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U.S. SILICA HOLDINGS, INC.

Form 10-Q

May 01, 2019

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slca:Product slca:claim slca:plan

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

# FORM 10-Q

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

For the Quarterly Period Ended March 31, 2019

OR

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

Commission file number 001-35416

# U.S. Silica Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware 26-3718801  
(State or other jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

24275 Katy Freeway, Suite 600

Katy, Texas 77494

(Address of Principal Executive Offices) (Zip Code)

(281) 258-2170

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 26, 2019, 73,553,442 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

**U.S. SILICA HOLDINGS, INC.**  
**FORM 10-Q**  
**For the Quarter Ended March 31, 2019**  
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**PART I-FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**U.S. SILICA HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited; dollars in thousands)

|                                                                                                                                                                                                  | <b>March 31,<br/>2019</b> | <b>December<br/>31,<br/>2018</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------------------------|
| <b>ASSETS</b>                                                                                                                                                                                    |                           |                                  |
| <b>Current Assets:</b>                                                                                                                                                                           |                           |                                  |
| Cash and cash equivalents                                                                                                                                                                        | \$ 161,615                | \$ 202,498                       |
| Accounts receivable, net                                                                                                                                                                         | 258,348                   | 215,486                          |
| Inventories, net                                                                                                                                                                                 | 143,149                   | 162,087                          |
| Prepaid expenses and other current assets                                                                                                                                                        | 14,572                    | 17,966                           |
| Income tax deposits                                                                                                                                                                              | 1,388                     | 2,200                            |
| Total current assets                                                                                                                                                                             | 579,072                   | 600,237                          |
| Property, plant and mine development, net                                                                                                                                                        | 1,820,102                 | 1,826,303                        |
| Operating lease right-of-use assets                                                                                                                                                              | 209,699                   | —                                |
| Goodwill                                                                                                                                                                                         | 273,524                   | 261,340                          |
| Intangible assets, net                                                                                                                                                                           | 190,584                   | 194,626                          |
| Other assets                                                                                                                                                                                     | 16,459                    | 18,334                           |
| Total assets                                                                                                                                                                                     | \$ 3,089,440              | \$ 2,900,840                     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                      |                           |                                  |
| <b>Current Liabilities:</b>                                                                                                                                                                      |                           |                                  |
| Accounts payable and accrued expenses                                                                                                                                                            | \$ 223,611                | \$ 216,400                       |
| Current portion of operating lease liabilities                                                                                                                                                   | 61,583                    | —                                |
| Current portion of long-term debt                                                                                                                                                                | 13,112                    | 13,327                           |
| Current portion of deferred revenue                                                                                                                                                              | 28,838                    | 31,612                           |
| Total current liabilities                                                                                                                                                                        | 327,144                   | 261,339                          |
| Long-term debt, net                                                                                                                                                                              | 1,245,242                 | 1,246,428                        |
| Deferred revenue                                                                                                                                                                                 | 86,930                    | 81,707                           |
| Liability for pension and other post-retirement benefits                                                                                                                                         | 56,879                    | 57,194                           |
| Deferred income taxes, net                                                                                                                                                                       | 131,053                   | 137,239                          |
| Operating lease liabilities                                                                                                                                                                      | 149,040                   | —                                |
| Other long-term liabilities                                                                                                                                                                      | 59,054                    | 64,629                           |
| Total liabilities                                                                                                                                                                                | 2,055,342                 | 1,848,536                        |
| <b>Commitments and Contingencies (Note O)</b>                                                                                                                                                    |                           |                                  |
| <b>Stockholders' Equity:</b>                                                                                                                                                                     |                           |                                  |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized; zero issued and outstanding at March 31, 2019 and December 31, 2018                                                             | —                         | —                                |
| Common stock, \$0.01 par value, 500,000,000 shares authorized; 82,455,734 issued and 73,524,817 outstanding at March 31, 2019; 81,811,977 issued and 73,148,853 outstanding at December 31, 2018 | 820                       | 818                              |
| Additional paid-in capital                                                                                                                                                                       | 1,173,259                 | 1,169,383                        |
| Retained earnings                                                                                                                                                                                | 43,920                    | 67,854                           |
| Treasury stock, at cost, 8,930,917 and 8,663,124 shares at March 31, 2019 and December 31, 2018, respectively                                                                                    | (180,125 )                | (178,215 )                       |
| Accumulated other comprehensive loss                                                                                                                                                             | (15,985 )                 | (15,020 )                        |
| Total U.S. Silica Holdings, Inc. stockholders' equity                                                                                                                                            | 1,021,889                 | 1,044,820                        |

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|                                            |             |             |
|--------------------------------------------|-------------|-------------|
| Non-controlling interest                   | 12,209      | 7,484       |
| Total stockholders' equity                 | 1,034,098   | 1,052,304   |
| Total liabilities and stockholders' equity | \$3,089,440 | \$2,900,840 |

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

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**U.S. SILICA HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited; dollars in thousands, except per share amounts)

|                                                                          | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|--------------------------------------------------------------------------|---------------------------------------------|-------------|
|                                                                          | <b>2019</b>                                 | <b>2018</b> |
| Sales:                                                                   |                                             |             |
| Product                                                                  | \$296,860                                   | \$294,788   |
| Service                                                                  | 81,890                                      | 74,525      |
| Total sales                                                              | 378,750                                     | 369,313     |
| Cost of sales (excluding depreciation, depletion and amortization):      |                                             |             |
| Product                                                                  | 234,916                                     | 207,239     |
| Service                                                                  | 62,622                                      | 53,671      |
| Total cost of sales (excluding depreciation, depletion and amortization) | 297,538                                     | 260,910     |
| Operating expenses:                                                      |                                             |             |
| Selling, general and administrative                                      | 34,656                                      | 34,591      |
| Depreciation, depletion and amortization                                 | 44,600                                      | 28,592      |
| Total operating expenses                                                 | 79,256                                      | 63,183      |
| Operating income                                                         | 1,956                                       | 45,220      |
| Other (expense) income:                                                  |                                             |             |
| Interest expense                                                         | (23,978 )                                   | (7,070 )    |
| Other income, net, including interest income                             | 722                                         | 665         |
| Total other expense                                                      | (23,256 )                                   | (6,405 )    |
| (Loss) income before income taxes                                        | (21,300 )                                   | 38,815      |
| Income tax benefit (expense)                                             | 1,972                                       | (7,521 )    |
| Net (loss) income                                                        | \$(19,328 )                                 | \$31,294    |
| Less: Net (loss) income attributable to non-controlling interest         | (4 )                                        | —           |
| Net (loss) income attributable to U.S. Silica Holdings, Inc.             | \$(19,324 )                                 | \$31,294    |
| Earnings (loss) per share attributable to U.S. Silica Holdings, Inc.:    |                                             |             |
| Basic                                                                    | \$(0.26 )                                   | \$0.39      |
| Diluted                                                                  | \$(0.26 )                                   | \$0.39      |
| Weighted average shares outstanding:                                     |                                             |             |
| Basic                                                                    | 73,040                                      | 79,496      |
| Diluted                                                                  | 73,040                                      | 80,309      |
| Dividends declared per share                                             | \$0.06                                      | \$0.06      |

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

**U.S. SILICA HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited; dollars in thousands)

|                                                                                                                                                                 | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------|
|                                                                                                                                                                 | <b>2019</b>                                 | <b>2018</b> |
| Net (loss) income                                                                                                                                               | \$(19,328)                                  | \$31,294    |
| Other comprehensive (loss) income:                                                                                                                              |                                             |             |
| Unrealized loss on derivatives (net of tax of \$(299) and \$1 for the three months ended March 31, 2019 and 2018, respectively)                                 | (940)                                       | (2)         |
| Foreign currency translation adjustment (net of tax of \$(60) and \$1 for the three months ended March 31, 2019 and 2018, respectively)                         | (199)                                       | 3           |
| Pension and other post-retirement benefits liability adjustment (net of tax of \$55 and \$730 for the three months ended March 31, 2019 and 2018, respectively) | 174                                         | 2,293       |
| Comprehensive (loss) income                                                                                                                                     | \$(20,293)                                  | \$33,588    |
| Less: Comprehensive (loss) income attributable to non-controlling interest                                                                                      | (4)                                         | —           |
| Comprehensive (loss) income attributable to U.S. Silica Holdings, Inc.                                                                                          | \$(20,289)                                  | \$33,588    |

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

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

|                                                                                     | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total U.S.<br>Silica<br>Holdings<br>Inc.,<br>Stockholders'<br>Equity | Non-controlling<br>Interest | Total<br>Stockholders'<br>Equity |
|-------------------------------------------------------------------------------------|-----------------|-------------------|----------------------------------|----------------------|-----------------------------------------------|----------------------------------------------------------------------|-----------------------------|----------------------------------|
| Balance at December 31, 2018                                                        | \$ 818          | \$(178,215)       | \$1,169,383                      | \$67,854             | \$ (15,020)                                   | \$1,044,820                                                          | \$ 7,484                    | \$1,052,304                      |
| Net loss                                                                            | —               | —                 | —                                | (19,324)             | —                                             | (19,324)                                                             | (4)                         | (19,328)                         |
| Unrealized loss on derivatives                                                      | —               | —                 | —                                | —                    | (940)                                         | (940)                                                                | —                           | (940)                            |
| Foreign currency translation adjustment                                             | —               | —                 | —                                | —                    | (199)                                         | (199)                                                                | —                           | (199)                            |
| Pension and post-retirement liability                                               | —               | —                 | —                                | —                    | 174                                           | 174                                                                  | —                           | 174                              |
| Cash dividend declared (\$0.0625 per share)                                         | —               | —                 | —                                | (4,610)              | —                                             | (4,610)                                                              | —                           | (4,610)                          |
| Contributions from non-controlling interest                                         | —               | —                 | —                                | —                    | —                                             | —                                                                    | 4,729                       | 4,729                            |
| Common stock-based compensation plans activity:                                     |                 |                   |                                  |                      |                                               |                                                                      |                             |                                  |
| Equity-based compensation                                                           | —               | —                 | 4,045                            | —                    | —                                             | 4,045                                                                | —                           | 4,045                            |
| Proceeds from options exercised                                                     | —               | 295               | (167)                            | —                    | —                                             | 128                                                                  | —                           | 128                              |
| Tax payments related to shares withheld for vested restricted stock and stock units | 2               | (2,205)           | (2)                              | —                    | —                                             | (2,205)                                                              | —                           | (2,205)                          |
| Balance at March 31, 2019                                                           | \$ 820          | \$(180,125)       | \$1,173,259                      | \$43,920             | \$ (15,985)                                   | \$1,021,889                                                          | \$ 12,209                   | \$1,034,098                      |
| Balance at December 31, 2017                                                        | \$ 812          | \$(25,456)        | \$1,147,084                      | \$287,992            | \$ (13,926)                                   | \$1,396,506                                                          | \$ —                        | \$1,396,506                      |
| Net income                                                                          | —               | —                 | —                                | 31,294               | —                                             | 31,294                                                               | —                           | 31,294                           |
| Unrealized loss on derivatives                                                      | —               | —                 | —                                | —                    | (2)                                           | (2)                                                                  | —                           | (2)                              |
| Foreign currency translation adjustment                                             | —               | —                 | —                                | —                    | 3                                             | 3                                                                    | —                           | 3                                |
| Pension and post-retirement liability                                               | —               | —                 | —                                | —                    | 2,293                                         | 2,293                                                                | —                           | 2,293                            |
| Cash dividend declared (\$0.0625 per share)                                         | —               | —                 | —                                | (4,881)              | —                                             | (4,881)                                                              | —                           | (4,881)                          |
| Common stock-based compensation plans activity:                                     |                 |                   |                                  |                      |                                               |                                                                      |                             |                                  |
| Equity-based compensation                                                           | —               | —                 | 6,254                            | —                    | —                                             | 6,254                                                                | —                           | 6,254                            |
| Tax payments related to shares withheld for vested restricted stock and stock units | 2               | (3,484)           | (2)                              | —                    | —                                             | (3,484)                                                              | —                           | (3,484)                          |
| Repurchase of common stock                                                          | —               | (75,000)          | —                                | —                    | —                                             | (75,000)                                                             | —                           | (75,000)                         |
| Balance at March 31, 2018                                                           | \$ 814          | \$(103,940)       | \$1,153,336                      | \$314,405            | \$ (11,632)                                   | \$1,352,983                                                          | \$ —                        | \$1,352,983                      |

