 27, 2012. Investors in this offering will not be entitled to receive this dividend.

We intend to continue to make regular quarterly distributions to holders of our common stock. We generally need to distribute at least 90% of our ordinary taxable income each year (subject to certain adjustments) to our stockholders in order to qualify as a REIT under the Internal Revenue Code. Our ability to make distributions to our stockholders depends, in part, upon the performance of our investment portfolio. For additional details, see Distribution Policy. Distributions to our stockholders will be general:right;font-size:10pt;">(6,191

)

(6,375
)

(17,083
)

(19,630
)
Income (loss) before income taxes
(23,516
)

(2,283
)

(64,215
)

19,604

Income tax benefit
12,177

4,695

30,102

7,584

Net income (loss)
$
(11,339

)

$
2,412

$
(34,113
)

$
27,188

Earnings (loss) per share:

Basic
$
(0.17
)

$
0.05

$
(0.55
)

$
0.51

Diluted
$
(0.17
)

$
0.04

$
(0.55
)

$

0.51

Weighted average shares outstanding:

Basic
66,676

53,321

61,512

53,386

Diluted
66,676

53,742

61,512

53,831

Dividends declared per share
$
0.06

$
0.13

$
0.19

$
0.38

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; dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$(11,339)	$2,412	$(34,113)	$27,188
Other comprehensive income (loss):				
Unrealized gain (loss) on derivatives (net of tax of ($2) and $10 for the three months ended September 30, 2016 and 2015, respectively, and $7 and $18 for the nine months ended September 30, 2016 and 2015, respectively)	(3)	17	12	29
Unrealized gain (loss) on investments (net of tax of $0 and $3 for the three months ended September 30, 2016 and 2015, respectively, and ($4) and $33 for the nine months ended September 30, 2016 and 2015, respectively)	—	4	(6)	53
Pension and other post-retirement benefits liability adjustment (net of tax of $176 and ($2,431) for the three months ended September 30, 2016 and 2015, respectively, and ($2,592) and $157 for the nine months ended September 30, 2016 and 2015, respectively)	293	(3,924)	(4,301)	254
Comprehensive income (loss)	$(11,049)	$(1,491)	$(38,408)	$27,524

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

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U.S. SILICA HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited; dollars in thousands, except per share amounts)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2015	$ 539	$ (15,845)	$ 194,670	$ 220,974	$ (16,171)	$ 384,167
Net income (loss)	—	—	—	(34,113)	—	(34,113)
Issuance of common stock (secondary offering at $20 per share, net of issuance costs of $13,798)	100	—	186,102	—	—	186,202
Issuance of common stock for acquisitions (net of issuance costs of $170)	69	—	277,990	—	—	278,059
Unrealized gain on derivatives	—	—	—	—	12	12
Unrealized loss on short-term investments	—	—	—	—	(6)	(6)
Pension and post-retirement liability	—	—	—	—	(4,301)	(4,301)
Cash dividend declared ($0.1875 per share)	—	—	—	(11,799)	—	(11,799)
Common stock-based compensation plans activity:						
Equity-based compensation	—	—	9,075	—	—	9,075
Net tax effect	—	—	—	148	—	148
Proceeds from options exercised	—	7,665	(3,332)	—	—	4,333
Issuance of restricted stock	—	1,388	(1,388)	—	—	—
Shares withheld for employee taxes related to vested restricted stock and stock units	—	1,687	(2,669)	—	—	(982)
Balance at September 30, 2016	$ 708	$ (5,105)	$ 660,448	$ 175,210	$ (20,466)	$ 810,795

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

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U.S. SILICA HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; dollars in thousands)

	Nine Months Ended September 30,	
	2016	2015
Operating activities:		
Net income (loss)	$(34,113)	$27,188
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	46,940	42,096
Debt issuance amortization	1,045	1,054
Original issue discount amortization	283	288
Deferred income taxes	(29,858)	(8,463)
Deferred revenue	(5,644)	(12,712)
Loss on disposal of property, plant and equipment	240	1,007
Equity-based compensation	9,075	1,824
Excess tax benefit from equity-based compensation	—	(225)
Bad debt provision	(86)	(426)
Other	2,560	(7,462)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	2,979	35,702
Inventories	(8,931)	(3,959)
Prepaid expenses and other current assets	(2,259)	(3,303)
Income taxes	5,223	(5,514)
Accounts payable and accrued liabilities	11,679	(31,655)
Accrued interest	(1)	(2)
Liability for pension and other post-retirement benefits	938	978
Net cash provided by operating activities	70	36,416
Investing activities:		
Capital expenditures	(32,756)	(38,167)
Capitalized intellectual property costs	(259)	—
Maturities of short-term investments	21,872	29,388
Acquisition of business, net of cash acquired	(176,447)	—
Proceeds from sale of property, plant and equipment	84	77
Net cash used in investing activities	(187,506)	(8,702)
Financing activities:		
Dividends paid	(10,706)	(20,117)
Repurchase of common stock	—	(15,255)
Issuance of common stock	200,000	—
Common stock issuance costs	(13,968)	—
Proceeds from options exercised	4,333	364
Excess tax benefit from equity-based compensation	—	225
Tax payments related to shares withheld for vested restricted stock	(982)	(747)
Repayment of long-term debt	(4,035)	(3,826)
Principal payments on capital lease obligations	(223)	—
Financing fees	—	(64)
Net cash provided by/(used in) financing activities	174,419	(39,420)
Net (decrease) in cash and cash equivalents	(13,017)	(11,706)
Cash and cash equivalents, beginning of period	277,077	263,066

Cash and cash equivalents, end of period	$264,060	$251,360
Supplemental cash flow information:		
Cash paid (received) during the period for:		
Interest	$15,953	$16,359
Taxes	$(5,445)	$6,176
Non-cash Items:		
Capital lease obligations incurred to acquire assets	$165	$—
Common stock issued in connection with acquisitions	$278,229	$—

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

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying Condensed Consolidated Financial Statements (the "Financial Statements") of U.S. Silica Holdings, Inc. ("Holdings," and together with its subsidiaries "we," "us" or the "Company") included in this Quarterly Report on Form 10-Q, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission ("SEC"). They do not contain certain information included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015; therefore, the interim Condensed Consolidated Financial Statements should be read in conjunction with that Annual Report on Form 10-K. In the opinion of management, all adjustments necessary for a fair presentation of the Financial Statements have been included. Such adjustments are of a normal, recurring nature. We have reclassified certain immaterial amounts in the prior years' operating activities section of the consolidated statement of cash flows to conform to the current year presentation. These reclassifications had no effect on previously reported net cash flows from operations.

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

Unaudited Interim Financial Statements

The accompanying Balance Sheet as of September 30, 2016; the Income Statements and Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015; the Condensed Consolidated Statements of Stockholders' Equity and Cash Flows for the nine months ended September 30, 2016; and other information disclosed in the related notes are unaudited. The Balance Sheet as of December 31, 2015 was derived from our audited consolidated financial statements as included in our 2015 Annual Report.

Use of Estimates and Assumptions

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 purchase price allocation for businesses acquired; 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 allowance for doubtful accounts; 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; equity-based compensation expense; 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.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update 2016-02, "Leases", which supersedes the existing lease guidance and requires all leases with a term greater than 12 months to be recognized on the balance sheet as assets and obligations. This Update is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; early application is permitted. This standard mandates a modified retrospective transition method. We are currently evaluating the effect that the new guidance will have on our financial statements and related disclosures.

On July 22, 2015, the FASB issued Accounting Standards Update 2015-11, "Simplifying the Measurement of Inventory". The new standard requires an entity to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new standard will not apply to inventories that are measured using either the last-in, first-out (LIFO) method or the retail inventory method. This Update is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years; early application is permitted. We have elected to adopt the standard early effective January 1, 2016 prospectively and have measured our inventory at the lower of cost and net realizable value on our Balance Sheet as of September 30, 2016. The impacts of the early adoption of this Update on our Financial Statements are not significant.

In March 2016, the FASB issued Accounting Standards Update 2016-09, "Compensation-Stock Compensation." The update requires that excess tax benefits and deficiencies be recorded in the income statement when the awards vest or are settled. It also eliminates the requirement that excess tax benefits be realized (reduce cash taxes payable) before being recognized. Previously, an entity could not recognize excess tax benefits if the tax deduction increased a net operating loss ("NOL") or tax credit carryforward. The updated standard no longer requires cash flows related to excess tax benefits to be presented as a financing activity separate from other income tax cash flows. The update also allows the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments to taxing authorities made on an employee's behalf for withheld shares should be presented as a financing activity on the statement of cash flows, and provides for an accounting policy election to account for forfeitures as they occur. The update is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted.

We elected to early adopt this update during the three months ended September 30, 2016, which requires any adjustments to be reflected as of January 1, 2016. This resulted in the recognition of excess tax benefits on our Balance Sheet that were previously not recognized, as the benefits would have increased our NOL or tax credit carryforwards. The recognition decreased net deferred tax liability by $0.1 million and $1.7 million as of January 1, 2016 and September 30, 2016, respectively. Retained earnings on January 1, 2016 was increased accordingly by $0.1 million. In addition, we will recognize excess tax benefits in the provision for income taxes rather than paid-in capital for 2016 and future periods. Adoption of the update resulted in the recognition of excess tax benefits in the provision for income taxes of $1.8 million and $1.7 million for the three and nine months ended September 30, 2016, respectively.

The effect of the adoption of this update on our previously reported income tax provision on our Income Statement was a decrease in tax benefit of $0.3 million for the three months ended March 31, 2016 and an increase in tax benefit of $0.2 million for the three months ended June 30, 2016, respectively.

