NEW YORK MORTGAGE TRUST INC
Form 424B5
July 11, 2012

FILED PURSUANT TO RULE 424(b)(5)
SEC FILE NUMBER 333-179314

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus Supplement, dated July 11, 2012

PROSPECTUS SUPPLEMENT
(To prospectus dated April 11, 2012)
3,750,000 Shares

Common Stock

This is a public offering of common stock of New York Mortgage Trust, Inc. We are selling 3,750,000 shares of common stock. Our common stock is listed on The Nasdaq Capital Market under the symbol "NYMT." On July 11, 2012, the last reported sale price of our common stock was $6.84 per share.

To preserve our status as a real estate investment trust for federal income tax purposes, we impose restrictions on the ownership and transfer of our common stock. See "Summary—Recent Developments—Change in Ownership Limit Under Our Charter" in this prospectus supplement and "Description of Common Stock—Restrictions on Ownership and Transfer" in the accompanying prospectus.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described under "Risk Factors" beginning on page S-5 of this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by our Quarterly Report on Form 10-Q for the period ended March 31, 2012, before making an investment decision.

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

	Price to Public	Underwriting Discount and Commission	Proceeds to Us (1)
Per Share	$	$	$
Total	$	$	$

(1) Before deducting approximately $150,000 in estimated expenses payable by us.

We have granted the underwriters an option to purchase a maximum of 562,500 additional shares of common stock from us at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus supplement to cover over-allotments, if any.

The underwriters expect to deliver the shares of common stock to investors in this offering on or about , 2012.

Ladenburg Thalmann & Co. Inc.
Bookrunning Manager

The date of this prospectus supplement is July , 2012.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

We are not, and the underwriters are not, making an offer of the common stock covered by this prospectus supplement and the accompanying prospectus in any jurisdiction where the offer is not permitted.

You should assume that the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference herein and therein is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of the offering, and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which describes more general information, some of which may not apply to the offering. Before you buy any shares of our common stock, it is important for you to read and consider the information contained in this prospectus supplement and the accompanying prospectus together with additional information described under the headings "Incorporation By Reference Of Information Filed With The SEC" and "Where You Can Find More Information."

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

In this prospectus supplement, we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as "we," "us," "Company," or "our," unless we specifically state otherwise or the context indicates otherwise. In addition, the following defines certain of the commonly used terms in this prospectus supplement: "RMBS" refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only, and principal only mortgage-backed securities; "Agency RMBS" refers to RMBS representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. government, such as the Government National Mortgage Association ("Ginnie Mae"); "IOs" refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; "POs" refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; "ARMs" refers to adjustable-rate residential mortgage loans; "prime ARM loans" refers to prime credit quality residential ARM loans held in securitization trusts; and "CMBS" refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

When used in this prospectus supplement and in the accompanying prospectus, in future filings with the Securities and Exchange Commission, or SEC, or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may" or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, and, as such, may involve known and unknown risks, uncertainties and assumptions.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; the impact of the downgrade of the long-term credit ratings of the U.S., Fannie Mae, Freddie Mac, and Ginnie Mae; market volatility; changes in the prepayment rates on the mortgage loans underlying our investment securities; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets;

changes in government regulations affecting our business; our ability to maintain our qualification as a real estate investment trust for federal tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by those risk factors included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and our subsequent filings under the Exchange Act, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act, and, in accordance with those requirements, file reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information, as well as the registration statement and the exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such materials may be obtained at prescribed rates. Information about the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's website address is www.sec.gov. Our common stock is listed on The Nasdaq Capital Market, or Nasdaq, and our corporate website address is www.nymtrust.com. Our internet website and the information contained therein or connected thereto do not constitute a part of this prospectus supplement, the accompanying prospectus or any amendment or supplement thereto.