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

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

|                                                                                          | <b>Three Months<br/>Ended<br/>March 31,</b> |                  |
|------------------------------------------------------------------------------------------|---------------------------------------------|------------------|
|                                                                                          | <b>2019</b>                                 | <b>2018</b>      |
| Operating activities:                                                                    |                                             |                  |
| Net (loss) income                                                                        | \$(19,328 )                                 | \$31,294         |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                                             |                  |
| Depreciation, depletion and amortization                                                 | 44,600                                      | 28,592           |
| Debt issuance amortization                                                               | 1,322                                       | 345              |
| Original issue discount amortization                                                     | 265                                         | 93               |
| Deferred income taxes                                                                    | (2,553 )                                    | 7,786            |
| Deferred revenue                                                                         | (7,576 )                                    | 3,562            |
| (Gain) loss on disposal of property, plant and equipment                                 | 113                                         | (5,799 )         |
| Equity-based compensation                                                                | 4,045                                       | 6,254            |
| Bad debt provision, net of recoveries                                                    | 721                                         | 237              |
| Other                                                                                    | (3,872 )                                    | (871 )           |
| Changes in operating assets and liabilities, net of effects of acquisitions:             |                                             |                  |
| Accounts receivable                                                                      | (43,583 )                                   | (39,077 )        |
| Inventories                                                                              | 18,938                                      | 15,797           |
| Prepaid expenses and other current assets                                                | 3,151                                       | 694              |
| Income taxes                                                                             | 812                                         | (961 )           |
| Accounts payable and accrued expenses                                                    | 12,970                                      | (27,930 )        |
| Short-term and long-term obligations-vendor incentives                                   | —                                           | 57,986           |
| Liability for pension and other post-retirement benefits                                 | 924                                         | 212              |
| Other noncurrent assets and liabilities                                                  | (48 )                                       | (605 )           |
| Net cash provided by operating activities                                                | 10,901                                      | 77,609           |
| Investing activities:                                                                    |                                             |                  |
| Capital expenditures                                                                     | (44,376 )                                   | (72,327 )        |
| Capitalized intellectual property costs                                                  | (1,307 )                                    | (1,011 )         |
| Proceeds from sale of property, plant and equipment                                      | —                                           | 25,960           |
| Net cash used in investing activities                                                    | (45,683 )                                   | (47,378 )        |
| Financing activities:                                                                    |                                             |                  |
| Dividends paid                                                                           | (4,690 )                                    | (5,069 )         |
| Repurchase of common stock                                                               | —                                           | (75,000 )        |
| Proceeds from options exercised                                                          | 128                                         | —                |
| Tax payments related to shares withheld for vested restricted stock and stock units      | (2,205 )                                    | (3,485 )         |
| Payments on long-term debt                                                               | (4,043 )                                    | (1,657 )         |
| Contributions from non-controlling interest                                              | 4,729                                       | —                |
| Principal payments on finance lease obligations                                          | (20 )                                       | (75 )            |
| Net cash used in financing activities                                                    | (6,101 )                                    | (85,286 )        |
| Net decrease in cash and cash equivalents                                                | (40,883 )                                   | (55,055 )        |
| <b>Cash and cash equivalents, beginning of period</b>                                    | <b>202,498</b>                              | <b>384,567</b>   |
| <b>Cash and cash equivalents, end of period</b>                                          | <b>\$161,615</b>                            | <b>\$329,512</b> |
| <b>Supplemental cash flow information:</b>                                               |                                             |                  |
| Cash paid (received) during the period for:                                              |                                             |                  |
| Interest                                                                                 | \$21,557                                    | \$6,592          |



|                                                    |           |           |
|----------------------------------------------------|-----------|-----------|
| Taxes, net of refunds                              | \$ (472 ) | \$ 770    |
| Related party purchases                            | \$ —      | \$ 672    |
| Non-cash Items:                                    |           |           |
| Accrued capital expenditures                       | \$ 39,239 | \$ 20,170 |
| Capital lease assumed by third-party               | \$ —      | \$ 119    |
| Asset retirement obligation assumed by third-party | \$ —      | \$ 2,116  |

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE A—ORGANIZATION AND BASIS OF PRESENTATION**

***Organization***

U.S. Silica Holdings, Inc. (“Holdings,” and together with its subsidiaries “we,” “us” or the “Company”) is a performance materials company and one of the largest domestic producers of commercial silica used in the oil and gas industry and in a wide range of industrial applications. In addition, through our acquisition of EP Minerals, LLC (“EPM”) and its affiliated companies, we are an industry leader in the production of industrial minerals, including diatomaceous earth, clay (calcium bentonite and calcium montmorillonite) and perlite. During our 119-year history, we have developed core competencies in mining, processing, logistics and materials science that enable us to produce and cost-effectively deliver products to customers across our end markets. Our operations are organized into two reportable segments based on end markets served: (1) Oil & Gas Proppants and (2) Industrial & Specialty Products. See Note U - Segment Reporting for more information on our reportable segments.

***Basis of Presentation and Consolidation***

The accompanying unaudited Condensed Consolidated Financial Statements for the quarter ended March 31, 2019 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, 2018; therefore, the unaudited 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 have been included. Such adjustments are of a normal, recurring nature.

The Condensed Consolidated Financial Statements include the accounts of Holdings and its direct and indirect wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

We follow Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidance for identification and reporting of entities over which control is achieved through means other than voting rights. The guidance defines such entities as Variable Interest Entities (“VIEs”). We consolidate VIEs when we have variable interests and are the primary beneficiary. We continually evaluate our involvement with VIEs to determine when these criteria are met.

During the third quarter of 2018 we finalized a shareholders' agreement with unrelated parties to form a limited liability company with the purpose of constructing and operating a water pipeline to transport and sell water. In connection with the shareholders' agreement, we acquired a 50% equity ownership for \$3.2 million, with a maximum capital contribution of \$7.0 million, and a water rights intangible asset for \$0.7 million. Based on our evaluation, we determined that we are the primary beneficiary of this VIE and therefore we are required to consolidate it, including the current construction work in progress of \$19.0 million. During the fourth quarter of 2018 we contributed an additional \$3.8 million for a total of \$7.0 million in capital contributions for the year ended December 31, 2018. We did not make any capital contributions during the three months ended March 31, 2019.

Throughout this report we refer 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.”

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

***Use of Estimates and Assumptions***

The preparation of Consolidated Financial Statements in conformity with GAAP requires management 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 Consolidated 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 the 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

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asset impairments (including impairments of goodwill, intangible assets 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; contingent considerations; 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.

### ***Leases***

We lease railroad cars, office space, mining property, mining/processing equipment and transportation and other equipment. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities, and operating lease liabilities in our consolidated balance sheets. Finance leases are included in property, plant and mine development, current portion of long-term debt, and long-term debt in our consolidated balance sheets. Leases with an initial term of 12 months or less are not recorded on the balance sheet. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU assets also include any lease payments made at or before the commencement date of the lease and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, the latter of which are generally accounted for separately. See Note Q - Leases

### ***Foreign Operations***

Foreign sales were approximately \$15.3 million of our consolidated sales; pre-tax income was \$0.9 million and net income was \$0.8 million for the three months ended March 31, 2019. Foreign operations constituted approximately \$10.1 million of consolidated assets as of March 31, 2019. We had no significant foreign operations during the three months ended March 31, 2018.

### ***New Accounting Pronouncements Recently Adopted***

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) and issued ASU 2018-11 Leases (Topic 842): Targeted Improvements. The new standard(s) established a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a corresponding lease liability on the balance sheet for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Similarly, lessors will be required to classify leases as sales-type, finance or operating, with classification affecting the pattern of income recognition. Classification for both lessees and lessors will be based on an assessment of whether the lease risks and rewards, as well as substantive control, have been transferred through a lease contract. On January 1, 2019, we adopted the new accounting standard using the modified retrospective approach. We elected the package of practical expedients permitted under the transition guidance, which allowed us to account for our existing operating leases without reassessing (a) whether the contracts contain a lease under the new standard, (b) whether classification of the operating leases would be different in accordance with the new standard, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new standard at lease commencement. Adoption of the new standard resulted in the recognition of operating lease right-of-use assets of \$223.0 million and lease liabilities of \$222.7 million. The standard did not have a material impact on our consolidated statements of operations or cash flows. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note Q - Leases.

In February 2018, the FASB issued Accounting Standards Update ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU provides that the stranded tax effects from the Tax Act in accumulated other comprehensive loss may be reclassified to retained earnings. The ASU is effective January 1, 2019, with early adoption permitted. We adopted the new accounting standard on January 1, 2019, and we do not intend to exercise the option to reclassify

stranded tax effects within accumulated other comprehensive income.

***New Accounting Pronouncements Not Yet Adopted***

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In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The new guidance requires a customer in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The update is effective for calendar-year public business entities in 2020. For all other calendar-year entities, it is effective for annual periods beginning in 2021 and interim periods in 2022. Early adoption is permitted. We are currently evaluating the effect that the guidance will have on our financial statements and related disclosures.

In October 2018, FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities. This ASU is intended to reduce the cost and complexity of financial reporting associated with consolidation of VIEs. This ASU affects organizations that are required to determine whether they should consolidate a legal entity under the guidance within Subtopic 810-10, Consolidation. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the adoption of this standard and the impact to our consolidated financial statements.

In November 2018, the FASB issued 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606. The amendments in this ASU provide clarification and guidance on whether certain transactions between collaborative arrangement participants should be accounting for with revenue under Topic 606 (Revenue from Contracts with Customers). The amendments provide narrow scope improvements for lessors. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. We are currently evaluating the adoption of this standard and the impact to our consolidated financial statements.

In November 2018, FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses. The amendments in this ASU clarified issues related to Topic 326. In Issue 1, the amendment in this ASU mitigates transition complexity by requiring that for nonpublic business entities the amendments in ASU 2016-13 are effective for fiscal years after December 15, 2021, including interim periods within those fiscal years. In Issue 2, the amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Impairment of receivables arising from operating leases should be accounting for in accordance with Topic 842, Leases. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. We are currently evaluating the adoption of this standard and the impact to our consolidated financial statements.

#### **NOTE C—EARNINGS PER SHARE**

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is computed similarly to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Diluted net earnings per share assumes the conversion of contingently convertible securities and stock options under the treasury stock method, if dilutive. Contingently convertible securities and stock options are excluded from the calculation of fully diluted earnings per share if they are anti-dilutive, including when we incur a loss from continuing operations.

The following table shows the computation of basic and diluted earnings per share for the three months ended March 31, 2019, and 2018:



| <i>In thousands, except per share amounts</i>                                | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                              | <b>2019</b>                             | <b>2018</b> |
| <b>Numerator:</b>                                                            |                                         |             |
| Net (loss) income attributable to U.S. Silica Holdings, Inc.                 | \$(19,324)                              | \$31,294    |
| <b>Denominator:</b>                                                          |                                         |             |
| Weighted average shares outstanding                                          | 73,040                                  | 79,496      |
| Diluted effect of stock awards                                               | —                                       | 813         |
| Weighted average shares outstanding assuming dilution                        | 73,040                                  | 80,309      |
| <b>Earnings (loss) per share attributable to U.S. Silica Holdings, Inc.:</b> |                                         |             |
| Basic (loss) earnings per share                                              | \$(0.26)                                | \$0.39      |
| Diluted (loss) earnings per share                                            | \$(0.26)                                | \$0.39      |

We excluded potentially dilutive shares of 171 for the three months ended March 31, 2019 from the calculation of diluted weighted average shares outstanding and diluted earnings per share because we were in a net loss position. Certain stock options, restricted stock awards and performance share units were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. Stock awards (in thousands) excluded from the calculation of diluted earnings per common share were as follows:

|                                                              | <b>Three<br/>Months<br/>Ended<br/>March<br/>31,<br/>2019 2018</b> |     |
|--------------------------------------------------------------|-------------------------------------------------------------------|-----|
| Stock options excluded                                       | 736                                                               | 428 |
| Restricted stock and performance share units awards excluded | 353                                                               | 337 |

#### **NOTE D—CAPITAL STRUCTURE AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** *Common Stock*

Our Amended and Restated Certificate of Incorporation authorizes up to 500,000,000 shares of common stock, par value of \$0.01. Subject to the rights of holders of any series of preferred stock, all of the voting power of the stockholders of Holdings shall be vested in the holders of the common stock. There were 82,455,734 shares issued and 73,524,817 shares outstanding at March 31, 2019. There were 81,811,977 shares issued and 73,148,853 shares outstanding at December 31, 2018.

During the three months ended March 31, 2019, our Board of Directors declared quarterly cash dividends as follows:

| <b>Dividends<br/>per<br/>Common<br/>Share</b> | <b>Declaration Date</b> | <b>Record Date</b> | <b>Payable Date</b> |
|-----------------------------------------------|-------------------------|--------------------|---------------------|
| \$0.0625                                      | February 15, 2019       | March 14, 2019     | April 4, 2019       |

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 and 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

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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 March 31, 2019 or December 31, 2018. At present, we have no plans to issue any preferred stock.

### ***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. 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.

In May 2018, our Board of Directors authorized the repurchase of up to \$200 million of our common stock. As of March 31, 2019, we have repurchased a total of 5,036,139 shares of our common stock at an average price of \$14.59 and have \$126.5 million of remaining availability under this program.

### ***Accumulated Other Comprehensive Loss***

Accumulated other comprehensive loss consists of fair value adjustments associated with cash flow hedges, accumulated adjustments for net experience losses and prior service cost related to employee benefit plans and foreign currency translation adjustments, net of tax. The following table presents the changes in accumulated other comprehensive loss by component (in thousands) during the three months ended March 31, 2019:

|                                                                | For the Three Months Ended March 31, 2019 |                                                   |                                                               |             |
|----------------------------------------------------------------|-------------------------------------------|---------------------------------------------------|---------------------------------------------------------------|-------------|
|                                                                | Unrealized<br>loss on cash<br>flow hedges | Foreign<br>currency<br>translation<br>adjustments | Pension and<br>other<br>post-retirement<br>benefits liability | Total       |
| Beginning Balance                                              | \$(1,621 )                                | \$ (620 )                                         | \$ (12,779 )                                                  | \$(15,020 ) |
| Other comprehensive gain (loss) before reclassifications       | (940 )                                    | (199 )                                            | (76 )                                                         | (1,215 )    |
| Amounts reclassified from accumulated other comprehensive loss | —                                         | —                                                 | 250                                                           | 250         |
| Ending Balance                                                 | \$(2,561 )                                | \$ (819 )                                         | \$ (12,605 )                                                  | \$(15,985 ) |

Amounts reclassified from accumulated other comprehensive loss related to cash flow hedges are included in interest expense in our Income Statements and amounts reclassified related to pension and other post-retirement benefits are included in the computation of net periodic benefit costs at their pre-tax amounts.