We elected to include excess tax benefits as operating activities in the Cash Flow on a prospective basis. Prior periods are not adjusted. We also made the accounting policy election to account for forfeitures as they occur.

NOTE B—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.

In March 2016, we completed a public offering of 10,000,000 shares of our common stock for total cash proceeds of approximately $186.2 million net of underwriting discounts and offering costs. In August 2016, we issued an additional 6,825,693 shares of our common stock to complete two acquisitions discussed in Note C - Business Combinations. There were 70,615,466 shares of common stock issued and outstanding at September 30, 2016. As of September 30, 2015, there were 53,386,174 shares issued and outstanding.

During the nine months ended September 30, 2016, our Board of Directors declared quarterly cash dividends as follows:

Dividends per Common Share	Declaration Date	Record Date	Payable Date
$0.0625	February 22, 2016	March 15, 2016	April 5, 2016
$0.0625	May 5, 2016	June 15, 2016	July 6, 2016
$0.0625	July 21, 2016	September 15, 2016	October 4, 2016

All dividends were paid as scheduled.

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, to fix the powers, preferences and other rights of such series, and any qualifications, limitations or restrictions thereof, including the dividend rate, conversion rights, voting rights, redemption rights and liquidation preference, and to fix the number of shares to be included in any such series, without any further vote or action by our stockholders.

There were no shares of preferred stock issued or outstanding at either September 30, 2016 or December 31, 2015. At present, we have no plans to issue any preferred stock.

Employee Stock Awards

We grant stock options, restricted stock, restricted stock units and performance share units to our employees and directors under the Amended and Restated U.S. Silica Holdings, Inc. 2011 Incentive Compensation Plan. The weighted-average stock awards (in thousands) that are antidilutive and are therefore excluded from the calculation of our diluted earnings per common share are:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted-average outstanding stock options excluded	1,095	726	1,217	464
Weighted-average outstanding restricted stock awards excluded	1,493	729	1,062	598

Share Repurchase Program

We are authorized by our Board of Directors to repurchase shares of our outstanding common stock from time to time on the open market or in privately negotiated transactions. As of September 30, 2016, we are authorized to repurchase up to $50 million of our common stock through December 11, 2016. Stock repurchases, if any, will be funded using our available liquidity. 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. Under our share repurchase program, as of September 30, 2016, we have repurchased 706,093 shares of our common stock at an average price of $23.83 and are authorized to repurchase up to an additional $33.2 million of our common stock.

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 (in thousands) by component during the nine months ended September 30, 2016:

	For the Nine Months Ended September 30, 2016			
	Unrealized gain/(loss) on cash flow hedges	Unrealized gain/(loss) on short-term investments	Pension and other post-retirement benefits liability	Total
Beginning Balance	$(81)	$ 6	$ (16,096)	$(16,171)
Other comprehensive (loss) before reclassifications	(69)	(6)	(4,387)	(4,462)
Amounts reclassed from accumulated other comprehensive income	81	—	86	167
Ending Balance	$(69)	$ —	$ (20,397)	$(20,466)

Amounts reclassified from accumulated other comprehensive income (loss) related to cash flow hedges category are included in interest expense in our Income Statements and amounts reclassified related to pension and other post-retirement benefits liability category are included in the computation of net periodic pension costs, respectively, at before tax amounts.

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NOTE C—BUSINESS COMBINATIONS

NBI Acquisition:

On August 16, 2016, we completed the acquisition of New Birmingham, Inc. ("NBI"), the ultimate parent company of NBR Sand, LLC ("NBR"), by acquiring all of the outstanding capital stock of NBI through the merger of New Birmingham Merger Corp., a Nevada corporation and wholly owned subsidiary of the Company, with and into NBI, followed immediately by the merger of NBI with and into NBI Merger Subsidiary II, Inc., a Delaware corporation and wholly owned subsidiary of the Company, which subsequently changed its name to Tyler Silica Company (the "NBI Acquisition"). NBR is a regional sand producer located near Tyler, Texas. The acquisition of NBI increased our regional frac sand product offering in our Oil & Gas Proppants operating segment.

The preliminary consideration paid to the stockholders of NBI at the closing of the NBI Acquisition consisted of $106.6 million of cash (net of $9.0 million cash acquired), subject to customary post-closing adjustments and 2,630,513 shares of common stock. The calculation of the preliminary purchase price (in thousands, except shares) is as follows:

Cash consideration paid		$115,555
Number of U.S. Silica common shares delivered	2,630,513	
Multiplied by closing market price per share of U.S. Silica common stock on August 16, 2016	$ 40.51	
Total value of U.S. Silica common shares delivered		$106,562
Less, cash acquired		$(9,002)
Total purchase price		$213,115

The following table sets forth a preliminary allocation of the purchase price to the identifiable tangible and intangible assets acquired and liabilities assumed (in thousands):

Preliminary allocation of purchase price:	
Accounts receivable	$2,680
Inventories	3,494
Other current assets	439
Income tax deposits	6,657
Property, plant and mine development	209,378
Identifiable intangible assets	1,600
Goodwill	82,080
Total assets acquired	306,328
Accounts payable, accrued expenses and other current liabilities	1,484
Deferred revenue	500
Notes payable	17,633
Capital lease liabilities	2,475
Asset retirement obligations	710
Deferred tax liabilities	70,411
Total liabilities assumed	93,213
Net assets acquired	$213,115

The acquired intangible assets and the related estimated useful lives consist of the following:

	Approximate Fair Value (in thousands)	Estimated Useful Life (in years)

Customer relationships	$	1,600	15

Goodwill represents the excess of the purchase price over the fair value of the underlying net assets acquired. Goodwill in this transaction is attributable to planned growth in regional frac sand markets and synergies expected to be

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achieved from integrating the operations of U.S. Silica and NBI. The goodwill amount is included in our Oil & Gas Proppants segment. Both customer relationships and goodwill are not expected to be deductible for tax purposes.

We incurred $1.0 million and $1.4 million of acquisition-related charges which are included in selling, general and administrative expenses during the three and nine months ended September 30, 2016, respectively. Additionally, we incurred $0.5 million related to the inventory write-up values in cost of goods sold during the three months ended September 30, 2016. Revenue and earnings for NBI after the acquisition date are not presented as the business was integrated into our operations subsequent to the acquisition and therefore impracticable to quantify.

Sandbox Acquisition:

On August 22, 2016, we completed the purchase of all of the outstanding units of membership interest of Sandbox Enterprises, LLC, a Texas limited liability company ("Sandbox" or the “Sandbox Acquisition”). Sandbox earns revenues from providing “last mile” transportation services to companies in the oil and gas industry. Sandbox has operations in Houston, Midland/Odessa, Texas, Morgantown, West Virginia, western North Dakota, northeast of Denver, Colorado, Oklahoma City, OK and Cambridge, Ohio, where its major customers are located. By acquiring Sandbox, we are able to expand our frac sand offering directly to customers' wellhead locations.

The preliminary consideration paid includes $69.9 million of cash (net of $1.3 million cash acquired), subject to customary post-closing adjustments and 4,195,180 shares of our common stock. The calculation of preliminary purchase price (in thousands, except shares) is as follows:

Cash consideration paid		$71,200
Number of U.S. Silica common shares delivered	4,195,180	
Multiplied by closing market price per share of U.S. Silica common stock on August 22, 2016	$ 40.92	
Total value of U.S. Silica common shares delivered		$171,667
Less, cash acquired		$(1,306)
Total purchase price		$241,561

The following table sets forth a preliminary allocation of the purchase price to Sandbox’s identifiable tangible and intangible assets acquired and liabilities assumed (in thousands):

Preliminary allocation of purchase price:	
Accounts receivable	$12,232
Prepaid expenses and other	1,482
Property, plant and mine development	32,336
Identifiable intangible assets	124,944
Goodwill	82,469
Total assets acquired	253,463
Accounts payable	4,112
Deferred revenue	4,891
Accrued expenses and other current liabilities	2,899
Total liabilities assumed	11,902
Net assets acquired	$241,561

The acquired intangible assets and the related estimated useful lives consist of the following:

	Approximate Fair Value	Estimated Useful Life
	(in thousands)	(in years)

Indefinite lived intangible assets - Trade names	$ 17,844	Indefinite
Definite lived intangible assets - Technology and intellectual property	57,700	15
Definite lived intangible asset - Customer relationships	49,400	14
Total fair value of identifiable intangible assets	$ 124,944	

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Goodwill represents the excess of the purchase price over the fair value of the underlying net assets acquired. Goodwill in this transaction is attributable to expected growth in frac sand demand at the well head and synergies expected to be achieved from integrating the operations of U.S. Silica and Sandbox. The goodwill amount is included in our Oil & Gas Proppants segment. Goodwill and all intangible assets identified above are expected to be deductible for tax purposes.

Our 2016 Income Statement included revenue of $7.5 million associated with Sandbox following the date of acquisition during the three months ended September 30, 2016. Sandbox's impact on our net loss was not significant for the three months ended September 30, 2016. We incurred $2.7 million and $2.8 million of acquisition-related charges which are included in selling, general and administrative expenses on the Income Statement for the three and nine months ended September 30, 2016, respectively.

The cost related to the issuance of the 6,825,693 shares of common stock to complete the two acquisitions totaled $0.2 million, which is included in additional paid-in capital on our Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2016.

With the two above mentioned acquisitions, as of September 30, 2016, the gross carrying amount of the customer relationships intangible asset was $60.5 million with accumulated amortization of $3.8 million. As of September 30, 2016, the weighted average remaining useful life of our customer relationships was 13.7 years. The estimated annual amortization in each of the next five years is $4.1 million.

Both acquisitions were accounted for using the acquisition method of accounting. The purchase price and purchase price allocations for both acquisitions are preliminary and subject to customary post-closing adjustments and changes in the fair value of assets and liabilities. As a result, our final purchase price allocations may be significantly different than those reflected in the tables above.