We have filed with the SEC a registration statement on Form S-3 (File No.: 333-179314) under the Securities Act with respect to the securities offered by this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus, which form a part of the registration statement, do not contain all of the information set forth in the registration statement and its exhibits and schedules, certain parts of which are omitted in accordance with the SEC's rules and regulations. For further information about us and our common stock, we refer you to the registration statement and to such exhibits and schedules. Statements contained in this prospectus supplement and the accompanying prospectus concerning the provisions of any document filed as an exhibit to the registration statement or otherwise filed with the SEC are not necessarily complete, and in each instance reference is made to the copy of such document so filed. Each such statement is qualified in its entirety by such reference.

INCORPORATION BY REFERENCE OF INFORMATION FILED WITH THE SEC

The SEC allows us to "incorporate by reference" into this prospectus supplement and the accompanying prospectus the information we file with the SEC, which means that we can disclose important business, financial and other information to you by referring you to other documents separately filed with the SEC. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus supplement and before the date that the offering of the securities by means of this prospectus supplement and the accompanying prospectus is terminated will automatically update and, where applicable, supersede any information contained in this prospectus supplement and the accompanying prospectus or incorporated by reference in this prospectus supplement and the accompanying prospectus.

We incorporate by reference the following documents or information filed with the SEC and any subsequent filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the initial registration statement and prior to completion of the offering of the common stock described in this prospectus supplement and the accompanying prospectus (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed on March 12, 2012;
- our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, filed on July 9, 2012;
- our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed on May 4, 2012;
- our Current Report on Form 8-K filed on January 5, 2012;

- our Current Report on Form 8-K filed on January 19, 2012;
- our Current Report on Form 8-K filed on January 20, 2012;
- our Current Report on Form 8-K filed on February 1, 2012;
- our Current Report on Form 8-K filed on March 16, 2012;
- our Current Report on Form 8-K filed on March 19, 2012;

- our Current Report on Form 8-K filed on March 30, 2012;
- our Current Report on Form 8-K filed on April 18, 2012;
- our Current Report on Form 8-K filed on May 21, 2012;
- our Current Report on Form 8-K/A filed on May 22, 2012;
- our Current Report on Form 8-K filed on May 24, 2012;
- our Current Report on Form 8-K filed on May 31, 2012;
- our Current Report on Form 8-K filed on June 11, 2012;
- our Current Report on Form 8-K filed on June 15, 2012;

- the information specifically incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 from our Definitive Proxy Statement on Schedule 14A filed on April 4, 2012; and

- the description of our capital stock in our Registration Statement on Form 8-A filed on June 3, 2008.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus supplement and the accompanying prospectus are delivered, upon his or her written or oral request, a copy of any or all documents referred to above that have been or may be incorporated by reference into this prospectus supplement and the accompanying prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You may request those documents from us by writing to New York Mortgage Trust, Inc., c/o Corporate Secretary, 52 Vanderbilt Avenue, Suite 403, New York, New York 10017 or by calling our Corporate Secretary at (212) 792-0107.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference into this prospectus supplement and the accompanying prospectus. Because this is a summary, it may not contain all of the information that is important to you. You should read the entire prospectus supplement and the accompanying prospectus, including the section entitled "Risk Factors" and the documents incorporated by reference herein before making an investment decision.

Our Company

We are a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our investment portfolio includes investments sourced from distressed markets over recent years that create the potential for capital appreciation, as well as more traditional types of mortgage-related investments, such as Agency RMBS consisting of adjustable-rate and hybrid adjustable-rate RMBS, which we sometimes refer to as Agency ARMs, and Agency RMBS comprised of IOs, which we sometimes refer to as Agency IOs, that generate interest income.

Under our investment strategy, our targeted assets currently include Agency ARMs, Agency IOs and CMBS backed by commercial mortgage loans on multi-family properties, which we sometimes refer to as multi-family CMBS. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations, residential mortgage loans and certain commercial real estate-related debt investments.

We have elected to be taxed as a REIT and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended, or Code, with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we expect to be subject to some federal, state and local taxes on our income generated in our taxable REIT subsidiaries, or TRSs.