## **NOTE E—BUSINESS COMBINATIONS**

### ***2018 Acquisition:***

On May 1, 2018, we completed the acquisition of all of the outstanding capital stock of EP Acquisition Parent, Inc., a Delaware corporation (“EPAP”), and the ultimate parent of EP Minerals, LLC (“EPM”). Contemporaneous with the merger, EPAP was renamed EP Minerals Holdings, Inc. (“EPMH”). The consideration paid consisted of \$743.2 million of cash, net of cash acquired of \$19.1 million, including \$0.5 million of post-closing adjustments. EPM is a global producer of engineered materials derived from industrial minerals, including diatomaceous earth, clay (calcium bentonite and calcium montmorillonite) and perlite. EPM’s industrial minerals are used as filter aids, absorbents and functional additives for a variety of industries including food and beverage, biofuels, recreational water, oil and gas, farm and home, landscape, sports turf, paint, plastics, and insecticides. The acquisition of EPM increased our industrial materials product offering in our Industrial & Specialty Products business segment.

We have accounted for the acquisition of EPMH under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Estimates of fair value included in the Consolidated Financial Statements represent our best estimates and valuations. In accordance with the acquisition method of accounting, the allocation of consideration value is subject to adjustment until we complete our analysis, within a period of time not to exceed one year after the date of





acquisition, or May 1, 2019, in order to provide us with the time to complete the valuation of its assets and liabilities. We are still completing our analysis of the fair value of property, plant and mine development, mineral rights and intangible assets.

The following table sets forth the preliminary allocation of the purchase price to EPMH's identifiable tangible and intangible assets acquired and liabilities assumed, including measurement period adjustments (in thousands):

| <i>Preliminary allocation of purchase price:</i>  | <b>Estimate<br/>as of<br/>December<br/>31, 2018</b> | <b>Measurement<br/>Period<br/>Adjustments</b> | <b>Purchase<br/>Price<br/>Allocation</b> |
|---------------------------------------------------|-----------------------------------------------------|-----------------------------------------------|------------------------------------------|
| Accounts receivable, net                          | \$ 43,305                                           | \$ —                                          | \$ 43,305                                |
| Inventories                                       | 86,112                                              | —                                             | 86,112                                   |
| Property, plant and mine development              | 148,495                                             | (1,937)                                       | ) 146,558                                |
| Mineral rights                                    | 419,469                                             | (10,580)                                      | ) 408,889                                |
| Identifiable intangible assets - finite lived     | 10,270                                              | (1,500)                                       | ) 8,770                                  |
| Identifiable intangible assets - indefinite lived | 38,050                                              | (1,250)                                       | ) 36,800                                 |
| Prepays and deposits                              | 2,072                                               | (245)                                         | ) 1,827                                  |
| Other assets                                      | 7,474                                               | —                                             | 7,474                                    |
| Goodwill                                          | 150,628                                             | 12,184                                        | 162,812                                  |
| Total assets acquired                             | 905,875                                             | (3,328)                                       | ) 902,547                                |
| Accounts payable                                  | 13,435                                              | —                                             | 13,435                                   |
| Accrued expenses and other current liabilities    | 10,304                                              | —                                             | 10,304                                   |
| Deferred tax liabilities                          | 122,811                                             | (3,328)                                       | ) 119,483                                |
| Long term liabilities                             | 16,076                                              | —                                             | 16,076                                   |
| Total liabilities assumed                         | \$ 162,626                                          | \$ (3,328)                                    | ) \$ 159,298                             |
| <b>Net assets acquired</b>                        | <b>\$ 743,249</b>                                   | <b>\$ —</b>                                   | <b>\$ 743,249</b>                        |

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

|                                                                | <b>Approximate<br/>Fair Value</b> | <b>Estimated Useful Life</b> |
|----------------------------------------------------------------|-----------------------------------|------------------------------|
|                                                                | <i>(in<br/>thousands)</i>         | <i>(in years)</i>            |
| Technology and intellectual property                           | \$ 1,400                          | 15                           |
| Customer relationships                                         | 7,370                             | 15                           |
| <b>Total identifiable intangible assets - finite lived</b>     | <b>\$ 8,770</b>                   |                              |
| Trade names                                                    | \$ 36,800                         |                              |
| <b>Total identifiable intangible assets - indefinite lived</b> | <b>\$ 36,800</b>                  |                              |

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 our industrial materials product offering in our Industrial & Specialty Products business segment. Intangibles and goodwill are not expected to be deductible for tax purposes.

#### **Unaudited Pro Forma Results**

The results of EPMH's operations have been included in the Consolidated Financial Statements subsequent to the acquisition date. EPMH's fiscal year end was November 30 and the Company's fiscal year end was December 31. Under SEC regulations, if a target's fiscal year end varies by more than 93 days from the acquirer's fiscal year end, it is required to adjust interim periods until it is within 93 days. Since EPMH's fiscal year end was within 93 days of the Company's fiscal year end, no adjustment is necessary and EPMH's fiscal year end and interim period ends are used as if they coincided with the Company's fiscal year end and interim period end. The following unaudited pro forma

consolidated financial information reflects the results of operations as if the EPMH acquisition had occurred on January 1, 2017, after giving effect to certain purchase accounting adjustments. Material non-recurring transaction costs attributable to the business combination were \$15.2 million. Pro forma net income includes incremental interest expense due to the related debt financing, incremental depreciation and depletion expense related to the fair value adjustment of property, plant and mine development, amortization expense related to identifiable intangible assets, and tax expense related to the combined tax provisions. 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):

|                        | <b>For the<br/>Year<br/>Ended<br/>December<br/>31, 2018</b> |
|------------------------|-------------------------------------------------------------|
| Sales                  | \$1,659,775                                                 |
| Net loss               | \$(179,220 )                                                |
| Basic loss per share   | \$(2.34 )                                                   |
| Diluted loss per share | \$(2.34 )                                                   |

#### **NOTE F—ACCOUNTS RECEIVABLE**

At March 31, 2019 and December 31, 2018, accounts receivable (in thousands) consisted of the following:

|                                       | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---------------------------------------|---------------------------|------------------------------|
| Trade receivables                     | \$241,100                 | \$198,435                    |
| Less: Allowance for doubtful accounts | (7,437 )                  | (6,751 )                     |
| Net trade receivables                 | 233,663                   | 191,684                      |
| Other receivables <sup>(1)</sup>      | 24,685                    | 23,802                       |
| Total accounts receivable             | \$258,348                 | \$215,486                    |

At March 31, 2019 and December 31, 2018, other receivables included \$16.0 million of refundable alternative minimum tax credits.

Changes in our allowance for doubtful accounts (in thousands) during the three months ended March 31, 2019 and 2018 are as follows:

|                    | <b>March<br/>31,<br/>2019</b> | <b>March 31,<br/>2018</b> |
|--------------------|-------------------------------|---------------------------|
| Beginning balance  | \$6,751                       | \$7,100                   |
| Bad debt provision | 721                           | 237                       |
| Write-offs         | (35 )                         | (87 )                     |
| Ending balance     | \$7,437                       | \$7,250                   |

Our ten largest customers accounted for approximately 42% and 52% of total sales during the three months ended March 31, 2019 and 2018, respectively. Sales to one of our customers accounted for 12% and 15% of our total sales

during the three months ended March 31, 2019 and 2018, respectively. No other customers accounted for 10% or more of our total sales. At March 31, 2019, one of our customers' accounts receivable represented 16% of our total trade accounts receivable, net of allowance. At December 31, 2018, one of our customers' accounts receivable represented 18% of our total trade accounts receivable, net of allowance. No other customers accounted for 10% or more of our total trade accounts receivable.

**NOTE G—INVENTORIES**

At March 31, 2019 and December 31, 2018, inventories (in thousands) consisted of the following:

|                                   | March 31,<br>2019 | December<br>31, 2018 |
|-----------------------------------|-------------------|----------------------|
| Supplies                          | \$44,479          | \$41,453             |
| Raw materials and work in process | 60,910            | 68,474               |
| Finished goods                    | 37,760            | 52,160               |
| Total inventories                 | \$143,149         | \$162,087            |

**NOTE H—PROPERTY, PLANT AND MINE DEVELOPMENT**

At March 31, 2019 and December 31, 2018, property, plant and mine development (in thousands) consisted of the following:

|                                                      | March 31,<br>2019 | December 31,<br>2018 |
|------------------------------------------------------|-------------------|----------------------|
| Mining property and mine development                 | \$983,517         | \$995,759            |
| Asset retirement cost                                | 12,727            | 12,732               |
| Land                                                 | 55,502            | 55,502               |
| Land improvements                                    | 68,992            | 67,729               |
| Buildings                                            | 65,047            | 64,515               |
| Machinery and equipment                              | 1,027,782         | 958,357              |
| Furniture and fixtures                               | 3,611             | 3,599                |
| Construction-in-progress                             | 137,982           | 167,933              |
|                                                      | 2,355,160         | 2,326,126            |
| Accumulated depletion, depreciation and amortization | (535,058 )        | (499,823 )           |
| Total property, plant and mine development, net      | \$1,820,102       | \$1,826,303          |

At March 31, 2019 and December 31, 2018, the aggregate cost of machinery and equipment acquired under finance leases was \$0.3 million and \$0.9 million, respectively, reduced by accumulated depreciation of \$0.1 million and \$0.2 million, respectively. The amount of interest costs capitalized in property, plant and mine development was \$1.0 million and \$1.8 million for the three months ended March 31, 2019 and 2018, respectively.

On March 21, 2018, we completed the sale of three transload facilities located in the Permian, Eagle Ford, and Marcellus Basins to CIG Logistics (“CIG”) for total consideration of \$86.1 million, including the assumption by CIG of \$2.2 million of Company obligations. Total cash consideration was \$83.9 million. The consideration includes receipt of a vendor incentive from CIG to enter into master transloading service arrangements. Of the total consideration, \$25.8 million was allocated to the fair value of the transload facilities, which had a net book value of \$20.0 million and resulted in a gain on sale of \$5.8 million. The consideration included a related asset retirement obligation of \$2.1 million and an equipment note of \$0.1 million assumed by CIG. In addition, \$60.3 million of the consideration received in excess of the facilities' fair value was allocated to vendor incentives to be recognized as a reduction of costs using a service-level methodology over the contract lives of the transloading service arrangements. At March 31, 2019, vendor incentives of \$12.1 million and \$28.0 million were classified in accounts payable and accrued expenses and in other long-term liabilities, respectively, on our balance sheet.

Separately, on March 21, 2018, we accrued \$7.9 million in contract termination costs for facilities contracts operated by third-parties, which will not transfer to CIG. During the second quarter of 2018, as a result of the final settlement of these contracts, we recorded a \$2.7 million credit in selling, general and administrative expenses on our Income Statement.

**NOTE I—GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill (in thousands) by business segment consisted of the following:

|                                               | Oil & Gas Proppants Segment |               | Industrial & Specialty Products Segment |           | Totals    |           |
|-----------------------------------------------|-----------------------------|---------------|-----------------------------------------|-----------|-----------|-----------|
|                                               | <u>Goodwill</u>             |               | <u>Impairments</u>                      |           |           |           |
| <b>Balance at December, 2018</b>              | \$250,267                   | \$ (164,167 ) | \$86,100                                | \$175,240 | —         | \$175,240 |
| EPM acquisition measurement period adjustment | —                           | —             | —                                       | 12,184    | —         | 12,184    |
| <b>Balance at March 31, 2019</b>              | \$250,267                   | \$ (164,167 ) | \$86,100                                | \$187,424 | —         | \$187,424 |
|                                               |                             |               |                                         |           | \$187,424 | \$273,524 |

Goodwill and trade names are evaluated for impairment annually as of October 31, or more frequently when indicators of impairment exist. We evaluated events and circumstances since the date of our last qualitative assessment, including macroeconomic conditions, industry and market conditions, and our overall financial performance. After assessing the totality

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of the events and circumstances, we determined that it was not more likely than not that the fair value of our reporting units was less than their carrying amount and no impairment existed.

The changes in the carrying amount of intangible assets (in thousands) consisted of the following:

|                                         | Estimated Useful Life<br>(in years) | March 31, 2019              |                             |           | December 31, 2018           |                             |           |
|-----------------------------------------|-------------------------------------|-----------------------------|-----------------------------|-----------|-----------------------------|-----------------------------|-----------|
|                                         |                                     | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net       |
| Technology and intellectual property    | 15                                  | \$83,497                    | \$ (12,610 )                | \$70,887  | \$83,616                    | \$ (11,168 )                | \$72,448  |
| Customer relationships                  | 13 - 15                             | 68,659                      | (15,052 )                   | 53,607    | 68,664                      | (13,826 )                   | 54,838    |
| Total definite-lived intangible assets: |                                     | \$152,156                   | \$ (27,662 )                | \$124,494 | \$152,280                   | \$ (24,994 )                | \$127,286 |
| Trade names                             |                                     | 65,390                      | —                           | 65,390    | 66,640                      | —                           | 66,640    |
| Other                                   |                                     | 700                         | —                           | 700       | 700                         | —                           | 700       |
| Total intangible assets:                |                                     | \$218,246                   | \$ (27,662 )                | \$190,584 | \$219,620                   | \$ (24,994 )                | \$194,626 |

Measurement period adjustments related to the Company's EPMH acquisition impacted the March 31, 2019 gross carrying amounts of the technology and intellectual property intangibles by \$(1.5) million and the trade names by \$(1.3) million. See Note E - Business Combinations.

Amortization expense was \$2.7 million and \$2.3 million for the three months ended March 31, 2019 and 2018, respectively.