Combined Pro Forma Results

The results of NBI's and Sandbox’s operations have been included in the consolidated financial statements subsequent to the acquisition dates. The following unaudited pro forma consolidated financial information reflects the results of operations as if the NBI Acquisition and Sandbox Acquisition had occurred on January 1, 2015, after giving effect to certain purchase accounting adjustments. This information does not purport to be indicative of the actual results that would have occurred if the acquisition had actually been completed on the date indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Sales	$153,358	$189,425	$433,179	$589,203
Net income	$(18,111)	$8,703	$(38,207)	$45,429
Basic earnings per share	$(0.27)	$0.16	$(0.62)	$0.85
Diluted earnings per share	$(0.27)	$0.16	$(0.62)	$0.84

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NOTE D—ACCOUNTS RECEIVABLE

At September 30, 2016 and December 31, 2015, accounts receivable (in thousands) consisted of the following:

	September 30, 2016	December 31, 2015
Trade receivables	$ 77,262	$ 64,821
Less: Allowance for doubtful accounts	(7,358)	(7,686)
Net trade receivables	69,904	57,135
Other receivables	821	1,571
Total accounts receivable	$ 70,725	$ 58,706

Changes in our allowance for doubtful accounts (in thousands) during the nine months ended September 30, 2016 are as follows:

	September 30, 2016
Beginning balance	$ 7,686
Bad debt provision	(86)
Write-offs	(242)
Ending balance	$ 7,358

NOTE E—INVENTORIES

At September 30, 2016 and December 31, 2015, inventories (in thousands) consisted of the following:

	September 30, 2016	December 31, 2015
Supplies	$ 18,279	$ 18,029
Raw materials and work in process	24,750	18,113
Finished goods	34,400	28,862
Total inventories	$ 77,429	$ 65,004

NOTE F—PROPERTY, PLANT AND MINE DEVELOPMENT

At September 30, 2016 and December 31, 2015, property, plant and mine development (in thousands) consisted of the following:

	September 30, 2016	December 31, 2015
Mining property and mine development	$ 417,065	$ 222,439
Asset retirement cost	10,597	9,889
Land	35,842	30,322
Land improvements	39,959	37,791
Buildings	52,301	51,280
Machinery and equipment	444,017	360,817
Furniture and fixtures	2,554	1,917
Construction-in-progress	41,814	56,130
	1,044,149	770,585
Accumulated depletion, depreciation and amortization	(253,584)	(209,389)
Total property, plant and mine development, net	$ 790,565	$ 561,196

At September 30, 2016, the aggregate cost of the machinery and equipment acquired under capital leases was $4.3 million, reduced by accumulated depreciation of $1.7 million. The amount of interest costs capitalized in property, plant and mine development was $209 and $465 for the nine months ended September 30, 2016 and 2015, respectively.

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NOTE G—DEBT AND CAPITAL LEASES

At September 30, 2016 and December 31, 2015, debt (in thousands) consisted of the following:

	September 30, 2016	December 31, 2015
Senior secured credit facility:		
Revolver expiring July 23, 2018 (5% at September 30, 2016 and December 31, 2015)	$—	$—
Term loan facility—final maturity July 23, 2020 (4% - 4.5% at September 30, 2016 and December 31, 2015)	495,450	499,275
Less: Unamortized original issue discount	(1,413)	(1,696)
Less: Unamortized debt issuance cost	(4,829)	(5,874)
Note payable secured by royalty interest (includes $3,053 unamortized fair value premium)	15,571	—
Customer note payable	1,852	—
Total debt	506,631	491,705
Less: current portion	(6,745)	(3,330)
Total long-term portion of debt	$499,886	$488,375

Revolving Line-of-Credit

We have a $50 million revolving line-of-credit (the "Revolver"), with zero drawn and $4.0 million allocated for letters of credit as of September 30, 2016, leaving $46.0 million available under the Revolver.

Senior Secured Credit Facility

At September 30, 2016, contractual maturities of long-term debt (in thousands) are as follows:

2016	$1,275
2017	5,100
2018	5,100
2019	5,100
2020	478,875
	$495,450

Our senior secured credit facility is secured by substantially all of our assets and a pledge of the equity interests in certain of our subsidiaries. The facility contains covenants that, among other things, govern our ability to create, incur or assume indebtedness and liens, to make acquisitions or investments, to pay dividends and to sell assets. The facility also requires us to maintain a consolidated total net leverage ratio of no more than 3.75:1.00 as of the last day of any fiscal quarter whenever usage of the Revolver (other than certain undrawn letters of credit) exceeds 25% of the Revolver commitment. As of September 30, 2016, we are in compliance with all covenants in accordance with our senior secured credit facility.

Note Payable Secured by Royalty Interest

In conjunction with our NBI Acquisition, we assumed a note payable secured by a royalty interest. The monthly royalty payment is calculated based on future tonnages and sales related to the sand shipped from our Tyler, Texas facility. The note payable is due by June 30, 2032. The note does not provide a stated interest rate. The minimum payments (in thousands) for the next five years required by the note are as follows:

2016	$247
2017	1,750
2018	1,750
2019	1,750
2020	1,750

Under this agreement once a certain number of tons have been shipped from the Tyler facility, the minimum payments will decrease to $0.5 million per year, subject to proration in the period this threshold is met.

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The royalty note payable fair value was estimated to be $15.7 million on the acquisition date. The estimate was made using a probabilistic model which calculated the present value assuming alternative possible future cash payment scenarios. As a result, a premium of $3.1 million was added to the existing $12.6 million principal on that date. The premium is being amortized over the life of the agreement using the effective interest method and a weighted average discount rate of 2.10%.

Customer Note Payable

In connection with our NBI Acquisition, we assumed a customer note payable that was entered into by NBI. Effective January 1, 2016, NBI entered into an amendment to a supply agreement whereby the outstanding principal balance due under the initial supply agreement was reduced to $3.0 million. Terms of the amended agreement call for repayment of $2.5 million at 0% interest, in equal monthly payments beginning January 1, 2016 for 60 months. We discounted the required future cash payments using an interest rate of 3.5% and recorded the note balance at $1.9 million as of September 30, 2016. Contractual maturities of this note payable (in thousands) are as follows:

2016	$108
2017	440
2018	456
2019	472
2020	376
Total	$1,852

The remaining $0.5 million will be repaid in the form of product load credits. In the event the load credits do not result in full repayment of the $0.5 million by December 31, 2020, any remaining balance will be canceled. This $0.5 million is recorded on our Balance Sheet as deferred revenue as of September 30, 2016.

Capital Leases

In conjunction with our NBI Acquisition, we assumed multiple capital lease obligations that were entered into by NBI. NBI enters into these financing arrangements from time to time to purchase machinery and equipment utilized in operations. At September 30, 2016, scheduled future minimum lease payments under capital lease obligations (in thousands) are as follows:

2016	$	332	
2017	1,433		
2018	712		
Total minimum lease payments	2,477		
Less: amount representing interest	(60		)
Present value of minimum lease payments	2,417		
Less: current portion of capital lease obligations	(1,136		)
Non-current portion of capital lease obligations	$	1,281	

NOTE H—ASSET RETIREMENT OBLIGATION

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

As of September 30, 2016, we had a liability of $13.7 million in other long-term obligations related to our asset retirement obligation. Changes in the asset retirement obligation (in thousands) during the nine months ended September 30, 2016 are as follows:

	September 30, 2016
Beginning balance	$ 12,254
Payments	—
Accretion	720
Additions due to NBI Acquisition	710
Ending balance	$ 13,684

NOTE I—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. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Cash Equivalents

Due to the short-term maturity, we believe our cash equivalent instruments at September 30, 2016 and December 31, 2015 approximate their reported carrying values.

Short-Term Investments

In general, the fair value of our short-term investments is based on quoted prices for similar assets in active markets, or for identical assets or similar assets in markets in which there were fewer transactions (Level 2). Money market mutual funds are based on calculated net asset value and are reported in Level 1. Variable rate demand obligations underwritten and remarketed by a financial institution are priced at par value.

Long-Term Debt, Including Current Maturities

We believe that the fair values of our long-term debt, including current maturities, approximate their carrying values 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 of ourselves and our counterparties. However, as of September 30, 2016, we have assessed that the impact of the credit valuation adjustments on the overall valuation of our derivative positions is not significant. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

In accordance with the fair value hierarchy, the following table presents the fair value as of September 30, 2016 of those assets that we measure at fair value on a recurring basis:

	Level 1	Level 2	Total
Interest rate derivatives	$ —	$ 12	$ 12
Net asset	$ —	$ 12	$ 12

NOTE J—COMMITMENTS AND CONTINGENCIES

Future Minimum Annual Commitments at September 30, 2016:

	Operating Leases	Minimum Purchase Commitments
2016	$12,451	$ 7,413
2017	51,524	17,944
2018	59,791	14,693
2019	53,218	11,790
2020	48,612	6,369
Thereafter	157,414	17,136
Total future lease and purchase commitments	$383,010	$ 75,345

Operating Leases

We are obligated under certain operating leases for railroad cars, office space, mining property, mining/processing equipment and transportation and other equipment. Certain operating lease agreements include options to purchase the equipment for fair market value at the end of the original lease term. In general, the above leases include renewal options and provide that we pay for all utilities, insurance, taxes and maintenance. Expense related to operating leases and rental agreements totaled approximately $12.6 million and $13.2 million for the three months ended September 30, 2016 and 2015, respectively, and $37.7 million and $34.9 million for the nine months ended September 30, 2016 and 2015, respectively.