Our principal executive offices are located at 52 Vanderbilt Avenue, Suite 403, New York, New York 10017, and our telephone number is (212) 792-0107. Our website address is www.nymtrust.com. Our website and the information contained at or connected to our website do not constitute a part of this prospectus supplement or the accompanying prospectus.

Recent Developments

Investments in Multi-Family CMBS and Resecuritization Transaction

On May 23, 2012, a subsidiary of our company, RB Commercial Trust 2012-RS1, or the Trust, completed a resecuritization of multi-family CMBS, which we sometimes refer to in this prospectus supplement as the securitization transaction. We received net cash proceeds of approximately $26.1 million after deducting expenses associated with the transaction.

As part of the securitization transaction, the Trust issued a Class A Senior Note, or Class A Note, and a Class B Note, which we collectively refer to in this prospectus supplement as the Notes. The Class A Note was sold to an institutional investor with a coupon of 5.35% in the initial aggregate principal face amount of $35.0 million. The Class A Note was issued at a discount that provides for a bond equivalent yield of 9.5% to the purchaser. The Class A Note holder is entitled to receive all distributions of principal and interest from the multi-family CMBS pledged to secure the Notes until the Class A Note is fully repaid, which is expected to occur by January 2022. After the Class A Note is fully repaid, as the holder of the Class B Note and the Trust ownership certificates, we will receive all remaining cash flow from the Trust. The Notes are not callable due to collateral valuation or performance.

The Notes are secured by the multi-family CMBS contributed to the Trust by us, each of which represents an interest one of three pools that hold fixed rate, balloon (including mortgage loans that require no amortization prior to their stated maturity dates), nonrecourse mortgage loans, secured by first liens on multi-family properties. These multi-family CMBS are comprised of our interest in the first loss tranche (which are PO securities) and certain IO securities issued by the FREMF 2011-K13 Mortgage Trust, Multifamily Mortgage Pass-Through Certificates, Series 2011-K13 (the "K-13 Series"), the FREMF 2011-K15 Mortgage Trust, Multifamily Mortgage Pass-Through Certificates, Series 2011-K15 (the "K-15 Series"), and the FREMF 2011-K18 Mortgage Trust, Multifamily Mortgage Pass-Through Certificates, Series 2012-K18 (the "K-18 Series"), and are collateralized in aggregate by 247 mortgage loans on 251 multifamily properties located throughout the continental United States. As of the closing date of the securitization transaction, we estimated that the market value of the multi-family CMBS contributed to the Trust was approximately $47.7 million. As of the closing date of the securitization transaction, we estimated that the first loss PO securities contributed to the Trust had a face amount of approximately $155.0 million.

We acquired our interest in the K-13 Series and the K-15 Series in 2011, while we acquired our interest in the K-18 Series on May 22, 2012. The K-18 Series' assets were contributed to the Trust at a fair market value of approximately $26.5 million. We applied substantially all of the net proceeds from the securitization transaction to the purchase of the K-18 Series' assets.

Payment of the Class A Note is an obligation of the Trust and not an obligation of our company. At any time on or after May 25, 2017, as the holder of the Class B Note, we may redeem the Class A Note. For financial reporting purposes, we expect to consolidate the Trust on our financial statements beginning with the quarter ended June 30, 2012.

In addition, during June 2012, we completed the purchase in the secondary market of certain securities issued by a Freddie Mac-sponsored multi-family loan securitization. The securities purchased include the first loss tranche (PO securities) of a Freddie Mac-sponsored multi-family loan securitization as well as certain IO securities issued by that securitization. These multi-family CMBS assets are collateralized by 68 mortgage loans on 68 multifamily properties located throughout the United States. The purchase price for these assets was approximately $35.3 million. We used the net proceeds from our May 2012 public offering of common stock and short-term indebtedness to fund our purchase of these assets.