The estimated amortization expense related to definite-lived intangible assets (in thousands) for the five succeeding years is as follows:

|      |         |
|------|---------|
| 2019 | \$8,022 |
| 2020 | 10,696  |
| 2021 | 10,694  |
| 2022 | 10,679  |
| 2023 | 10,674  |

**NOTE J—DEBT**

At March 31, 2019 and December 31, 2018, debt (in thousands) consisted of the following:

|                                                                                                        | <b>March 31,<br/>2019</b> | <b>December<br/>31,<br/>2018</b> |
|--------------------------------------------------------------------------------------------------------|---------------------------|----------------------------------|
| Senior secured credit facility:                                                                        |                           |                                  |
| Revolver expiring May 1, 2023 (8.50% at March 31, 2019 and December 31, 2018)                          | \$—                       | \$—                              |
| Term Loan facility—final maturity May 1, 2025 (6.50% at March 31, 2019 and 6.56%<br>December 31, 2018) | 1,267,200                 | 1,270,400                        |
| Less: Unamortized original issue discount                                                              | (6,246 )                  | (6,511 )                         |
| Less: Unamortized debt issuance cost                                                                   | (29,988 )                 | (31,310 )                        |
| Note payable secured by royalty interest                                                               | 26,991                    | 26,511                           |
| Equipment notes payable                                                                                | 267                       | 321                              |
| Finance leases                                                                                         | 130                       | 344                              |
| <b>Total debt</b>                                                                                      | <b>1,258,354</b>          | <b>1,259,755</b>                 |
| Less: current portion                                                                                  | (13,112 )                 | (13,327 )                        |
| <b>Total long-term portion of debt</b>                                                                 | <b>\$ 1,245,242</b>       | <b>\$ 1,246,428</b>              |

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

We have a \$100.0 million Revolver with zero drawn and \$4.8 million allocated for letters of credit as of March 31, 2019, leaving \$95.2 million available under the Revolver.

***Senior Secured Credit Facility***

At March 31, 2019, contractual maturities of our senior secured Credit Facility (in thousands) are as follows:

|              |                     |
|--------------|---------------------|
| 2019         | \$9,600             |
| 2020         | 12,800              |
| 2021         | 12,800              |
| 2022         | 12,800              |
| 2023         | 12,800              |
| Thereafter   | 1,206,400           |
| <b>Total</b> | <b>\$ 1,267,200</b> |

On May 1, 2018, we entered into the Credit Agreement, which increased our existing senior debt by entering into a new \$1.380 billion senior secured Credit Facility, consisting of a \$1.280 billion Term Loan and a \$100 million Revolver that may also be used for swingline loans or letters of credit, and we may elect to increase the term loan in accordance with the terms of the Credit Agreement. Borrowings under the Credit Agreement will bear interest at variable rates as determined at our election, at LIBOR or a base rate, in each case, plus an applicable margin. In addition, under the Credit Agreement, we are required to pay a per annum facility fee and fees for letters of credit. The Credit Agreement is secured by substantially all of our assets and of our domestic subsidiaries' assets and a pledge of the equity interests in such entities. The Term Loan matures on May 1, 2025, and the Revolver expires May 1, 2023. We capitalized \$38.7 million in debt issuance costs and original issue discount as a result of the new Credit Agreement.

The Credit Facility contains covenants that, among other things, limit our ability, and certain of our subsidiaries' abilities, to create, incur or assume indebtedness and liens, to make acquisitions or investments, to sell assets and to pay dividends. The Credit Agreement also requires us to maintain a consolidated 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 30% of the Revolver commitment. These covenants are subject to a number of important exceptions and qualifications. The Credit Agreement includes events of default and other affirmative and negative covenants that are usual for facilities and transactions of this type. As of March 31, 2019, and December 31, 2018, we are in compliance with all covenants in accordance with our senior secured Credit Facility.





**Note Payable Secured by Royalty Interest**

In conjunction with the acquisition of New Birmingham, Inc. in August 2016, 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:

2019 \$1,750  
 2020 1,750  
 2021 1,750  
 2022 1,750  
 2023 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.

The royalty note payable fair value was estimated to be \$22.5 million on the acquisition date. The estimate was made using a discounted cash flow model, which calculated the present value of projected future cash payments required under the agreement using a discounted rate of 14%. As of March 31, 2019, the note payable had a balance of \$27.0 million. The increase in the note payable amount is due to interest paid-in-kind. The effective interest rate based on the updated projected future cash payments was 19% at March 31, 2019.

**NOTE K—ASSET RETIREMENT OBLIGATIONS**

Mine reclamation 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 March 31, 2019 and 2018, we had a liability of \$18.8 million and \$16.8 million, respectively, in other long-term liabilities related to our asset retirement obligations. Changes in the asset retirement obligations (in thousands) during the three months ended March 31, 2019 and 2018 are as follows:

|                                            | <b>Three Months Ended</b> |             |
|--------------------------------------------|---------------------------|-------------|
|                                            | <b>March 31,</b>          |             |
|                                            | <b>2019</b>               | <b>2018</b> |
| Beginning balance                          | \$18,413                  | \$19,032    |
| Accretion                                  | 373                       | 326         |
| Additions and revisions of prior estimates | —                         | (486 )      |
| Disposal related to sale of transloads     | —                         | (2,116 )    |
| Ending balance                             | \$18,786                  | \$16,756    |

**NOTE L—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 March 31, 2019 and December 31, 2018, approximate their reported carrying values.

*Long-Term Debt, Including Current Maturities*

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

*Derivative Instruments*

The estimated fair value of our derivative instruments 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 March 31, 2019, 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. See Note M - Derivative Instruments for more information.

**NOTE M—DERIVATIVE INSTRUMENTS***Cash Flow Hedges of Interest Rate Risk*

We enter into interest rate swap agreements in connection with our Term Loan facility to add stability to interest expense and to manage our exposure to interest rate movements. The derivative instruments are recorded on the balance sheet within other long-term assets or liabilities at their fair values. As of March 31, 2019, the fair value of our interest rate swaps was a liability of \$2.3 million and a liability of \$1.0 million and classified within other long-term liabilities on our balance sheet, and the fair value of our interest rate cap was zero. At December 31, 2018, the fair value of our interest rate swaps was a liability of \$1.5 million and a liability of \$0.7 million and classified within other long-term liabilities on our balance sheet, and the fair value of our interest rate cap was zero. We have designated the interest rate swap agreements as qualified cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and recognized in earnings in the same period or periods during which the hedged transaction affects earnings.

The following table summarizes the fair value of our derivative instruments (in thousands, except contract/notional amount). See Note L - Fair Value Accounting for more information regarding the estimated fair values of our derivative instruments at March 31, 2019 and December 31, 2018.

|                                                   | March 31, 2019 |                          |                 |            | December 31, 2018 |                          |                 |            |
|---------------------------------------------------|----------------|--------------------------|-----------------|------------|-------------------|--------------------------|-----------------|------------|
|                                                   | Maturity Date  | Contract/Notional Amount | Carrying Amount | Fair Value | Maturity Date     | Contract/Notional Amount | Carrying Amount | Fair Value |
| LIBOR <sup>(1)</sup> interest rate swap agreement | 2020           | \$440 million            | \$(2,332)       | \$(2,332)  | 2020              | \$440 million            | \$(1,475)       | \$(1,475)  |
| LIBOR <sup>(1)</sup> interest rate swap agreement | 2020           | \$200 million            | \$(1,046)       | \$(1,046)  | 2020              | \$200 million            | \$(663)         | \$(663)    |
| LIBOR interest rate cap agreement                 | 2019           | \$249 million            | \$—             | \$—        | 2019              | \$249 million            | \$—             | \$—        |

<sup>(1)</sup> Agreements fix the LIBOR interest rate base to 2.74%

During the three months ended March 31, 2019 we had no ineffectiveness for the interest rate swap derivatives.

The following table summarizes the effect of derivative instruments (in thousands) on our income statements and our consolidated statements of comprehensive income for the three months ended March 31, 2019 and 2018.

|                                                              | Three Months<br>Ended<br>March 31, |         |
|--------------------------------------------------------------|------------------------------------|---------|
|                                                              | 2019                               | 2018    |
| Deferred losses from derivatives in OCI, beginning of period | \$(1,621 )                         | \$(76 ) |
| Loss recognized in OCI from derivative instruments           | (940 )                             | —       |
| Loss reclassified from Accumulated OCI                       | —                                  | 2       |
| Deferred losses from derivatives in OCI, end of period       | \$(2,561 )                         | \$(74 ) |

**NOTE N—EQUITY-BASED COMPENSATION**

In July 2011, we adopted the U.S. Silica Holdings, Inc. 2011 Incentive Compensation Plan (the “2011 Plan”), which was amended and restated in May 2015. The 2011 Plan provides for grants of stock options, restricted stock, performance share units and other incentive-based awards. We believe our 2011 Plan aligns the interests of our employees and directors with those of our common stockholders. At March 31, 2019, we have 4,119,834 shares of common stock that may be issued under the 2011 Plan. We use a combination of treasury stock and new shares if necessary to satisfy option exercises or vesting of restricted awards and performance share units.

**Stock Options**

The following table summarizes the status of, and changes in, our stock option awards during the three months ended March 31, 2019:

|                                  | Number of<br>Shares | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic Value | Weighted<br>Average<br>Remaining Contractual Term in Years |
|----------------------------------|---------------------|---------------------------------------|------------------------------|------------------------------------------------------------|
| Outstanding at December 31, 2018 | 901,996             | \$ 28.52                              | \$18,566                     | 4.8 years                                                  |
| Granted                          | —                   | —                                     | —                            |                                                            |
| Exercised                        | (10,000 )           | 12.87                                 | —                            |                                                            |
| Forfeited                        | —                   | —                                     | —                            |                                                            |
| Expired                          | (58,463 )           | \$ 24.42                              | \$—                          |                                                            |
| Outstanding at March 31, 2019    | 833,533             | \$ 28.99                              | \$1,061,512                  | 4.9 years                                                  |
| Exercisable at March 31, 2019    | 833,533             | \$ 28.99                              | \$1,061,512                  | 4.9 years                                                  |

There were no grants of stock options during the three months ended March 31, 2019 and 2018.

There were 10,000 and zero stock options exercised during the three months ended March 31, 2019 and 2018, respectively. The total intrinsic value of stock options exercised was \$12 thousand for the three months ended March 31, 2019. Cash received from stock options exercised during the three months ended March 31, 2019 was \$128 thousand. The tax benefit realized from stock option exercises was \$3 thousand for the three months ended March 31, 2019.

We recognized zero and \$0.5 million of equity-based compensation expense related to options during the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there was no unrecognized compensation expense related to these options. We account for forfeitures as they occur.

Restricted Stock and Restricted Stock Unit Awards

The following table summarizes the status of, and changes in, our unvested restricted stock awards during the three months ended March 31, 2019:

|                             | Number of Shares | Grant Date Weighted<br>Average Fair Value |
|-----------------------------|------------------|-------------------------------------------|
| Unvested, December 31, 2018 | 587,577          | \$ 25.18                                  |
| Granted                     | 732,860          | 12.89                                     |
| Vested                      | (101,601 )       | 23.32                                     |
| Forfeited                   | (9,957 )         | 29.87                                     |
| Unvested, March 31, 2019    | 1,208,879        | \$ 17.85                                  |

We granted 732,860 and 3,852 restricted stock and restricted stock unit awards during the three months ended March 31, 2019 and 2018, respectively. The increase is due to changing the timing of our annual equity grants to the first quarter from the second quarter. The fair value of the awards was based on the market price of our stock at date of grant.

We recognized \$2.3 million and \$1.8 million of equity-based compensation expense related to restricted stock awards during the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there was \$16.4 million of unrecognized compensation expense related to these restricted stock awards, which is expected to be recognized over a weighted-average period of 2.0 years.

Performance Share Unit Awards

The following table summarizes the status of, and changes in, our performance share unit awards during the three months ended March 31, 2019:

|                             | Number of Shares | Grant Date Weighted<br>Average Fair Value |
|-----------------------------|------------------|-------------------------------------------|
| Unvested, December 31, 2018 | 838,188          | \$ 39.44                                  |
| Granted                     | 607,130          | 15.58                                     |
| Vested                      | (522,098 )       | 37.76                                     |
| Forfeited                   | (11,258 )        | 41.45                                     |
| Unvested, March 31, 2019    | 911,962          | \$ 24.69                                  |

We granted 607,130 and zero performance share units during the three months ended March 31, 2019 and 2018, respectively. The increase is due to changing the timing of our annual equity grants to the first quarter from the second quarter.

The grant date fair value for these awards are estimated using a Monte Carlo simulation model. The Monte Carlo simulation model requires the use of highly subjective assumptions. Our key assumptions in the model included the price and the expected volatility of our common stock and our self-determined peer group companies' stock, risk-free rate of interest, dividend yields and cross-correlations between our common stock and our self-determined peer group companies' stock.

We recognized \$1.7 million and \$4.3 million of compensation expense related to performance share unit awards during the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there was \$13.5 million of unrecognized compensation expense related to these performance share unit awards, which is expected to be recognized over a weighted-average period of 1.5 years.

**NOTE O—COMMITMENTS AND CONTINGENCIES*****Future Minimum Annual Commitments at March 31, 2019 (in thousands):***

| Year ending December 31,          | <b>Minimum<br/>Purchase<br/>Commitments</b> |
|-----------------------------------|---------------------------------------------|
| 2019                              | \$ 17,803                                   |
| 2020                              | 14,464                                      |
| 2021                              | 8,308                                       |
| 2022                              | 5,640                                       |
| 2023                              | 4,915                                       |
| Thereafter                        | 6,084                                       |
| Total future purchase commitments | \$ 57,214                                   |

***Minimum Purchase Commitments***

We enter into service agreements with our transload 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.