Minimum Purchase Commitments

We enter into service agreements with our transload service providers and transportation service providers. Some of these agreements require us to purchase a minimum amount of services over a specific period of time. Any inability to meet these minimum contract requirements requires us to pay a shortfall fee, which is based on the difference between the minimum amount contracted for and the actual amount purchased.

Other 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 nine months ended September 30, 2016, one new claim was brought against U.S. Silica. As of September 30, 2016, there were 74 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, it is not reasonably possible that the ultimate resolution of these matters will have a material adverse effect on our financial position or results of operations that exceeds the accrual amounts.

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 both September 30, 2016, and December 31, 2015 other non-current assets included $0.3 million for insurance for third-party products liability claims and other long-term obligations included $1.3 million in third-party products claims liability.

Additionally, during the three months ended March 31, 2015, we received an unfavorable ruling in an arbitration proceeding as a result of exiting a toll manufacturing contract. The amount of the ruling was approximately $7.6 million. The matter was settled and the settlement amount of $6.5 million was paid on June 9, 2015, which was included in selling, general and administrative expense in our Income Statement for the nine months ended September 30, 2015.

NOTE K—INCOME TAXES

For interim period reporting, we record income taxes using an estimated annual effective tax rate based upon projected annual income, forecasted permanent tax differences, discrete items and statutory rates in states in which we operate. At the end of each interim period, we update the estimated annual effective tax rate, and if the estimated tax rate changes based on new information, we make a cumulative adjustment in the period. We record the tax effect of an unusual or infrequently occurring item in the interim period in which it occurs as a discrete item of tax.

In the nine months ended September 30, 2016, we recorded a discrete tax benefit of $2.1 million, which primarily relates to the early adoption of ASU 2016-09, as discussed in Note A - Summary of Significant Accounting Policies. The effective tax rate was 47% and (39)% for the nine months ended September 30, 2016 and 2015, respectively. The tax rate for the nine months ended September 30, 2016 would have been 44% without the discrete tax benefit. Historically, our actual effective tax rates have differed from the statutory effective rate primarily due to the benefit received from statutory percentage depletion allowances. The deduction for statutory percentage depletion does not necessarily change proportionately to changes in income before income taxes.

NOTE L—PENSION AND POST-RETIREMENT BENEFITS

We maintain a single-employer noncontributory defined benefit pension plan covering certain employees. Net pension benefit cost (in thousands) recognized for the three and nine months ended September 30, 2016 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	$267	$324	$559	$971
Interest cost	1,009	1,203	2,257	3,610
Expected return on plan assets	(1,361)	(1,375)	(2,768)	(4,124)
Net amortization and deferral	395	666	884	1,999
Net pension benefit costs	$310	$818	$932	$2,456

In addition, we provide defined benefit post-retirement health care and life insurance benefits to some employees. Net periodic post-retirement benefit cost recognized for the three and nine months ended September 30, 2016 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	$(28)	$36	$60	$124
Interest cost	(187)	221	425	776
Expected return on plan assets	—	—	—	(2)
Special termination benefit	—	47	21	47
Net amortization and deferral	—	58	270	250
Net post-retirement costs	$(215)	$362	$776	$1,195

The weighted average discount rate used to determine the projected pension and post-retirement obligations was updated during the six months ended September 30, 2016, and was decreased from 4.5% at December 31, 2015 to 3.8% at September 30, 2016. We made no contributions to the qualified pension plan for the three and nine months ended September 30, 2016. We contributed $1.8 million and $2.0 million to the qualified pension plan for the three and nine months ended September 30, 2015, respectively. Total expected employer funding contributions during the fiscal year ending December 31, 2016 are $0 for the pension plan and $1.0 million for the post-retirement medical and

life plan.
NOTE M— OBLIGATIONS UNDER GUARANTEES
We have indemnified Travelers Casualty and Surety Company of America (“Travelers”) against any loss Travelers may incur in the event that holders of surety bonds, issued on behalf of us by Travelers, execute the bonds. As of September 30, 2016, Travelers had $10.5 million in bonds outstanding for us. The majority of these bonds, $10.1 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.
NOTE N— 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.
In the Oil & Gas Proppants segment, we serve the oil and gas recovery market primarily by 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 oil and natural gas from the wells.
The Industrial & Specialty Products segment consists of over 210 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.
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, net income (loss) 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 Note A - Summary of Significant Accounting Policies of our Financial Statements.
The following table presents sales and segment contribution margin (in thousands) for the reporting segments and other operating results not allocated to the reported segments for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales:				
Oil & Gas Proppants	$86,782	$101,987	$225,573	$341,593
Industrial & Specialty Products	50,966	53,421	151,679	165,284
Total Sales	137,748	155,408	377,252	506,877
Segment contribution margin:				
Oil & Gas Proppants	(1,897)	16,521	(7,041)	81,972
Industrial & Specialty Products	21,587	19,967	59,967	54,953
Total segment contribution margin	19,690	36,488	52,926	136,925
Operating activities excluded from segment cost of goods sold	(1,368)	(3,679)	(4,558)	(8,500)
Selling, general and administrative	(18,472)	(13,559)	(48,560)	(47,095)
Depreciation, depletion and amortization	(17,175)	(15,158)	(46,940)	(42,096)
Interest expense	(6,684)	(6,684)	(19,974)	(20,448)
Other income, net, including interest income	493	309	2,891	818
Income tax benefit	12,177	4,695	30,102	7,584
Net income (loss)	$(11,339)	$2,412	$(34,113)	$27,188

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. Goodwill of $233.2 million has been allocated to these segments with $212.5 million assigned to Oil & Gas Proppants and $20.7 million to Industrial & Specialty Products as of September 30, 2016. Goodwill assigned to Oil & Gas Proppants segment increased by $164.5 million compared to $68.6 million as of December 31, 2015 due to the acquisitions discussed in Note C - Business Combinations.

NOTE O— SUBSEQUENT EVENTS

On October 4, 2016, we paid a cash dividend of $0.0625 per share to common stockholders of record on September 15, 2016, which had been declared by our Board of Directors on July 21, 2016.

On November 3, 2016, our Board of Directors declared a quarterly cash dividend of $0.0625 per share to common stockholders of record at the close of business on December 15, 2016, payable on January 5, 2017.

Also on November 3, 2016, our Board of Directors extended our $50 million stock repurchase program through December 11, 2017. This program had been scheduled to expire on December 11, 2016.

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 and the accompanying notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q as well as the Consolidated Financial Statements, the accompanying notes and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "2015 Annual Report").

Overview

We are one of the largest domestic producers of commercial silica, a specialized mineral that is a critical input into a variety of attractive end markets. During our 116-year history, we have developed core competencies in mining, processing, logistics and materials science that enable us to produce and cost-effectively deliver 235 products to customers across these markets. After our acquisition of New Birmingham, Inc. ("NBI" or the "NBI Acquisition") on August 16, 2016, as of September 30, 2016, we operate 18 production facilities across the United States and own one of the largest frac sand processing plants in the United States. Including the purchase of reserves adjacent to our Ottawa, Illinois, facility in May 2016, we now control 471 million tons of reserves of commercial silica, 278 million tons of which can be processed to meet American Petroleum Institute (API) frac sand size specifications. Additionally, on August 22, 2016, we completed the acquisition of Sandbox Enterprises, LLC ("Sandbox" or the “Sandbox Acquisition”) as a “last mile” logistics solution for frac sand in the oil and gas industry. See more information regarding NBI Acquisition and Sandbox Acquisition at Note C - Business Combinations to our Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

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 cyclicality of our earnings.

Recent Trends and Outlook

Oil and gas proppants end market trends

Increased demand for frac sand between 2008 and 2014 was driven by the growth in the use of hydraulic fracturing as a means to extract hydrocarbons from shale formations. According to the 2014 Proppant Market Report, PropTester Inc., published February 2015, global frac sand consumption grew at a 51.2% compound annual growth rate from 2009 to 2014. This included 53.7% growth in frac sand demand from 2013 to 2014. We significantly expanded our sales efforts to the frac sand market in 2008 and experienced rapid growth in our sales associated with our oil and gas activities from 2008 until 2014.

However, declines in oil prices in 2015 have reduced oil and gas drilling and completion activity in North America. As of September 30, 2016, the U.S. land rig count had fallen over 70% from its peak in 2014. Demand for frac sand fell in conjunction with the rig count and activity levels, partially offset by higher proppant per well to optimize recovery and production rates. Frac sand pricing remained under pressure during the nine months ended September 30, 2016. The table below summarizes some revenue metrics of our Oil & Gas Proppants segment for the three months ended September 30, 2016, June 30, 2016, March 31, 2016, and December 31, 2015. During the three months ended June 30, 2016 and March 31, 2016 both tons sold and average selling price decreased sequentially due to reduced demand from our customers. During the three months ended September 30, 2016, both tons sold and average selling price per ton increased. Leading indicators suggested a possibility of stabilization or even an increase in North American oil and gas drilling and completion activity in the near future.

Dollars in thousands except per ton data	Three Months Ended				Percentage Change for Three Months Ended		
Oil & Gas Proppants	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2016 vs. June	June 30, 2016 vs. March	March 31, 2016 vs. December 31, 2015

					30, 2016	31, 2016	
Sales	$ 86,782	$64,926	$73,865	$ 88,841	34%	(12)%	(17)%
Tons Sold	1,617	1,333	1,411	1,553	21%	(6)%	(9)%
Average Selling Price per Ton	$ 53.67	$48.71	$52.35	$ 57.21	10%	(7)%	(8)%

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However, if reduction in oil and gas drilling and completion activity continues, it may reduce frac sand demand further, which could result in us selling fewer tons, selling tons at lower prices, or both. If we sell less frac sand, or sell frac sand at lower prices, our revenue, net income, cash generated from operating activities, and liquidity would be adversely affected. We could evaluate further actions to reduce cost and improve liquidity. For instance, depending on market conditions, we may implement additional cost improvement projects or further reduce our capital spending for 2016 and beyond and may delay or cancel capital projects.

Additionally, due to impacts of change in demand for our frac sand, we are engaged in ongoing discussions with our take-or-pay supply agreement customers regarding pricing and volume requirements under our existing contracts. While these discussions continue, in certain circumstances, we have provided contract customers with temporary reductions to contract pricing in exchange for additional term and/or volume in order to preserve the value of these agreements. We may deliver sand at prices or at volumes below the requirements in our existing take-or-pay supply agreements. We expect these circumstances may continue for the remainder of 2016 and potentially into 2017. For a discussion of customer credit risk, see the Credit Risk section in Part I, Item 3 of this Quarterly Report on Form 10-Q.

We believe fluctuations in frac sand demand and price may occur as the market adjusts to changing supply and demand due to energy pricing fluctuations. We continue to expect long-term growth in oil and gas drilling in North American shale basins.

Oil and natural gas exploration and production companies' and oilfield service providers' preferences and expectations have been evolving in recent years. A proppant vendor's logistics capabilities have become an important differentiating factor when competing for business on both a spot and contract basis. Many of our customers increasingly seek convenient in-basin and wellhead proppant delivery capability from their proppant supplier. We believe that, over time, proppant customers will prefer to consolidate their purchases across a smaller group of suppliers with robust logistics capabilities and a broad offering of high performance proppants.

Industrial and specialty products end market trends

Demand in the industrial and specialty products end markets is relatively stable and is primarily influenced by key macroeconomic drivers such as housing starts, light vehicle sales, repair and remodel activity and industrial production. The primary end markets served by our production used in Industrial & Specialty Products are foundry, building products, sports and recreation, glassmaking and filtration. We have been increasing our value-added product offerings in the industrial and specialty products end markets. These new higher margin product sales have increased our Industrial & Specialty Products segment's profitability.

Our Strategy

The key drivers of our growth strategy include:

- Expand our Oil & Gas Proppants production capacity and product portfolio. We continue to consider and execute several initiatives to increase our frac sand production capacity and augment our proppant product portfolio.
- While we made various initial investments or initial evaluations of new Greenfield sites in recent years, these expansion projects have been given lower priority due to the current frac sand market conditions. Our current focus for expanding production capacity is on maximizing existing production facility efficiencies.
- In order to increase our resin coated product portfolio, during 2015, we announced the introduction of InnoProp® Python RCS, a new high-performance resin coated proppant designed to increase the production of oil and gas wells in an economical and efficient manner. In early 2016, we introduced another new resin coated product, InnoProp® PLT, which is a curable low-temperature product and can be used without an activator in oil and gas wells that have bottom-hole static temperatures down to 70°F.
- Increase our presence and product offering in industrial and specialty products end markets. Our research and business development teams work in tandem with our customers to develop new products, which we expect will either increase our presence and market share in certain industrial and specialty products end markets or allow us to enter new markets. We manage a robust pipeline of new products in various stages of development. Some of these products have already come to market, resulting in a positive impact on our financial results. We continue to work toward offering more value-driven industrial and specialty products that will enhance the profitability of the business.
- 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. We expect to continue investing in ways to increase the value we provide to our customers by expanding our product offerings, 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 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 key 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. We believe that our supply chain network and logistics capabilities are a competitive advantage that enables us to provide superior service for our customers. For example, in 2015, we opened our Odessa, Texas unit train receiving transload facility, which was built in partnership with Union Pacific Railroad to support mainly the Permian market. We expect to 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. As of September 30, 2016, we have storage capacity at 53 transloads located near all of the major shale basins in the United States. Our recent acquisition of Sandbox extends our delivery capability directly to our customers' wellhead locations, which increases efficiency and provides a lower cost logistics solution for our customers. Sandbox has operations in Houston, Midland/Odessa, Texas, Morgantown, West Virginia, western North Dakota, northeast of Denver, Colorado, Oklahoma City, OK and Cambridge, Ohio, where its major customers are located.
- Evaluate both Greenfield and Brownfield expansion opportunities and other acquisitions. We expect to 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. We are continuing to actively pursue acquisitions to grow by taking advantage of our asset footprint, our management's experience with high-growth businesses, and our strong customer relationships. Our primary objective is to acquire assets with differing levels of frac sand quality that are complementary to our Oil & Gas Proppants segment, with a focus on mining, processing and logistics to further enhance our market presence. We prioritize acquisitions that provide opportunities to realize synergies (and, in some cases, the acquisition may be immediately accretive assuming synergies), including entering new geographic and frac sand product markets, acquiring attractive customer contracts and improving operations. For instance, on August 16, 2016, we completed our acquisition of NBI, the ultimate parent company of, NBR Sand, LLC, a regional sand producer located near Tyler, Texas. Additionally, on August 22, 2016, we completed the acquisition of Sandbox, a provider of logistics solutions and technology for the transportation of proppant used in hydraulic fracturing in the oil and gas industry. We are in active discussions to acquire additional assets fitting this strategy, which, if completed, would be "significant" under Regulation S-X and could require additional sources of financing. There can be no assurance that we will reach a definitive agreement and complete any of these potential transactions. See the risk factors disclosed in Item 1A of Part I of our 2015 Annual Report, including the risk factor entitled, "If we cannot successfully complete acquisitions or integrate acquired businesses, our growth may be limited and our financial condition may be adversely affected."
- Maintain financial strength and flexibility. We intend to maintain financial strength and flexibility to enable us to better manage through the oil and gas proppant industry downturn and pursue acquisitions and new growth opportunities as they arise. In March 2016, we completed a public offering of 10,000,000 shares of our common stock for total cash proceeds of approximately $186.2 million net of underwriting discounts and offering costs. As of September 30, 2016, we had $264.1 million of cash on hand and $46.0 million of availability under our Revolver.

How We Generate Our Sales

We derive our sales primarily by mining and processing minerals that our customers purchase for various uses. Our sales are primarily a function of the price per ton and the number of tons sold. The price invoiced reflects product, transportation and additional services as applicable, such as storage and transloading the product from railcars to trucks for delivery to the customer site. We invoice the majority of our customers on a per shipment basis, although for some larger customers, we consolidate invoices weekly or monthly. Our five largest customers accounted for approximately 38% of total sales during the nine months ended September 30, 2016. Sales to our largest customer, Halliburton Company, accounted for 13% of our total revenues during the nine months ended September 30, 2016. No other customer accounted for 10% or more of our total revenues.

We primarily sell our products under short-term price agreements or at prevailing market rates. For a number of customers, we sell under long-term, competitively-bid contracts. As of September 30, 2016, we have seven take-or-pay supply agreements in the Oil & Gas Proppants segment with initial terms expiring between 2017 and 2019. These agreements define, among other commitments, the volume of product that our customers must purchase, the volume of product that we must provide and the price that we will charge and that our customers will pay for each product. Prices under these agreements are generally fixed and subject to upward adjustment in response to certain cost increases. Additionally, at the time the take-or-pay supply agreements were signed, some customers provided advance payments for future shipments. 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 take-or-pay supply agreements accounted for 21% and 32% of our total company revenue during the nine months ended September 30, 2016 and 2015, respectively. Although sales under take-or-pay supply agreements may result in us realizing lower margins than we otherwise might during periods of high market prices, we believe such lower margins are offset by the benefits derived from the product mix and sales volume stability afforded by such supply agreements, which helps us lower market risk arising from adverse changes in spot prices and market conditions. Additionally, selling more tons under supply contracts also enables us to be more efficient from a production, supply chain and logistics standpoint. As discussed in Part I, Item 1A., "Risk Factors", of our 2015 Annual Report—"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.

Historically we have not entered into long term take-or-pay contracts with our customers in the industrial and specialty products end markets because of the high cost to our customers of switching providers. With these customers, we often enter into price agreements which are typically negotiated annually.

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. Transportation and related costs include freight charges, fuel surcharges, transloading fees, switching fees, railcar lease costs, demurrage costs, storage fees and labor 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.

Additionally, we incur expenses related to our corporate operations, including costs for sales and marketing; research and development; and finance, legal, environmental, health and safety functions of our organization. These costs are principally driven by personnel expenses.

How We Evaluate Our Business

Our management team evaluates our business using a variety of financial and operational metrics. Our business is organized into two segments, Oil & Gas Proppants and Industrial & Specialty Products. We evaluate the performance of these segments based on their tons sold, average selling price and contribution margin earned. Additionally, we consider a number of factors in evaluating the performance of the business as a whole, including total tons sold, average selling 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 that are related to corporate functional areas such as operations management, corporate purchasing, accounting, treasury, information technology, legal and human resources.

Segment contribution margin is not a measure of our financial performance under GAAP and should not be considered an alternative to measures derived in accordance with GAAP. For more details on the reconciliation of segment contribution margin to its most directly comparable GAAP financial measure, net income (loss), see Note N -

Segment Reporting to our Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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. Adjusted EBITDA excludes certain income and/or costs, the removal of which improves comparability of operating results across reporting periods. Our target performance goals under our incentive compensation plan are tied, in part, to our Adjusted EBITDA. In addition, our Revolver contains a consolidated total net leverage ratio that we must meet as of the last day of any fiscal quarter whenever usage of the Revolver (other than certain undrawn letters of credit) exceeds 25% of the Revolver commitment, which is calculated based on our Adjusted EBITDA. Noncompliance with the financial ratio covenant contained in the Revolver could result in the acceleration of our obligations to repay all amounts outstanding under the Revolver and the Term Loan. 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.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$(11,339)	$2,412	$(34,113)	$27,188
Total interest expense, net of interest income	6,211	6,485	18,731	19,961
Provision for taxes	(12,177)	(4,695)	(30,102)	(7,584)
Total depreciation, depletion and amortization expenses	17,175	15,158	46,940	42,096
EBITDA	(130)	19,360	1,456	81,661
Non-cash incentive compensation (1)	3,720	1,913	9,075	1,824
Post-employment expenses (excluding service costs) (2)	(184)	765	780	2,501
Business development related expenses (3)	4,667	390	5,635	8,343
Other adjustments allowable under our existing credit agreement (4)	185	1,577	1,937	4,402
Adjusted EBITDA	$8,258	$24,005	$18,883	$98,731

(1) Reflects equity-based compensation expense.