***Contingent Liability on Royalty Agreement***

On May 17, 2017, we purchased reserves in Crane County, Texas, for \$94.4 million cash consideration plus contingent consideration. The contingent consideration is a royalty that is based on the tonnage shipped to third-parties. Because the contingent consideration is dependent on future tonnage sold, the amounts of which are uncertain, it is not currently possible to estimate the fair value of these future payments. The contingent consideration will be capitalized at the time a payment is probable and reasonably estimable, and the related depletion expense will be adjusted prospectively.

***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 three months ended March 31, 2019, one new claim was brought against U.S. Silica. As of March 31, 2019, there were 58 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 liabilities 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 March 31, 2019 and December 31, 2018, other non-current assets included zero for insurance for third-party products liability claims. As of March 31, 2019 and December 31, 2018 other long-term liabilities included \$0.9 million and \$1.0 million, respectively, for third-party products liability claims. One of our subsidiaries has also been named as a defendant in lawsuits regarding certain labor practices. If we are unsuccessful in defending the litigation, these cases could result in material liability for us.

***Obligations under Guarantees***

We have indemnified our insurers against any loss they may incur in the event that holders of surety bonds, issued on our behalf, execute the bonds. As of March 31, 2019, there was \$41.9 million in bonds outstanding. The majority of these bonds, \$30.4 million, relate to reclamation requirements issued by various governmental authorities. Reclamation bonds remain outstanding until the mining area is reclaimed and the authority issues a formal release. The remaining bonds relate to such indefinite purposes as licenses, permits, and tax collection.

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

We maintain single-employer noncontributory defined benefit pension plans covering certain employees. There have been no new entrants to the US Silica Company plan since May 2009 and to the EP Management Corporation plan since January 2007 for salaried participants and January 2010 for hourly participants when the plans were frozen to all new employees. The plans provide benefits based on each covered employee's years of qualifying service. Our funding policy is to contribute amounts within the range of the minimum required and maximum deductible contributions for the plans consistent with a goal of appropriate minimization of the unfunded projected benefit obligations. The pension plans use a benefit level per year of service for covered hourly employees and a final average pay method for covered salaried employees. The plans use the projected unit credit cost method to determine the actuarial valuation. In addition, we provide defined benefit post-retirement health care and life insurance benefits to some employees. Covered employees become eligible for these benefits at retirement after meeting minimum age and service requirements. The projected future cost of providing post-retirement benefits, such as healthcare and life insurance, is recognized as an expense as employees render services. We previously maintained a Voluntary Employees' Beneficiary Association trust that was used to partially fund health care benefits for future retirees. Benefits were funded to the extent contributions were tax deductible, which under current legislation is limited. In 2017, the trust terminated upon depletion of its assets, which were used in accordance with trust terms. In general, retiree health benefits are paid as covered expenses are incurred.

Net pension benefit cost (in thousands) consisted of the following for the three months ended March 31, 2019 and 2018:

|                                | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|--------------------------------|---------------------------------------------|-------------|
|                                | <b>2019</b>                                 | <b>2018</b> |
| Service cost                   | \$586                                       | \$279       |
| Interest cost                  | 2,584                                       | 978         |
| Expected return on plan assets | (3,184)                                     | (1,243)     |
| Net amortization and deferral  | 624                                         | 631         |
| Net pension benefit costs      | \$610                                       | \$645       |

Net post-retirement benefit cost (in thousands) consisted of the following for the three months ended March 31, 2019 and 2018:

|                                   | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|-----------------------------------|---------------------------------------------|-------------|
|                                   | <b>2019</b>                                 | <b>2018</b> |
| Service cost                      | \$24                                        | \$27        |
| Interest cost                     | 196                                         | 188         |
| Net post-retirement benefit costs | \$220                                       | \$215       |

We contributed \$0.7 million and \$0.3 million to the qualified pension plans for the three months ended March 31, 2019 and 2018, respectively. Our best estimate of expected contributions to the pension and post-retirement medical benefit plans for the 2019 fiscal year are \$4.7 million and \$1.4 million, respectively.

We contribute to three multiemployer defined benefit pension plans under the terms of collective-bargaining agreements for union-represented employees. A multiemployer plan is subject to collective bargaining for employees of two or more unrelated companies. These plans allow multiple employers to pool their pension resources and realize efficiencies associated with the daily administration of the plan. Multiemployer plans are generally governed by a board of trustees composed of management and labor representatives and are funded through employer contributions. However, in most cases, management is not directly represented. Our contributions to individual multiemployer pension funds did not exceed 5% of the fund's total contributions for the three months ended March 31, 2019 and 2018. Additionally, our contributions to multiemployer post-retirement benefit plans were immaterial for all periods presented in the accompanying consolidated financial statements.



We also sponsor a defined contribution plan covering certain employees. We contribute to the plan in two ways. For certain employees not covered by the defined benefit plan, we make a contribution equal to 4% of their salary. We may also contribute an employee discretionary match of 50 cents for each dollar contributed by an employee, up to 4% of their earnings. Finally, for some employees, we make a catch-up match of one dollar for each dollar contributed by an employee, up to 6% of catch-up contributions. Contributions were \$1.3 million and \$0.8 million for the three months ended March 31, 2019 and 2018, respectively.

**NOTE Q— LEASES**

We lease railroad cars, office space, mining property, mining/processing equipment and transportation and other equipment. The majority of our leases have remaining lease terms of one year to 20 years. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. We have lease agreements with lease and non-lease components, the latter of which are generally accounted for separately.

Supplemental balance sheet information related to leases was as follows:

| Leases                         | Classification                                 | March 31,<br>2019 |
|--------------------------------|------------------------------------------------|-------------------|
| <b>Assets</b>                  |                                                |                   |
| Operating                      | Operating lease right-of-use assets            | \$209,699         |
| <b>Total leased assets</b>     |                                                | <b>\$209,699</b>  |
| <b>Liabilities</b>             |                                                |                   |
| <b>Current</b>                 |                                                |                   |
| Operating                      | Current portion of operating lease liabilities | \$61,583          |
| <b>Non-current</b>             |                                                |                   |
| Operating                      | Operating lease liabilities                    | 149,040           |
| <b>Total lease liabilities</b> |                                                | <b>\$210,623</b>  |

**Lease Term and Discount Rate**

Weighted average remaining lease term (years):

Operating leases 4.7 years

Weighted average discount rate:

Operating leases 5.6%

The components of lease expense were as follows:

| Lease Costs                          | Classification                      | Three<br>Months<br>Ended<br>March 31,<br>2019 |
|--------------------------------------|-------------------------------------|-----------------------------------------------|
| Operating lease costs <sup>(1)</sup> | Cost of sales                       | \$25,115                                      |
| Operating lease costs <sup>(2)</sup> | Selling, general and administrative | 1,169                                         |
|                                      |                                     | <b>\$26,284</b>                               |

(1)  
Includes  
short-term  
operating  
lease costs  
of \$6.6  
million for  
the three  
months  
ended  
March 31,  
2019.

(2)  
Includes

short-term  
operating  
lease costs  
of \$0.2  
million for  
the three  
months  
ended  
March 31,  
2019.

Supplemental cash flow information related to leases was as follows:

|                                                                                | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2019</b> |
|--------------------------------------------------------------------------------|----------------------------------------------------------|
| <b>Cash paid for amounts included in the measurement of lease liabilities:</b> |                                                          |
| Operating cash flows from operating leases                                     | \$2,584                                                  |
| <b>Right-of-use assets obtained in exchange for new lease liabilities:</b>     |                                                          |
| Operating leases                                                               | \$223,027                                                |

Maturities of lease liabilities as of March 31, 2019:

| <i>Maturities of lease liabilities</i> | <b>Operating<br/>leases</b> |
|----------------------------------------|-----------------------------|
| 2019                                   | \$ 55,828                   |
| 2020                                   | 60,066                      |
| 2021                                   | 41,065                      |
| 2022                                   | 31,407                      |
| 2023                                   | 22,042                      |
| Thereafter                             | 36,024                      |
| Total lease payments                   | \$ 246,432                  |
| Less: Interest                         | 35,809                      |
| Total                                  | \$ 210,623                  |

## **NOTE R— INCOME TAXES**

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code including, but not limited to, (1) bonus depreciation that will allow for full expensing of qualified property; (2) reduction of the U.S. federal corporate tax rate; (3) elimination of the corporate alternative minimum tax; (4) a new limitation on deductible interest expense; (5) the repeal of the domestic production activity deduction; (6) limitations on the deductibility of certain executive compensation; and (7) limitations on net operating losses generated after December 31, 2017, to 80 percent of taxable income.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, we have completed the accounting for the tax effects of the Tax Act.

The Tax Act reduced the corporate tax rate to 21 percent, effective January 1, 2018. Because ASC 740-10-25-47 requires the effect of a change in tax laws or rates to be recognized as of the date of enactment, we were required to adjust deferred tax assets and liabilities as of December 22, 2017. Accordingly, for the year ended December 31,

2017, we recorded a decrease related to deferred tax assets and liabilities of \$45.0 million and \$80.8 million, respectively, with a corresponding net adjustment to deferred income tax benefit of \$35.8 million.

Under the Tax Act, net operating loss (NOL) deductions arising in tax years beginning after December 31, 2017 can only offset up to 80 percent of future taxable income. The Act also prohibits NOL carrybacks, but allows indefinite carryforwards for NOLs arising in tax years beginning after December 31, 2017. Net operating losses arising before January 1, 2018 are accounted for under the previous tax rules that imposed no limit on the amount of the taxable income that can be set off using NOLs and that can be carried back 2 years and carried forward 20 years.

The Tax Act repeals the corporate alternative minimum tax (AMT), effective for tax years beginning after December 31, 2017, but allows an entity to claim portions of any unused AMT credits over the next four years to offset its regular tax liability. An entity with unused AMT credits as of December 31, 2017 can first use these credits to offset its regular tax for 2017 and can then claim up to 50 percent of the remaining AMT credits in 2018, 2019, and 2020, with all remaining AMT credits refundable in 2021.

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.

For the three months ended March 31, 2019, we had a tax benefit of \$2.0 million. For the three months ended March 31, 2018, we had a tax expense of \$7.5 million. The effective tax rate was 9% and 19% for the three months ended March 31, 2019 and 2018, respectively. The effective tax rate for the three months ended March 31, 2019 and 2018 would have been 29% and 18%, respectively, without the below items recorded discretely.

During the three months ended March 31, 2019 and 2018, we recorded a tax expense of \$3.9 million and \$0.5 million, respectively, related to equity compensation pursuant to ASU 2016-09.

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 S— REVENUE

We consider sales disaggregated at the product and service level by business segment to depict how the nature, amount, timing and uncertainty of revenues and cash flow are impacted by changes in economic factors. The following table disaggregates our sales by major source for the three months ended March 31, 2019 (in thousands):

| Category    | Three Months Ended<br>March 31, 2019 |                                       |             |
|-------------|--------------------------------------|---------------------------------------|-------------|
|             | Oil & Gas<br>Proppants               | Industrial &<br>Specialty<br>Products | Total Sales |
| Product     | \$178,587                            | \$118,273                             | \$296,860   |
| Service     | 81,890                               | —                                     | 81,890      |
| Total Sales | \$260,477                            | \$118,273                             | \$378,750   |

The following tables reflect the changes in our contract assets, which we classify as unbilled receivables and our contract liabilities, which we classify as deferred revenues, for the three months ended March 31, 2019 (in thousands):

|                                                  | Unbilled<br>Receivables |
|--------------------------------------------------|-------------------------|
| December 31, 2018                                | \$ 90                   |
| Reclassifications to billed receivables          | (90 )                   |
| Revenues recognized in excess of period billings | 1,641                   |
| March 31, 2019                                   | \$ 1,641                |

|                                                                                  | Deferred<br>Revenue |
|----------------------------------------------------------------------------------|---------------------|
| December 31, 2018                                                                | \$113,319           |
| Revenues recognized from balances held at the beginning of the period            | (6,704 )            |
| Revenues deferred from period collections on unfulfilled performance obligations | 10,025              |
| Revenues recognized from period collections                                      | (872 )              |
| March 31, 2019                                                                   | \$115,768           |

We have elected to use the practical expedients allowed under ASC 606-10-50-14, pursuant to which we have excluded disclosures of transaction prices allocated to remaining performance obligations and when we expect to recognize such revenue. The majority of our remaining performance obligations are primarily comprised of unfulfilled product, transportation service, and labor service orders, all of which hold a remaining duration of less than one year. The long-term portion of deferred revenue primarily represents a combination of refundable and nonrefundable customer prepayments for which related current performance obligations do not yet exist, but are expected to arise, before the expiration of the contract. Our residual unfulfilled performance obligations are comprised primarily of long-term equipment rental arrangements in which we recognize revenues equal to what we have a right to invoice. Generally, no variable consideration exists related to our remaining performance obligations and no consideration is excluded from the associated transaction prices.

#### NOTE T— RELATED PARTY TRANSACTIONS

A former employee, who was an officer of one of our operating subsidiaries prior to the third quarter of 2018, held an ownership interest in a transportation brokerage and logistics services vendor, from which we made purchases of approximately \$0.9 million for the three months ended March 31, 2018.



**NOTE U— 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 and delivering 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 400 product types 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 directly related to 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, segment contribution margin is a non-GAAP measure and 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 GAAP. The other accounting policies of each of the two reportable segments are the same as those in Note B - Summary of Significant Accounting Policies to the Consolidated Financial Statements in Item 8 of our 2018 Annual Report on Form 10-K.