(2) 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 L - Pension and Post-retirement Benefits to our Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

(3) Reflects expenses related to business development activities in connection with our growth and expansion initiatives, including acquisition-related costs for our NBI Acquisition and Sandbox Acquisition completed in August 2016.

(4) Reflects miscellaneous adjustments permitted under our existing credit agreement, including such items as restructuring costs for actions that will provide future cost savings. Restructuring costs were $0.0 million and $0.5 million, respectively, for the three months

ended September 30, 2016 and 2015 and $3.3 million and $2.7 million, respectively, for the nine months ended September 30, 2016 and 2015. The nine months ended September 30, 2016 amount includes a gain on insurance settlement of $1.5 million received during the three months ended March 31, 2016.

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Results of Operations for the Three Months Ended September 30, 2016 and 2015

Sales

All numbers in thousands except per ton data	Three Months Ended September 30,		Amount Change	Percent Change
	2016	2015	'16 vs. '15	'16 vs. '15
Sales:				
Oil & Gas Proppants	$86,782	$101,987	$(15,205)	(15)%
Industrial & Specialty Products	50,966	53,421	(2,455)	(5)%
Total Sales	$137,748	$155,408	$(17,660)	(11)%
Tons:				
Oil & Gas Proppants	1,617	1,616	1	— %
Industrial & Specialty Products	876	1,007	(131)	(13)%
Total Tons	2,493	2,623	(130)	(5)%
Average Selling Price per Ton:				
Oil & Gas Proppants	$53.67	$63.11	$(9.44)	(15)%
Industrial & Specialty Products	58.18	53.05	5.13	10 %
Overall Average Selling Price per Ton:	$55.25	$59.25	$(4.00)	(7)%

Total sales decreased 11% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, driven by a 5% decrease in total tons sold and a 7% decrease in overall average selling price. Tons sold in-basin represented 42% and 37% of total company tons sold for the three months ended September 30, 2016 and 2015, respectively.

The decrease in total sales was primarily driven by Oil & Gas Proppants sales, which decreased 15%. Oil & Gas Proppants average selling price decreased 15% driven by a year over year decrease in demand for our frac sand from customers due to reduced drilling and completion activity partially offset by increased tons sold through transload sites as a percentage of total tons sold. Tons sold for the three months ended September 30, 2016 remained flat due to decrease in demand offset by our market share gain efforts and impacts from our newly acquired businesses.

Industrial & Specialty Products sales decreased by 5% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Tons sold decreased 13% driven by our strategic shift among customers and products. Average selling price increased 10%, which was primarily a result of new higher-margin product sales and price increases.

Cost of Goods Sold

Cost of goods sold decreased by $3.2 million, or 3%, to $119.4 million for the three months ended September 30, 2016 compared to $122.6 million for the three months ended September 30, 2015. As a percentage of sales, cost of goods sold increased to 87% for the three months ended September 30, 2016 compared to 79% for the same period in 2015. These changes result from the main components of cost of goods sold as discussed below.

We incurred $64.7 million and $68.0 million of transportation and related costs for the three months ended September 30, 2016 and 2015, respectively. This decrease was due to our transportation and logistics cost improvement efforts. As a percentage of sales, transportation and related costs increased to 47% for the three months ended September 30, 2016 compared to 44% for the same period in 2015 mainly due to a lower average selling price.

We incurred $20.8 million and $19.5 million of operating labor costs for the three months ended September 30, 2016 and 2015, respectively. The $1.3 million increase in labor costs incurred was primarily due to incremental costs related to NBI and Sandbox operations. As a percentage of sales, operating labor costs represented 15% for the three months ended September 30, 2016 compared to 13% for the same period in 2015.

We incurred $6.3 million and $7.1 million of electricity and drying fuel (principally natural gas) costs for the three months ended September 30, 2016 and 2015, respectively. The $0.8 million decrease in electricity and drying fuel costs incurred was mainly driven by fewer tons dried and our cost improvement efforts. As a percentage of sales, electricity and drying fuel costs represented 5% for both the three months ended September 30, 2016 and the same period in 2015.

We incurred $8.5 million and $9.5 million of maintenance and repair costs for the three months ended September 30, 2016 and 2015, respectively. The decrease in maintenance and repair costs incurred was mainly due to cost improvement efforts. As a percentage of sales, maintenance and repair costs represented 6% for the three months ended September 30, 2016 and the same period in 2015.

Segment Contribution Margin

Oil & Gas Proppants contribution margin decreased by $18.4 million, or 111%, to $(1.9) million for the three months ended September 30, 2016 compared to $16.5 million for the three months ended September 30, 2015, driven by a $15.2 million decrease in segment revenue, partially offset by lower segment cost of goods sold mainly due to lower transportation and related costs.

Industrial & Specialty Products contribution margin increased by $1.6 million, or 8%, to $21.6 million for the three months ended September 30, 2016 compared to $20.0 million for the three months ended September 30, 2015, driven by increased higher-margin products sales as a percentage of total sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $4.9 million, or 36%, to $18.5 million for the three months ended September 30, 2016 compared to $13.6 million for the three months ended September 30, 2015. The increase was due to the following factors:

- Business development related expense increased by $4.3 million to $4.7 million for the three months ended September 30, 2016 compared to $0.4 million for the three months ended September 30, 2015. The increase was primarily due to acquisition-related costs for NBI and Sandbox acquisitions completed in August 2016.
- Compensation-related expense increased by $1.5 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, mainly driven by increased equity-based compensation and our NBI and Sandbox acquisitions, partially offset by the impacts of prior reductions in workforce.
- Bad debt expense decreased by $1.0 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, mainly due to our credit collection efforts and improved market outlook.

In total, our selling, general and administrative costs represented approximately 13% and 9% of our sales for the three months ended September 30, 2016 and 2015, respectively.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expense increased by $2.0 million, or 13%, to $17.2 million for the three months ended September 30, 2016 compared to $15.2 million for the three months ended September 30, 2015. The year over year increase was mainly driven by additional costs related to assets acquired in conjunction with our NBI and Sandbox acquisitions as well as other continued capital spending. Depreciation, depletion and amortization costs represented approximately 12% and 10% of our sales for the three months ended September 30, 2016 and 2015, respectively.

Operating Income (Loss)

Operating income decreased by $21.4 million, or 523%, to $(17.3) million for the three months ended September 30, 2016 compared to $4.1 million for the three months ended September 30, 2015. The decrease was due to an 11% decrease in sales, a 36% increase in selling, general and administrative expense and an 13% increase in depreciation, depletion and amortization expense, partially offset by a 3% decrease in cost of goods sold.

Interest Expense

Interest expense remained flat at $6.7 million for both the three months ended September 30, 2016 and the three months ended September 30, 2015, mainly due to decreases in our senior debt principal and deferred revenue offset by additional long term liabilities assumed in conjunction with our NBI and Sandbox acquisitions.

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Provision for Income Taxes

The income tax benefit increased $7.5 million to $12.2 million for the three months ended September 30, 2016 compared to $4.7 million for the three months ended September 30, 2015. The increase was driven primarily by a greater loss before income taxes and the discrete tax benefit due to the early adoption of ASU 2016-09 discussed in Note A - Summary of Significant Accounting Policies of our Financial Statements. The effective tax rate was 52% and 206% for the three months ended September 30, 2016 and 2015, respectively. See accompanying Note K - Income Taxes of our Financial Statements for more information.

Historically, our actual effective tax rates have differed from the statutory effective rate primarily due to the benefit received from statutory percentage depletion allowances. The deduction for statutory percentage depletion does not necessarily change proportionately to changes in income before income taxes.

Other income, net, including interest income

Other income was relatively flat at $0.5 million and $0.3 million for the three months ended September 30, 2016 and 2015, respectively.

Net Income/Loss

Net loss was $11.3 million for the three months ended September 30, 2016 compared to a net income of $2.4 million for the three months ended September 30, 2015. The year over year decrease was due to the factors noted above.

Results of Operations for the Nine Months Ended September 30, 2016 and 2015

Sales

All numbers in thousands except per ton data	Nine Months Ended September 30,		Amount Change	Percent Change
	2016	2015	'16 vs. '15	'16 vs. '15
Sales:				
Oil & Gas Proppants	$225,573	$341,593	$(116,020)	(34)%
Industrial & Specialty Products	151,679	165,284	(13,605)	(8)%
Total Sales	$377,252	$506,877	$(129,625)	(26)%
Tons:				
Oil & Gas Proppants	4,361	4,529	(168)	(4)%
Industrial & Specialty Products	2,642	3,024	(382)	(13)%
Total Tons	7,003	7,553	(550)	(7)%
Average Selling Price per Ton:				
Oil & Gas Proppants	$51.73	$75.42	$(23.69)	(31)%
Industrial & Specialty Products	57.41	54.66	2.75	5%
Overall Average Selling Price per Ton:	$53.87	$67.11	$(13.24)	(20)%

Total sales decreased 26% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, driven by a 20% decrease in overall average selling price and a 7% decrease in total tons sold. Tons sold in-basin represented 36% and 37% of total company tons sold for the nine months ended September 30, 2016 and 2015, respectively.

The decrease in total sales was driven by Oil & Gas Proppants sales, which decreased 34%. Oil & Gas Proppants tons sold for the nine months ended September 30, 2016 decreased 4% and average selling price decreased 31%. These decreases were driven by the year over year decrease in demand for our frac sand from customers due to reduced drilling and completion activity.

Industrial & Specialty Products sales decreased 8% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Tons sold decreased 13%, driven by our strategic shift among customers and products. Average selling price increased 5%, driven by new higher-margin product sales and price increases.

Cost of Goods Sold

Cost of goods sold decreased by $49.6 million, or 13%, to $328.9 million for the nine months ended September 30, 2016 compared to $378.5 million for the nine months ended September 30, 2015. As a percentage of sales, cost of goods sold increased to 87% for the nine months ended September 30, 2016 compared to 75% for the same period in 2015. These changes result from the main components of cost of goods sold as discussed below.

We incurred $169.0 million and $199.1 million of transportation and related costs for the nine months ended September 30, 2016 and 2015, respectively. The $30.1 million decrease was mainly due to fewer tons sold through transloads caused by lower demand for our frac sand at our transload sites and our transportation and logistics cost improvement efforts. As a percentage of sales, transportation and related costs increased to 45% for the nine months ended September 30, 2016 compared to 39% for the same period in 2015 mainly due to a decrease in average selling price.

We incurred $57.3 million and $60.9 million of operating labor costs for the nine months ended September 30, 2016 and 2015, respectively. The $3.6 million decrease in labor costs incurred was primarily due to fewer tons sold, partially offset by incremental costs related to NBI and Sandbox operations in 2016. As a percentage of sales, operating labor costs represented 15% for the nine months ended September 30, 2016 compared to 12% for the same period in 2015.

We incurred $18.9 million and $21.8 million of electricity and drying fuel (principally natural gas) costs for the nine months ended September 30, 2016 and 2015, respectively. The decrease in electricity and drying fuel costs incurred was due to fewer tons sold. As a percentage of sales, electricity and drying fuel costs represented 5% for the nine months ended September 30, 2016 compared to 4% for the same period in 2015.

We incurred $24.5 million and $28.8 million of maintenance and repair costs for the nine months ended September 30, 2016 and 2015, respectively. The decrease in maintenance and repair costs incurred was due to our cost improvement efforts and fewer tons sold. As a percentage of sales, maintenance and repair costs increased to 7% for the nine months ended September 30, 2016 compared to 6% for the same period in 2015.

Segment Contribution Margin

Oil & Gas Proppants contribution margin decreased by $89.0 million, or 109%, to $(7.0) million for the nine months ended September 30, 2016 compared to $82.0 million for the nine months ended September 30, 2015, driven by a 34% decrease in revenue partially offset by a 10% decrease in segment cost of goods sold.

Industrial & Specialty Products contribution margin increased by $5.0 million, or 9%, to $60.0 million for the nine months ended September 30, 2016 compared to $55.0 million for the nine months ended September 30, 2015, driven by increased higher margin products sales as a percentage of total sales and price increases.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $1.5 million, or 3%, to $48.6 million for the nine months ended September 30, 2016 compared to $47.1 million for the nine months ended September 30, 2015. The increase was primarily due to the following factors:

- Business development related expense decreased by $2.7 million to $5.6 million for the nine months ended September 30, 2016 compared to $8.3 million for the nine months ended September 30, 2015. This decrease is mainly due to a $6.5 million settlement of an unfavorable arbitration ruling during the nine months ended September 30, 2015 partially offset by our NBI and Sandbox acquisition-related costs. See Note J - Commitments and Contingencies of our Financial Statements for more information about this arbitration ruling.
- Compensation related expense increased by $4.6 million for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to increased incentive compensation and incremental expense related to NBI and Sandbox employees.
- Bad debt expense increased by $0.3 million for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, mainly due to a recovery of a previously reserved receivable that occurred during the three months ended September 30, 2015.

In total, our selling, general and administrative costs represented approximately 13% and 9% of our sales for the nine months ended September 30, 2016 and 2015, respectively.

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Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expense increased by $4.8 million, or 12%, to $46.9 million for the nine months ended September 30, 2016 compared to $42.1 million for the nine months ended September 30, 2015. The year over year increase was driven by our NBI and Sandbox acquisitions as well as other capital spending. Depreciation, depletion and amortization costs represented approximately 12% and 8% of our sales for the nine months ended September 30, 2016 and 2015, respectively.

Operating Income (Loss)

Operating income decreased by $84.8 million, or 220%, to a $47.1 million operating loss for the nine months ended September 30, 2016 compared to $39.2 million of operating income for the nine months ended September 30, 2015. The decrease was due to a 26% decrease in sales and a 12% increase in depreciation, depletion and amortization expense, partially offset by a 13% decrease in cost of goods sold.

Interest Expense

Interest expense decreased by $0.4 million, or 2%, to $20.0 million for the nine months ended September 30, 2016 compared to $20.4 million for the nine months ended September 30, 2015, mainly due to decreases in our senior debt principal and deferred revenue partially offset by additional long term liabilities assumed in conjunction with our NBI and Sandbox acquisitions.

Provision for Income Taxes

The income tax benefit increased $22.5 million to $30.1 million for the nine months ended September 30, 2016 compared to $7.6 million for the nine months ended September 30, 2015. The increase was driven primarily by increased loss before income taxes and the discrete tax benefit due to the early adoption of ASU 2016-09 discussed in Note A - Summary of Significant Accounting Policies of our Financial Statements. The effective tax rate was 47% and (39)% for the nine months ended September 30, 2016 and 2015, respectively. See accompanying Note K - Income Taxes of our Financial Statements for more information.

Historically, our actual effective tax rates have differed from the statutory effective rate primarily due to the benefit received from statutory percentage depletion allowances. The deduction for statutory percentage depletion does not necessarily change proportionately to changes in income before income taxes.

Other income, net, including interest income

Other income was $2.9 million and $0.8 million for the nine months ended September 30, 2016 and 2015, respectively. The increase was mainly due to a gain of $1.5 million on insurance settlements that we received during the nine months ended September 30, 2016.

Net Income (Loss)

Net loss was $34.1 million for the nine months ended September 30, 2016 compared to a net income of $27.2 million for the nine months ended September 30, 2015. The year over year decrease was 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 cash on hand or borrowings under our credit facilities and equity issuances. 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. In March 2016, we completed a public offering of 10,000,000 shares of our common stock for total cash proceeds of approximately $186.2 million net of underwriting discounts and offering costs. As of September 30, 2016, our working capital was $331.2 million and we had $46.0 million of availability under the 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 and any dividends declared for at least the next 12 months.

Management and our Board remain committed to evaluating additional ways of creating shareholder value. Any determination to pay dividends and other distributions in cash, stock, or property in the future will be at the discretion of our Board 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 (in thousands) is shown in the following table:

	Nine Months Ended September 30, 2016	2015	Percent Change '16 vs. '15
Net cash provided by (used in):			
Operating activities	$70	$36,416	(100)%
Investing activities	(187,508)	(8,702)	2,055%
Financing activities	174,419	(39,420)	(542)%

Net Cash Provided by Operating Activities

Operating activities consist primarily of net income adjusted for certain non-cash and working capital items. Adjustments to net income for non-cash items include depreciation, depletion and amortization, deferred revenue, deferred income taxes, equity-based compensation and bad debt provision. In addition, operating cash flows include the effect of changes in operating assets and liabilities, principally accounts receivable, inventories, prepaid expenses and other current assets, income taxes payable and receivable, accounts payable and accrued expenses.

Net cash provided by operating activities was $0.1 million for the nine months ended September 30, 2016 compared to $36.4 million for the nine months ended September 30, 2015. This $36.3 million decrease in cash provided by operations was the result of a $61.3 million decrease in net income and the impact of the other components of operating activities.

Net Cash Provided Used in Investing Activities

Investing activities consist primarily of cash consideration paid to acquire businesses, capital expenditures for growth and maintenance and proceeds from the sale and maturity of short-term investments.

Net cash used in investing activities was $187.5 million for the nine months ended September 30, 2016. This was due to $176.4 million of cash consideration that was paid for our NBI and Sandbox acquisitions and capital expenditures of $32.8 million, offset by $21.9 million in proceeds from sales and maturities of short-term investments. Capital expenditures for the nine months ended September 30, 2016 were primarily for a purchase of reserves adjacent to our Ottawa, Illinois, facility, engineering, procurement and construction of our growth projects and other maintenance and cost improvement capital projects.

Net cash used in investing activities was $8.7 million for the nine months ended September 30, 2015. Capital expenditures for the nine months ended September 30, 2015, which totaled $38.2 million, were primarily for the engineering, procurement and construction of our growth projects including the Greenfield raw sand plant near Fairchild, Wisconsin and other maintenance and cost improvement capital projects.

Subject to our continuing evaluation of market conditions, we anticipate that our capital expenditures in 2016, including the purchase of reserves adjacent to our Ottawa, Illinois, facility, will be in a range of $42 million to $47 million, which is primarily associated with growth, maintenance and cost improvement capital projects. We expect to fund our capital expenditures through cash on our balance sheet, cash generated from our operations and cash generated from financing activities.

Net Cash Provided by (Used in) Financing Activities

Financing activities consist primarily of equity issuances, capital contributions, dividend payments, borrowings and repayments related to the Revolver, Term Loan, as well as fees and expenses paid in connection with our credit facilities, advance payments from our customers and capital leases.