The following table presents sales and segment contribution margin (in thousands) for the reportable segments and other operating results not allocated to the reported segments for the three months ended March 31, 2019 and 2018:

|                                                                  | <b>Three Months Ended</b> |             |
|------------------------------------------------------------------|---------------------------|-------------|
|                                                                  | <b>March 31,</b>          |             |
|                                                                  | <b>2019</b>               | <b>2018</b> |
| Sales:                                                           |                           |             |
| Oil & Gas Proppants                                              | \$260,477                 | \$312,930   |
| Industrial & Specialty Products                                  | 118,273                   | 56,383      |
| Total sales                                                      | 378,750                   | 369,313     |
| Segment contribution margin:                                     |                           |             |
| Oil & Gas Proppants                                              | 58,588                    | 99,433      |
| Industrial & Specialty Products                                  | 44,561                    | 20,530      |
| Total segment contribution margin                                | 103,149                   | 119,963     |
| Operating activities excluded from segment cost of sales         | (21,937 )                 | (11,560 )   |
| Selling, general and administrative                              | (34,656 )                 | (34,591 )   |
| Depreciation, depletion and amortization                         | (44,600 )                 | (28,592 )   |
| Interest expense                                                 | (23,978 )                 | (7,070 )    |
| Other income, net, including interest income                     | 722                       | 665         |
| Income tax benefit (expense)                                     | 1,972                     | (7,521 )    |
| Net (loss) income                                                | \$(19,328 )               | \$31,294    |
| Less: Net (loss) income attributable to non-controlling interest | (4 )                      | —           |
| Net (loss) income attributable to U.S. Silica Holdings, Inc.     | \$(19,324 )               | \$31,294    |

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. At March 31, 2019, goodwill of \$273.5 million has been allocated to these segments with \$86.1 million assigned to Oil & Gas Proppants and \$187.4 million to Industrial & Specialty Products. At December 31, 2018, goodwill of \$261.3 million had been allocated to these segments with \$86.1 million assigned to Oil & Gas Proppants and \$175.2 million to Industrial & Specialty Products.

#### **NOTE V— SUBSEQUENT EVENTS**

On April 4, 2019, we paid a cash dividend of \$4.6 million or \$0.0625 per share to common stockholders of record on March 14, 2019, which had been declared by our Board of Directors on February 15, 2019.

#### **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, 2018 (the “2018 Annual Report”).*

*This discussion contains forward-looking statements as discussed below and elsewhere in this report. These statements are based on current expectations and assumptions and are subject to risks and uncertainties. Actual results could differ materially from those discussed in or implied by forward-looking statements.*

*Adjusted EBITDA and segment contribution margin as used herein are non-GAAP measures. For a detailed description of Adjusted EBITDA and segment contribution margin and reconciliations to their most comparable GAAP measures, please see the discussion below under “How We Evaluate Our Business.”*

#### **Forward Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”). 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,” “will,” “should,” “can have,” “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected costs; reserve and finished products estimates; anticipated expenditures, cash flows, growth rates and financial results; our plans and objectives for future operations, growth or initiatives; strategies and their anticipated effect on our performance and liquidity; and 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 expect, including:

- fluctuations in demand for commercial silica, diatomaceous earth, perlite, clay and cellulose;
- the cyclical nature of our customers’ businesses;
- operating risks that are beyond our control, such as changes in the price and availability of transportation, transload network access, natural gas or electricity; unusual or unexpected geological formations or pressures; pit wall failures,



underground roof falls or rock falls; or unanticipated ground, grade or water conditions;  
our dependence on five of our plants for a significant portion of our sales;  
the level of activity in the natural gas and oil industries;  
fluctuations in demand or prices for frac sand or the development of either effective alternative proppants or new processes to replace hydraulic fracturing;

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• 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;

• operational, regulatory and other risks as a result of our international sales and operations;

• increasing costs or a lack of dependability or availability of transportation services and transload network access or 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;

• our ability to comply with contractual obligations that require us to deliver minimum amounts of frac sand, sometimes with certain quality specifications, 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 patents, trade secrets, trademarks, and contractual restrictions 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, due to cybersecurity breaches or for other reasons;

• the impact of a terrorist attack or armed conflict;

- extensive and evolving environmental, mining, health and safety, licensing, reclamation, climate change 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;

• the impact of the above factors and other future events on the market price and trading volume of our common stock;

• and

other factors included and disclosed in Part I, Item 1A. Risk Factors, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in our 2018 Annual Report on Form 10-K.

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 the known factors described above, and it is impossible for us to anticipate all factors that could affect our actual results. As a result, forward-looking statements are not guarantees of future performance, and you should not place undue reliance on any forward-looking statements we make. 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 Securities and Exchange Commission (the "SEC"), and our other public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties.

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

#### **Overview**

We are a performance materials company and one of the largest domestic producers of commercial silica used in the oil and gas industry and in a wide range of industrial applications. In addition, through our acquisition of EP Minerals, LLC ("EPM") and its affiliated companies, we are an industry leader in the production of industrial minerals, including diatomaceous earth, clay (calcium bentonite and calcium montmorillonite) and perlite.

During our 119-year history, we have developed core competencies in mining, processing, logistics and materials science that enable us to produce and cost-effectively deliver over 400 diversified product types to customers across our end markets. As of March 31, 2019, we operate 27 production facilities across the United States. We control 623 million tons of reserves of commercial silica, which can be processed to make 258 million tons of finished products that meet API frac sand specifications, and 56 million tons of reserves of diatomaceous earth, perlite, and clays.

Our operations are organized into two reportable segments based on end markets served and the manner in which we analyze our operating and financial performance: (1) Oil & Gas Proppants and (2) Industrial & Specialty Products. We believe our segments are complementary because our ability to sell to a wide range of customers across end markets in these segments allows us to maximize recovery rates in our mining operations, optimize our asset utilization and reduce the cyclicity of our earnings.

#### Acquisitions

For a description of our key business acquisitions during the year see Note E - Business Combinations to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

#### **Recent Trends and Outlook**

##### *Oil and gas proppants end market trends*

Increased demand for frac sand has historically been driven by the growth in the use of hydraulic fracturing as a means to extract hydrocarbons from shale formations. According to Rystad Energy's Proppant Market report - 2Q 2019, published on February 26, 2019, U.S. raw sand proppant demand was 43% higher in 2018 than 2017, and is expected to continue to grow in 2019. Oil and gas horizontal rig count increased during 2017 and 2018, leading to more well completion activity. We continue to expect long-term growth in oil and gas drilling in North American shale basins.

During the three months ended March 31, 2019, compared to the three months ended December 31, 2018, as summarized below, sales and tons sold increased due to increased frac sand demand.

| <i>Amounts in thousands, except per ton data</i> | <b>Three Months Ended</b> |                                  | <b>Percentage<br/>Change<br/>for the<br/>Three<br/>Months<br/>Ended</b> |
|--------------------------------------------------|---------------------------|----------------------------------|-------------------------------------------------------------------------|
|                                                  | <b>March 31,<br/>2019</b> | <b>December<br/>31,<br/>2018</b> | <b>March 31,<br/>2019 vs.<br/>December<br/>31, 2018</b>                 |
| <b>Oil &amp; Gas Proppants</b>                   |                           |                                  |                                                                         |
| Sales                                            | \$260,477                 | \$243,546                        | 7 %                                                                     |
| Tons Sold                                        | 3,864                     | 3,704                            | 4 %                                                                     |
| Average Selling Price per Ton                    | \$67.41                   | \$65.75                          | 3 %                                                                     |

If oil and gas drilling and completion activity does not continue to grow, demand for frac sand may decline, 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 incur additional asset impairments. If these events occur, we may evaluate actions to reduce cost and improve liquidity. For instance, depending on market conditions, we could reduce our capital spending by delaying or canceling capital projects.

Oil and natural gas exploration and production companies' and oilfield service providers' preferences and expectations have been evolving in recent years. A proppant supplier'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 proppants.

Fluctuations in frac sand demand and price may occur as the market adjusts to changing supply and demand due to energy pricing fluctuations. Fluctuations in price may also occur as the supply of local in-basin sand changes. Over the past year, this trend of customers preferring local in-basin sand has accelerated.

#### *Industrial and specialty products end market trends*

Demand in the industrial and specialty products end markets has been relatively stable in recent years and is primarily influenced by key macroeconomic drivers such as housing starts, population growth, light vehicle sales, beer and wine production, repair and remodel activity and industrial production. The primary end markets served by our Industrial & Specialty Products segment are building and construction products, fillers and extenders, filtration, glassmaking, absorbents, foundry, and sports and recreation. We have been increasing our value-adding product offerings in the industrial and specialty products end markets organically as well as through acquisitions, such as White Armor and EPM. Sales of these new higher margin products have increased our Industrial & Specialty Products segment's profitability in recent periods.

#### **Our Business Strategy**

The key drivers of our growth strategy include:

- increasing our presence and product offering in specialty products end markets
- optimizing our product mix and further developing value-added capabilities to maximize margins
- effectively positioning our Oil & Gas Proppants facilities to optimally serve our customers
- optimizing our supply chain network and leveraging our logistics capabilities to meet our customers' needs
- evaluating both Greenfield and Brownfield expansion opportunities and other acquisitions; and maintaining financial strength and flexibility.

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

##### *Products*

We derive our product sales by mining and processing minerals that our customers purchase for various uses. Our product sales are primarily a function of the price per ton and the number of tons sold. We primarily sell our products through individual purchase orders executed under short-term price agreements or at prevailing market rates. The amount invoiced reflects product, transportation and / or additional handling services as applicable, such as storage,

transloading the product

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from railcars to trucks and last mile logistics to the customer site. We invoice most of our product customers on a per shipment basis, although for some larger customers, we consolidate invoices weekly or monthly. Standard collection terms are net 30 days, although extended terms are offered in competitive situations.

#### *Services*

We derive our service sales primarily through the provision of transportation, equipment rental, and contract labor services to companies in the oil and gas industry. Transportation services typically consist of transporting customer proppant from storage facilities to proximal well-sites and are contracted through work orders executed under established pricing agreements. The amount invoiced reflects transportation services rendered. Equipment rental services provide customers with use of either dedicated or nonspecific wellhead proppant delivery equipment solutions for contractual periods defined either through formal lease agreements or executed work orders under established pricing agreements. The amounts invoiced reflect the length of time the equipment set was utilized in the billing period. Contract labor services provide customers with proppant delivery equipment operators through work orders executed under established pricing agreements. The amounts invoiced reflect the amount of time our labor services were utilized in the billing period. We typically invoice our customers on a weekly or monthly basis; however, some customers receive invoices upon well-site operation completion. Standard collection terms are net 30 days, although extended terms are offered in competitive situations.

Our ten largest customers accounted for approximately 42% and 52% of total sales during the three months ended March 31, 2019 and 2018, respectively. Sales to one of our customers accounted for 12% and 15% of our total sales during the three months ended March 31, 2019 and 2018, respectively. No other customers accounted for 10% or more of our total sales. At March 31, 2019, one of our customer's accounts receivable represented 16% of our total trade accounts receivable, net of allowance. At December 31, 2018, one of our customers' accounts receivable represented 18% of our total trade accounts receivable, net of allowance. No other customers accounted for 10% or more of our total trade accounts receivable.

For a limited number of customers, we sell under long-term, minimum purchase supply agreements. 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 certain contractual adjustments. Sometimes these agreements may undergo negotiations regarding pricing and volume requirements, which may occur in volatile market conditions. When these negotiations are occurring, we may deliver sand at prices or at volumes below the requirements in our existing supply agreements. We do not consider these agreements solely representative of contracts with customers. An executed order specifying the type and quantity of product to be delivered, in combination with the noted agreements, comprise our contracts in these arrangements. Selling more tons under supply contracts 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 2018 Annual Report on Form 10-K, these customers may not continue to purchase the same levels of product in the future due to a variety of reasons, contract requirements notwithstanding.

As of March 31, 2019, we have twenty-two minimum purchase supply agreements in the Oil & Gas Proppants segment with initial terms expiring between 2019 and 2034. As of March 31, 2018, we had twenty-one minimum purchase supply agreements in the Oil & Gas Proppants segment with initial terms expiring between 2018 and 2022. Collectively, sales to customers with minimum purchase supply agreements accounted for 42% and 37% of Oil & Gas Proppants segment sales during the three months ended March 31, 2019 and 2018, respectively. Although sales under minimum purchase 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.

In the industrial and specialty products end markets we have not historically entered into long-term minimum purchase supply agreements with our customers because of the high cost to our customers of switching providers. We may periodically do so when capital or other investment is required to meet customer needs. Instead, we often enter into supply agreements with our customers with targeted volumes and terms of one to five years. Prices under these agreements are generally fixed and subject to annual increases.

**The Costs of Conducting Our Business**

The principal expenses involved in conducting our business are transportation costs, labor costs, electricity and drying fuel costs, and maintenance and repair costs for our mining and processing equipment and facilities. 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 they 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 limits royalty payments.

Additionally, we incur expenses related to our corporate operations, including costs for sales and marketing; research and development; and the 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 operating metrics. We evaluate the performance of our two 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 our business as a whole, including total tons sold, average selling price, total 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, and we believe the presentation of these metrics provides useful information to our investors regarding our financial condition and results of operations for the same reasons.

#### *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 directly related to 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 or superior to measures derived in accordance with GAAP. For more information about segment contribution margin, including a reconciliation of this measure to its most directly comparable GAAP financial measure, net income (loss), see Note U - Segment Reporting to our Consolidated 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.

Adjusted EBITDA is not a measure of our financial performance or liquidity under GAAP and should not be considered as an alternative or superior to net income (loss) 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 charges that may recur in the future. 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 (loss) income, the most directly comparable GAAP financial measure, to Adjusted EBITDA.



| <i>(amounts in thousands)</i>                                         | <b>Three Months Ended</b> |             |
|-----------------------------------------------------------------------|---------------------------|-------------|
|                                                                       | <b>March 31,</b>          |             |
|                                                                       | <b>2019</b>               | <b>2018</b> |
| Net (loss) income attributable to U.S. Silica Holdings, Inc.          | \$(19,324)                | \$31,294    |
| Total interest expense, net of interest income                        | 22,920                    | 5,855       |
| Provision for taxes                                                   | (1,972 )                  | 7,521       |
| Total depreciation, depletion and amortization expenses               | 44,600                    | 28,592      |
| EBITDA                                                                | 46,224                    | 73,262      |
| Non-cash incentive compensation <sup>(1)</sup>                        | 4,045                     | 6,254       |
| Post-employment expenses (excluding service costs) <sup>(2)</sup>     | 552                       | 555         |
| Merger and acquisition related expenses <sup>(3)</sup>                | 4,783                     | 2,507       |
| Plant capacity expansion expenses <sup>(4)</sup>                      | 8,571                     | 9,380       |
| Contract termination expenses <sup>(5)</sup>                          | 1,000                     | —           |
| Business optimization projects <sup>(6)</sup>                         | 6                         | —           |
| Other adjustments allowable under the Credit Agreement <sup>(7)</sup> | 3,638                     | 3,408       |
| Adjusted EBITDA                                                       | \$68,819                  | \$95,366    |

- Reflects equity-based,
- (1) non-cash 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. Non-service net periodic benefit costs are not considered reflective of our operating performance because these costs do not exclusively originate from employee services during the applicable period and may experience periodic fluctuations as a result of changes in non-operating factors, including

changes in discount rates, changes in expected returns on benefit plan assets, and other demographic actuarial assumptions.

See Note P - Pension and Post-Retirement Benefits to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

- (3) Merger and acquisition related expenses include legal fees, consulting fees, bank fees, severance costs, certain purchase accounting items such as the amortization of inventory fair value step-up, information technology integration costs and similar charges. While these costs are not operational in nature and are not expected to continue for any singular transaction on an ongoing basis, similar types of costs, expenses and charges have occurred in

prior periods and may recur in the future as we continue to integrate prior acquisitions and pursue any future acquisitions.

Plant capacity expansion expenses include expenses that are not inventoriable or capitalizable as related to plant expansion projects greater than \$5 million in capital expenditures or plant start up projects. While these expenses are not

(4) operational in nature and are not expected to continue for any singular project on an ongoing basis, similar types of expenses have occurred in prior periods and may recur in the future as we continue to pursue future plant capacity expansion.

(5) Reflects contract termination expenses related to strategically exiting a service contract. While these expenses are not operational in

nature and are not expected to continue for any singular event on an ongoing basis, similar types of expenses have occurred in prior periods and may recur in the future as we continue to strategically evaluate our contracts.

Reflects costs incurred related to business optimization projects within our corporate center, which aim to measure and improve the efficiency, productivity and performance of our organization.

(6) While these costs are not operational in nature and are not expected to continue for any singular project on an ongoing basis, similar types of expenses may recur in the future.

(7) Reflects miscellaneous adjustments permitted under the Credit Agreement. The first quarter of 2019 includes \$2.4 million

related to facility closure costs and \$2.2 million of loss contingencies reserve, partially offset by insurance proceeds of \$2.2 million. The first quarter of 2018 includes a net loss of \$3.4 million on divestitures of assets, consisting of \$7.9 million of contract termination costs and \$1.3 million of divestiture related expenses such as legal fees and consulting fees, partially offset by a \$5.8 million gain on sale of assets.

*Adjusted EBITDA-Trailing Twelve Months*

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 30% of the Revolver commitment, which is calculated based on our Adjusted EBITDA for the trailing twelve months. Noncompliance with this financial ratio covenant 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 for the trailing twelve months.

See the description under “Adjusted EBITDA” above for certain important information about Adjusted EBITDA-trailing twelve months, including certain limitations and management’s use of this metric in light of its status as a non-GAAP measure.

As of March 31, 2019, we are in compliance with all covenants in accordance with our Revolver and Term Loan. The Revolver and Term Loan require us to maintain a consolidated 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 30% of the Revolver commitment. As of March 31, 2019, our Revolver usage was zero (other than certain undrawn letters of credit). Since the Revolver usage did not exceed 30% of the Revolver commitment, the consolidated leverage ratio covenant did not apply. The calculation of the consolidated leverage ratio incorporates the Adjusted EBITDA-trailing twelve months as follows:

| <i>(All amounts in thousands)</i>                                         | <b>March 31,<br/>2019</b> |
|---------------------------------------------------------------------------|---------------------------|
| Total debt                                                                | \$1,258,224               |
| Finance leases                                                            | 130                       |
| Total consolidated debt                                                   | \$1,258,354               |
| Adjusted EBITDA-trailing twelve months                                    | \$365,964                 |
| Pro forma Adjusted EBITDA including impact of acquisitions <sup>(1)</sup> | 4,121                     |
| Other adjustments for covenant calculation <sup>(2)</sup>                 | 265                       |
| Total Adjusted EBITDA-trailing twelve months for covenant calculation     | \$370,350                 |
| Consolidated leverage ratio <sup>(3)</sup>                                | 3.40                      |

- Covenant calculation allows for the Adjusted EBITDA-trailing
- (1) twelve months to include the impact of acquisitions on a pro forma basis. Covenant calculation excludes activity at legal entities above the operating
- (2) company, which is mainly interest income offset by public company operating expenses.
- (3) Calculated by dividing Total

consolidated debt  
by Total Adjusted  
EBITDA-trailing  
twelve months  
for covenant  
calculation.

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**Results of Operations for the Three Months Ended March 31, 2019 and 2018***Sales**(In thousands except per ton data)*

|                                       | Three Months Ended<br>March 31, |           | Percent<br>Change<br>'19<br>vs. '18 |
|---------------------------------------|---------------------------------|-----------|-------------------------------------|
|                                       | 2019                            | 2018      |                                     |
| Sales:                                |                                 |           |                                     |
| Oil & Gas Proppants                   | \$260,477                       | \$312,930 | (17)%                               |
| Industrial & Specialty Products       | 118,273                         | 56,383    | 110%                                |
| Total sales                           | \$378,750                       | \$369,313 | 3%                                  |
| Tons:                                 |                                 |           |                                     |
| Oil & Gas Proppants                   | 3,864                           | 3,252     | 19%                                 |
| Industrial & Specialty Products       | 966                             | 877       | 10%                                 |
| Total Tons                            | 4,830                           | 4,129     | 17%                                 |
| Average Selling Price per Ton:        |                                 |           |                                     |
| Oil & Gas Proppants                   | \$67.41                         | \$96.23   | (30)%                               |
| Industrial & Specialty Products       | 122.44                          | 64.29     | 90%                                 |
| Overall Average Selling Price per Ton | \$78.42                         | \$89.44   | (12)%                               |

Total sales increased 3% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, driven by a 17% increase in total tons sold, partially offset by a 12% decrease in overall average selling price. The increase in total sales was driven by Industrial & Specialty Products sales, which increased 110% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. Industrial & Specialty Products tons sold increased 10% and average selling price increased 90%. The increase in tons sold was mainly due to the acquisition of EPM. The increase in average selling price was due to the acquisition of EPM, additional higher-margin product sales and price increases.

The increase in total sales was partially offset by Oil & Gas Proppants sales, which decreased 17% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. Oil & Gas Proppants tons sold increased 19% and average selling price decreased 30%. The increase in tons sold was driven by year over year growth in demand for our frac sand. The decrease in average selling price was mainly driven by more tons sold from local in-basin plants which have lower logistics costs, increased proppant supply, and decreased sand pricing.

*Cost of Sales (excluding depreciation, depletion, and amortization)*

Cost of sales increased by \$36.6 million, or 14%, to \$297.5 million for the three months ended March 31, 2019 compared to \$260.9 million for the three months ended March 31, 2018. These changes result from the main components of cost of sales as discussed below. As a percentage of sales, cost of sales represented 79% for the three months ended March 31, 2019 compared to 71% for the same period in 2018.

We incurred \$129.9 million and \$134.2 million of transportation and related costs for the three months ended March 31, 2019 and 2018, respectively. This decrease was mainly due to a decline in demand for Northern White sand caused by some of our customers shifting to local in-basin frac sands with lower logistics cost, partially offset by costs related to additional Sandbox operations and the acquisition of EPM. As a percentage of sales, transportation and related costs decreased to 34% for the three months ended March 31, 2019 compared to 36% for the same period in 2018.

We incurred \$53.7 million and \$44.9 million of operating labor costs for the three months ended March 31, 2019 and 2018, respectively. The \$8.8 million increase in labor costs incurred was due to more tons sold, costs related to additional Sandbox operations and the acquisition of EPM. As a percentage of sales, operating labor costs represented 14% for the three months ended March 31, 2019 compared to 12% for the same period in 2018.

We incurred \$16.3 million and \$10.0 million of electricity and drying fuel (principally natural gas) costs for the three months ended March 31, 2019 and 2018, respectively. The \$6.3 million increase in electricity and drying fuel costs incurred was due to more tons sold and the acquisition of EPM. As a percentage of sales, electricity and drying fuel costs represented 4% for the three months ended March 31, 2019 compared to 3% for the same period in 2018.

We incurred \$23.5 million and \$19.1 million of maintenance and repair costs for the three months ended March 31, 2019 and 2018, respectively. The increase in maintenance and repair costs incurred was due to plant capacity expansion expenses, higher production volume, additional Sandbox operations and the acquisition of EPM. As a percentage of sales, maintenance and repair costs represented 6% for the three months ended March 31, 2019 compared to 5% for the same period in 2018.

#### *Segment Contribution Margin*

Industrial & Specialty Products contribution margin increased by \$24.0 million to \$44.6 million for the three months ended March 31, 2019 compared to \$20.5 million for the three months ended March 31, 2018, driven by a \$61.9 million increase in revenue, partially offset by \$37.9 million in higher cost of sales. The increase in segment contribution margin was due to the acquisition of EPM, new higher-margin product sales and price increases.

Oil & Gas Proppants contribution margin decreased by \$40.8 million to \$58.6 million for the three months ended March 31, 2019 compared to \$99.4 million for the three months ended March 31, 2018, driven by a \$52.5 million decrease in sales, partially offset by an \$11.6 million decrease in cost of sales. The decrease in segment contribution margin was mainly driven by the decrease in average selling price due to more tons sold from local in-basin plants which have lower logistics costs, increased proppant supply, and decreased sand pricing.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by \$0.1 million, or 0%, to \$34.7 million for the three months ended March 31, 2019 compared to \$34.6 million for the three months ended March 31, 2018. The net increase was due to the following factors:

- Compensation related expense increased by \$5.3 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, mainly due to the acquisition of EPM.

- Merger and acquisition related expense decreased by \$2.1 million to \$0.4 million for the three months ended March 31, 2019 compared to \$2.5 million for the three months ended March 31, 2018. The decrease was mainly due to lower costs related to growth and expansion initiatives.

- A net loss of \$3.4 million on divestiture of assets during the three months ended March 31, 2018 did not recur during the three months ended March 31, 2019.

In total, our selling, general and administrative expenses represented approximately 9% of our sales for both the three months ended March 31, 2019 and 2018.

#### *Depreciation, Depletion and Amortization*

Depreciation, depletion and amortization expense increased by \$16.0 million, or 56%, to \$44.6 million for the three months ended March 31, 2019 compared to \$28.6 million for the three months ended March 31, 2018. The increase was mainly driven by our plant capacity expansions and our acquisition of EPM, as well as other continued capital spending. Depreciation, depletion and amortization expense represented approximately 12% and 8% of our sales for the three months ended March 31, 2019 and 2018, respectively.

#### *Operating Income*

Operating income decreased by \$43.3 million to \$2.0 million for the three months ended March 31, 2019 compared to operating income of \$45.2 million for the three months ended March 31, 2018. The decrease was driven by a 14% increase in cost of sales and a 56% increase in depreciation, depletion and amortization expense, partially offset by a 3% increase in total sales.

*Interest Expense*

Interest expense increased by \$16.9 million, or 239%, to \$24.0 million for the three months ended March 31, 2019 compared to \$7.1 million for the three months ended March 31, 2018, mainly driven by the increase in our Credit Facility to finance the acquisition of EPM.

*Provision for Income Taxes*

For the three months ended March 31, 2019, we had a tax benefit of \$2.0 million. For the three months ended March 31, 2018, we had a tax expense of \$7.5 million. The effective tax rate was 9% and 19% for the three months ended March 31, 2019 and 2018, respectively. The effective tax rate for the three months ended March 31, 2019 and 2018 would have been 29% and 18%, respectively, without the below items recorded discretely.

During the three months ended March 31, 2019 and 2018, we recorded a tax expense of \$3.9 million and \$0.5 million, respectively, related to equity compensation pursuant to ASU 2016-09.

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.

*Net (Loss) Income*

Net (loss) income attributable to U.S. Silica Holdings, Inc., was a net loss of \$19.3 million and net income of \$31.3 million for the three months ended March 31, 2019 and 2018, respectively. The year over year changes were 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, borrowings under our credit facilities, or 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. As of March 31, 2019, our working capital was \$251.9 million and we had \$95.2 million of availability under the Revolver.