Net cash provided by financing activities was $174.4 million for the nine months ended September 30, 2016, driven by $200.0 million of common stock issuances and $4.3 million of proceeds from options exercised, both of which were partially offset by $14.0 million of common stock issuance costs, $10.7 million of dividends paid, $4.0 million of long-term debt payments, $0.2 million of capital lease repayments and $1.0 million of tax payments related to shares withheld for vested restricted stock.

Net cash used in financing activities was $39.4 million in the nine months ended September 30, 2015, driven by $15.3 million of common stock repurchases, $20.1 million of dividends paid and $3.8 million of long-term debt payments.

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 outside the ordinary course of business to our “Contractual Obligations” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our 2015 Annual Report. For more details on future minimum annual commitments under such operating leases, please see accompanying Note J - Commitments and Contingencies to our Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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. As of September 30, 2016, we had $13.7 million accrued for future reclamation costs, as compared to $12.3 million as of December 31, 2015.

We discuss certain environmental matters relating to our various production and other facilities, certain regulatory requirements relating to human exposure to crystalline silica and our mining activity and how such matters may affect our business in the future under Item 1, “Business,” Item 1A, “Risk Factors” Item 3, “Legal Proceedings”, and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Environmental Matters” in our 2015 Annual Report.

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

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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 2015 Annual Report.

Recent Accounting Pronouncements

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

Availability of Reports; Website Access; Other Information

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

Copies of our Corporate Governance Guidelines, our Audit Committee, Compensation Committee and Nominating 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 or IR@ussilica.com.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are exposed to certain market risks, which exist as a part of our ongoing business operations. Such risks arise from adverse changes in market rates, prices and conditions. We address such market risks as discussed in "How We Generate Our Sales" in Item 2 of this Form 10-Q, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Interest Rate Risk

We are exposed to interest rate risk arising from adverse changes in interest rates. As of September 30, 2016, we have $495.5 million of debt outstanding under our senior credit facility. Assuming no change in the amount outstanding, and 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 $4.2 million per year.

We use interest rate derivatives in the normal course of our business to manage both our interest cost and the risks associated with changing interest rates. We do not use derivatives for trading or speculative purposes. The following table summarizes the fair value of our derivative instruments (in thousands) at September 30, 2016 and December 31, 2015.

	September 30, 2016				December 31, 2015			
	Maturity Date	Contract/Notional Amount	Carrying Amount	Fair Value	Maturity Date	Contract/Notional Amount	Carrying Amount	Fair Value
Interest rate cap agreement[(1)]	2019	$249 million	$ 12	$ 12	2016	$252 million	$ —	$ —

(1) Agreements limit the LIBOR floating interest rate base to 4%.

Credit Risk

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. We examine the creditworthiness of third-party customers to whom we extend credit and manage our exposure to credit risk through credit analysis, credit approval, credit limits and monitoring procedures, and for certain transactions, we may request letters of credit, prepayments or guarantees, although collateral is generally not required.

Despite enhancing our examination of our customers' credit worthiness, we may still experience delays or failures in customer payments. Some of our customers have reported experiencing financial difficulties. With respect to customers that may file for bankruptcy protection, we may not be able to collect sums owed to us by these customers and we also may be required to refund pre-petition amounts paid to us during the preference period (typically 90 days) prior to the bankruptcy filing.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as noted below.

We acquired NBI and Sandbox in August 2016. We anticipate excluding the internal control over financial reporting of NBI and Sandbox from the evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016. This decision is based upon the significance of NBI and Sandbox and the timing of integration efforts underway to transition NBI's and Sandbox's processes, information technology systems and other components of internal control over financial reporting to our internal control structure. We have expanded our consolidation and disclosure controls and procedures to include NBI and Sandbox, and we continue to assess the current internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

As a result of the above developments, the filing rate of new claims against us over the past three years has decreased to below pre-2001 levels, and we were named as a defendant in three, one and zero new silicosis cases filed in 2013, 2014 and 2015, respectively. During the nine months ended September 30, 2016, one additional claim was brought against us. As of September 30, 2016, there are a total of approximately 74 active silica-related products liability claims pending in which we were a defendant and approximately 87 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 covered 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 of ours 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 2015 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."

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ITEM 1A. RISK FACTORS

As of September 30, 2016, there are no material changes from the risk factors disclosed in Item 1A of Part I in our 2015 Annual Report other than as set forth below.

Our trucking services are highly regulated, and increased direct and indirect costs of compliance with, or liability for violation of, existing or future regulations could have a material adverse effect on our business.

The Department of Transportation (DOT) and various state agencies exercise broad powers over our trucking services, generally governing matters including authorization to engage in motor carrier service, equipment operation, safety, and financial reporting. In the future, we may become subject to new or more restrictive regulations, such as regulations relating to engine exhaust emissions, hours of service that our drivers may provide in any one time period, security and other matters, which could substantially impair equipment productivity and increase our costs. We may be audited periodically by the DOT to ensure that we are in compliance with various safety, hours-of-service, and other rules and regulations. If we were found to be out of compliance, the DOT could restrict or otherwise impact our trucking services, which would adversely affect our profitability and results of operations.

Difficulty in truckload driver and independent contractor recruitment and retention may have a materially adverse effect on our business.

With respect to our trucking services, difficulty in attracting or retaining qualified drivers and independent contractors could have a materially adverse effect on our growth and profitability. The truckload transportation industry periodically experiences a shortage of qualified drivers, particularly during periods of economic expansion, in which alternative employment opportunities are more plentiful and freight demand increases, or during periods of economic downturns, in which unemployment benefits might be extended and financing is limited for independent contractors who seek to purchase equipment or for students who seek financial aid for driving school. Our independent contractors are responsible for paying for their own equipment, fuel, and other operating costs, and significant increases in these costs could cause them to seek higher compensation from us or seek other opportunities within or outside the trucking industry. The trucking industry suffers from a high driver turnover rate, which requires us to continually recruit a substantial number of drivers to operate our equipment. If we were unable to attract and contract with independent contractors, we could be forced to, among other things, limit our growth, decrease the number of our tractors in service, adjust our driver compensation package or independent contractor compensation, or pay higher rates to third-party truckload carriers, which could adversely affect our profitability and results of operations if not offset by a corresponding increase in customer rates.

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

Share Repurchase Program

The following table presents the total number of shares of our common stock that we purchased during the third quarter of 2016, 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 share repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program[1]	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program[1]
July 2016	—	$ —	—	
August 2016	490 [2]	$ 40.21	—	
September 2016	59 [2]	$ 42.63	—	
Total	549	$ 41.42	—	$ 33,173,725

(1) A program covering the repurchase of up to $25.0 million of our common stock was initially announced in June 2012 and was increased to $50.0 million in December 2014. This program expires on December 11, 2017.

(2) Represents shares withheld by U.S. Silica to pay taxes due upon the vesting of employee restricted stock and restricted stock units.

Subsequent to September 30, 2016, we have not repurchased any shares of our common stock.

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For more details on the stock repurchase program, see Note B - Capital Structure and Accumulated Comprehensive Income to our Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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, addressing 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, with the exception of our resin-coated sand facility, 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

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,” “ “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- fluctuations in demand for commercial silica;
- the cyclical nature of our customers’ businesses;
- operating risks that are beyond our control, such as changes in the price and availability of transportation, natural gas or electricity; unusual or unexpected geological formations or pressures; cave-ins, pit wall failures or rock falls; or unanticipated ground, grade or water conditions;
- our dependence on three of our plants for a significant portion of our sales;
- the level of activity in the natural gas and oil industries;
- 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 demand 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 and transload network access infrastructure;
- extensive regulation of trucking services;
- our ability to recruit and retain truckload drivers;
- 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 successfully complete acquisitions or integrate acquired businesses;
- our ability to make capital expenditures to maintain, develop and increase our asset base and our ability to obtain needed capital or financing on satisfactory terms;
- our substantial indebtedness and pension obligations;
- restrictions imposed by our indebtedness on our current and future operations;
- contractual obligations that require us to deliver minimum amounts of frac sand or purchase minimum amounts of services;
- 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;
- 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 2015 Annual Report.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2015 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.

ITEM 6. EXHIBITS

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, this 4th day of November, 2016.

U.S. Silica Holdings, Inc.

/s/ DONALD A. MERRIL

Name:	Donald A. Merril
Title:	Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1*#	Agreement and Plan of Merger, dated as of July 15, 2016, by and among U.S. Silica Holdings, Inc., New Birmingham Merger Corp., NBI Merger Subsidiary II, Inc., New Birmingham, Inc. and each of David Durrett and Erik Dall, as representatives of the sellers and optionholders.				
2.2*#	Membership Unit Purchase Agreement, dated as of August 1, 2016, by and among U.S. Silica Company, U.S. Silica Holdings, Inc., Sandbox Enterprises, LLC, the members of Sandbox Enterprises, LLC and Sandy Creek Capital, LLC, as representative of the sellers.				
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	Certificate of Change of Registered Agent and/or Registered Office	8-K	001-35416	3.1	May 11, 2015
3.3	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 as of August 16, 2016, by and among U.S. Silica Holdings, Inc. and each person identified on the signature pages thereto.	S-3ASR	333-213870	4.1	September 29, 2016
4.3	Registration Rights Agreement, dated as of August 22, 2016, by and among U.S. Silica Holdings, Inc. and each person identified on the signature pages thereto.	S-3ASR	333-213870	4.2	September 29, 2016
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. Merril, Chief Financial Officer.				
32.1*	Section 1350 Certification by Bryan A. Shinn, Chief Executive Officer.				
32.2*	Section 1350 Certification by Donald A. Merril, Chief Financial Officer.				
95.1*	Mine Safety Disclosure				
99.1*	Consent of PropTester, 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

Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. We will furnish the omitted schedules to the Securities and Exchange Commission upon request by the Commission.

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.

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