In connection with the EPMH acquisition, on May 1, 2018, we entered into the Credit Agreement with BNP Paribas, as administrative agent, and the lenders named therein. The Credit Agreement increases our existing senior debt by entering into a new \$1.380 billion senior secured Credit Facility, consisting of a \$1.280 billion Term Loan and a \$100 million Revolver that may also be used for swingline loans or letters of credit, and we may elect to increase the Term Loan in accordance with the terms of the Credit Agreement. The amounts owed under the Credit Agreement use LIBOR as a benchmark for establishing the rate at which interest accrues. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to disappear entirely or to perform differently than in the past. The consequences of these developments cannot be entirely predicted but could include an increase in the cost to us of this indebtedness. For more information on the Credit Agreement see Note J - Debt to our Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q.

We believe that cash on hand, cash generated through operations and cash generated from financing arrangements will be sufficient to meet our 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 or other distributions in cash, stock, or property in the future or otherwise return capital to our stockholders, including decisions about existing or new share repurchase programs, will be at the discretion of our Board and will be dependent on then-existing conditions, including industry and market conditions, our financial condition, results of operations, liquidity and 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:

|                                        | <b>Three Months Ended</b> |             |
|----------------------------------------|---------------------------|-------------|
|                                        | <b>March 31,</b>          |             |
|                                        | <b>2019</b>               | <b>2018</b> |
| <b>Net cash provided by (used in):</b> |                           |             |
| Operating activities                   | \$10,901                  | \$77,609    |
| Investing activities                   | (45,683 )                 | (47,378 )   |
| Financing activities                   | (6,101 )                  | (85,286 )   |

#### *Net Cash Provided by / Used in 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 \$10.9 million for the three months ended March 31, 2019. This was mainly due to a \$19.3 million net loss adjusted for non-cash items, including \$44.6 million in depreciation, depletion

and amortization, \$2.6 million in deferred income taxes, \$4.0 million in equity-based compensation, \$7.6 million in deferred revenue, and \$1.5 million in other miscellaneous non-cash items. Also contributing to the change was a \$43.6 million increase

in accounts receivable, a \$18.9 million decrease in inventories, a \$3.2 million decrease in prepaid expenses and other current assets, a \$13.0 million increase in accounts payable and accrued liabilities, and \$1.7 million in other operating assets and liabilities.

Net cash provided by operating activities was \$77.6 million for the three months ended March 31, 2018. This was mainly due to \$31.3 million in net income adjusted for non-cash items, including \$28.6 million in depreciation, depletion and amortization, \$7.8 million in deferred income taxes, \$6.3 million in equity-based compensation, \$5.8 million gain on sale of three transload facilities, and \$3.4 million in other miscellaneous non-cash items. Also contributing to the change was a \$39.1 million increase in accounts receivable, a \$15.8 million decrease in inventories, a \$27.9 million decrease in accounts payable and accrued liabilities, \$58.0 million in short-term and long-term vendor incentives, and \$0.7 million in other operating assets and liabilities.

*Net Cash Provided by / Used in Investing Activities*

Investing activities consist primarily of cash consideration paid to acquire businesses and capital expenditures for growth and maintenance.

Net cash used in investing activities was \$45.7 million for the three months ended March 31, 2019. This was due to capital expenditures of \$44.4 million, and capitalized intellectual property costs of \$1.3 million. Capital expenditures for the three months ended March 31, 2019 were mainly for engineering, procurement and construction of our growth projects, primarily Lamesa and equipment to expand our Sandbox operations, and other maintenance and cost improvement capital projects.

Net cash used in investing activities was \$47.4 million for the three months ended March 31, 2018. This was mainly due to capital expenditures of \$72.3 million, and capitalized intellectual property costs of \$1.0 million, partially offset by proceeds from the sale of three transload facilities of \$26.0 million. Capital expenditures for the three months ended March 31, 2018 were mainly for engineering, procurement and construction of our growth projects and other maintenance and cost improvement capital projects.

Subject to our continuing evaluation of market conditions, we anticipate that our capital expenditures in 2019 will be in the range of approximately \$100 million to \$125 million, which is primarily associated with previously announced growth projects and other maintenance and cost improvement capital projects. We expect to fund our capital expenditures through cash on hand and cash generated from our operations.

*Net Cash Provided by / Used in Financing Activities*

Financing activities consist primarily of equity issuances, dividend payments, share repurchases, borrowings and repayments related to the Revolver and Term Loan, as well as fees and expenses paid in connection with our credit facilities.

Net cash used in financing activities was \$6.1 million for the three months ended March 31, 2019. This was mainly due to \$4.0 million of long-term debt payments, \$4.7 million of dividends paid, and \$2.2 million of tax payments related to shares withheld for vested restricted stock and stock units, partially offset by \$4.7 million of capital contribution from a non-controlling interest.

Net cash used in financing activities was \$85.3 million for the three months ended March 31, 2018. This was mainly due to \$75.0 million in common stock repurchases, \$5.1 million of dividends paid, \$1.7 million of long-term debt payments, and \$3.5 million of tax payments related to shares withheld for vested restricted stock and restricted stock units.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have a current material effect or are reasonably likely to have a 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 2018 Annual Report on Form 10-K. For more details on future minimum annual purchase commitments and operating leases commitments, please see accompanying Note O - Commitments and Contingencies and Note Q - Leases to our Consolidated 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 March 31, 2019, we had \$18.8 million accrued for future reclamation costs, as compared to \$18.4 million as of December 31, 2018.

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 2018 Annual Report.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis and base our estimates on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.

A summary of our significant accounting policies, including certain critical accounting policies and estimates, are included in Note B - Summary of Significant Accounting Policies to the Consolidated Financial Statements in Item 8 of our 2018 Annual Report on Form 10-K. Management believes that the application of these policies on a consistent basis enables us to provide the users of the Consolidated Financial Statements with useful and reliable information about our operating results and financial condition.

### **Recent Accounting Pronouncements**

New accounting pronouncements that have been recently adopted are described in Note B - Summary of Significant Accounting Policies to our Consolidated 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 “Investors” — “SEC Filings” on our home page, we make available free of charge our annual reports 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 Sections 13(a) or 15(d) of the Exchange Act 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 available on its website at <http://www.sec.gov>.

Stockholders may also request a free copy of these documents from: U.S. Silica Holdings, Inc., attn.: Investor Relations, 24275 Katy Freeway, Suite 600, Katy, Texas 77494 or view them on our website at <http://www.ussilica.com/investors>.

## **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 in “Recent Trends and Outlook” and “How We Generate Our Sales” in Item 2. 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 March 31, 2019, we had \$1.267 billion of debt outstanding under the Credit Agreement. Assuming LIBOR is greater than the 1.0% minimum base rate on the Term Loan, a hypothetical increase in interest rates by 1.0% would have changed our interest expense by \$3.2 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. As of March 31, 2019, the fair value of our interest rate swaps was a liability of \$2.3 million and \$1.0 million and classified within other long-term liabilities on our balance sheet, and the fair value of our interest rate cap was zero. For more information see Note M - Derivative Instruments to our Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q.

### ***Credit Risk***



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

Despite enhancing our examination of our customers' creditworthiness, 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.

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

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

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of March 31, 2019, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

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

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the quarter ended March 31, 2019 we continue to integrate EP Minerals, LLC (“EPM”) processes, information technology systems and other components of internal control over financial reporting into our internal control structure.

## **PART II—OTHER INFORMATION**

### **ITEM 1.LEGAL PROCEEDINGS**

In addition to the matters described below, we are subject to various legal proceedings, claims, and governmental inspections, audits or investigations incidental to our business, which can cover general commercial, governmental regulations, antitrust and trade regulations, product liability, environmental, intellectual property, employment and other matters. Although the outcomes of these ordinary 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 few years has decreased to below pre-2001 levels, and we were named as a defendant in 20, zero and two new silicosis cases filed in 2018, 2017 and 2016, respectively. The main driver of the increase in cases filed in 2018 is 16 claims arising out of a single location in Mississippi. During the three months ended March 31, 2019, one new claim was brought against U.S. Silica. As of March 31, 2019, there were 58 active silica-related product liability claims pending in which U.S. Silica is a defendant. Almost all of the claims pending against us arise out of the alleged use of our silica products in foundries or as an abrasive blast media and involve various other defendants. Prior to the fourth quarter of 2012, we had insurance policies for both our predecessors that cover certain claims for alleged silica exposure for periods prior to certain dates in 1985 and 1986 (with respect to certain insurance). As a result of a settlement with a former owner and its insurers in the fourth quarter of 2012, some of these policies are no longer available to us and we will not seek reimbursement for any defense costs or claim payments from these policies. Other insurance policies, however, continue to remain available to us and will continue to make such payments on our behalf.

The silica-related litigation brought against us to date has not resulted in material liability to us. However, we continue to have silica-related product liability claims filed against us, including claims that allege silica exposure for periods for which we do not have insurance coverage. 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. For more information regarding silica-related litigation, see Part I, Item 1A. Risk Factors of our 2018 Annual Report on Form 10-K.

One of our subsidiaries has also been named as a defendant in lawsuits regarding certain labor practices. If we are unsuccessful in defending the litigation, these cases could result in material liability for us.

**ITEM 1A. RISK FACTORS**

As of March 31, 2019 there have been no material changes to the risk factors disclosed in Part I, Item 1A. Risk Factors of our 2018 Annual Report on Form 10-K.

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

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**Share Repurchase Program**

The following table presents the total number of shares of our common stock that we purchased during the first quarter of 2019, 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 publicly announced 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 <sup>(1)</sup> | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program <sup>(1)</sup> |
|--------------------------------------|----------------------------------|------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| January 1, 2019 - January 31, 2019   | 44                               | <sup>(2)</sup> \$ 13.25      | —                                                                                     | 126,540,060                                                                               |
| February 1, 2019 - February 28, 2019 | 120,286                          | <sup>(2)</sup> \$ 12.91      | —                                                                                     | 126,540,060                                                                               |
| March 1, 2019 - March 31, 2019       | 37,910                           | <sup>(2)</sup> \$ 17.17      | —                                                                                     | 126,540,060                                                                               |
| Total                                | 158,240                          | \$ 13.93                     | —                                                                                     | —                                                                                         |

In May 2018, our Board of Directors authorized and announced

<sup>(1)</sup> the repurchase of up to \$200 million of our common stock.

Shares withheld by U.S. Silica to pay taxes due upon the vesting of employee restricted stock and <sup>(2)</sup> restricted stock units for the months ended January 31, February 28, and March 31, 2019, respectively.

From March 31, 2019 to the date of the filing of this Quarterly Report on Form 10-Q, we have not repurchased any shares of our common stock except in connection with the vesting of employee restricted stock and restricted stock units.

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

**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

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

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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



**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                    | <b>Incorporated by Reference</b> |                     |                                    |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------------|------------------------------------|
|                           |                                                                                                                                                                       | <b>Form</b>                      | <b>File<br/>No.</b> | <b>Exhibit<br/>Filing<br/>Date</b> |
| <u>10.1*+</u>             | <u>Form of Performance Share Unit Agreement (Adjusted Cash Flow) Pursuant to the Amended and Restated U.S. Silica Holdings, Inc. 2011 Incentive Compensation Plan</u> |                                  |                     |                                    |
| <u>10.2*+</u>             | <u>Form of Performance Share Unit Agreement (Relative TSR) Pursuant to the Amended and Restated U.S. Silica Holdings, Inc. 2011 Incentive Compensation Plan</u>       |                                  |                     |                                    |
| <u>10.3*+</u>             | <u>Form of Restricted Stock Unit Agreement Pursuant to the Amended and Restated U.S. Silica Holdings, Inc. 2011 Incentive Compensation Plan</u>                       |                                  |                     |                                    |
| <u>10.4*+</u>             | <u>Separation, Severance and General Release Agreement entered into by and between Billy Ray Smith and U.S. Silica Company effective March 27, 2019</u>               |                                  |                     |                                    |
| <u>31.1*</u>              | <u>Rule 13a-14(a)/15(d)-14(a) Certification by Bryan A. Shinn, Chief Executive Officer.</u>                                                                           |                                  |                     |                                    |
| <u>31.2*</u>              | <u>Rule 13a-14(a)/15(d)-14(a) Certification by Donald A. Merrill, Chief Financial Officer.</u>                                                                        |                                  |                     |                                    |
| <u>32.1*</u>              | <u>Section 1350 Certification by Bryan A. Shinn, Chief Executive Officer.</u>                                                                                         |                                  |                     |                                    |
| <u>32.2*</u>              | <u>Section 1350 Certification by Donald A. Merrill, Chief Financial Officer.</u>                                                                                      |                                  |                     |                                    |
| <u>95.1*</u>              | <u>Mine Safety Disclosure.</u>                                                                                                                                        |                                  |                     |                                    |
| <u>99.1*</u>              | <u>Consent of Rystad Energy.</u>                                                                                                                                      |                                  |                     |                                    |
| 101*                      | 101.INS XBRL Instance - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document         |                                  |                     |                                    |
|                           | 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                                                                                                                            |                                  |                     |                                    |

+Management contract or compensatory plan/arrangement

\* Filed herewith

We will furnish to any of our stockholders a copy of any of the above exhibits upon the written request of such stockholder and the payment to U.S. Silica Holdings, Inc. of the reasonable expenses incurred in furnishing such copy or copies.

**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 1st day of May, 2019.

U.S. Silica Holdings, Inc.

/s/ DONALD A. MERRIL

Name: Donald A. Merrill

Title: Executive Vice President & Chief Financial Officer

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