As of June 30, 2012, our overall multi-family CMBS portfolio, including the multi-family CMBS we contributed to the Trust, was comprised of the first loss tranche (PO securities) and certain IO securities issued by certain Freddie Mac-sponsored multi-family loan securitizations, which we acquired during the course of 2011 and 2012 for an aggregate purchase price of $101.3 million. Of this amount at June 30, 2012, the first loss PO securities included in our multi-family CMBS portfolio were purchased at an aggregate purchase price of approximately $79.8 million and have an aggregate current par value amount of approximately $322.8 million, while the IO securities included in our multi-family CMBS portfolio were purchased at an aggregate purchase price of approximately $21.6 million and have an aggregate estimated current par value amount of approximately $3.3 billion.

We expect to continue to pursue additional financing opportunities for the acquisition of our targeted assets and our future growth, including, in the near term, through additional structured financings similar to the securitization transaction, short term borrowings under repurchase agreements and proceeds from the issuance of equity securities and corporate-level debt securities of our company, and any combination thereof.

Second Quarter 2012 Common Stock Dividend

On June 15, 2012, our Board of Directors declared a regular quarterly cash dividend of $0.27 per share on shares of our common stock for the quarter ended June 30, 2012. The dividend is payable on July 25, 2012 to our common stockholders of record as of June 25, 2012. Purchasers of common stock in this offering will not receive the cash dividend payable on July 25, 2012.

Public Offering of Common Stock and Equity Distribution Program

On May 31, 2012, we closed on the issuance and sale of 3,162,500 shares of our common stock pursuant to an underwritten public offering, including 412,500 shares issued pursuant to the exercise of the underwriters' over-allotment option, at a price to the public of $6.65 per share and received net proceeds of approximately $20.0 million after deducting the underwriting discount and offering expenses payable by us.

On June 11, 2012, we entered into an equity distribution agreement with JMP Securities LLC. In accordance with the terms of the equity distribution agreement, we may offer and sell, from time to time, shares of our common stock having a maximum aggregate offering price of up to $25.0 million. As of June 30, 2012, we had sold no shares of common stock under the equity distribution agreement.

Change in Ownership Limit under Our Charter

On May 4, 2012, our Board of Directors, pursuant to Section 7.2.8 of Article VII of our charter, approved (i) an increase in the Common Stock Ownership Limit (as defined in our charter) to 9.9% (in value or number of shares, whichever is more restrictive), of the aggregate of the outstanding shares of Common Stock (as defined in our charter), and (ii) an increase in the Aggregate Stock Ownership Limit (as defined in our charter) to 9.9% in value of the aggregate of the outstanding shares of Capital Stock (as defined in our charter). The change in the Common Stock Ownership Limit and the Aggregate Stock Ownership Limit became effective on the same day it was approved by our Board of Directors. Each of the Common Stock Ownership Limit and the Aggregate Stock Ownership Limit was previously set at 5.0%.

THE OFFERING

Common Stock Offered	3,750,000 shares
Shares Outstanding After the Offering(1)	21,087,994 shares
Use of Proceeds	We intend to use the net proceeds of this offering to acquire certain of our target assets, including multi-family CMBS and Agency RMBS. With respect to the net proceeds that will be used to acquire Agency RMBS, we expect then to borrow against the Agency RMBS through repurchase agreements and to use the proceeds of the borrowings to acquire additional Agency RMBS. We may also use net proceeds for general working capital purposes, including the repayment of short-term indebtedness. See "Use of Proceeds".
Listing	Our common stock is listed on Nasdaq under the symbol "NYMT."
Dividend Policy	We intend to pay quarterly dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our REIT taxable income in each year, subject to certain adjustments, is distributed. We have not, however, established a minimum dividend payment level for shares of our common stock. All distributions to holders of our common stock will be made at the discretion of our Board of Directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future at the current rate or at all. See "Risk Factors."
Ownership Restrictions	Our charter provides that generally no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, either (i) more than 9.9% in value of the aggregate of our outstanding shares of capital stock or (ii) more than 9.9% in value or in number of shares, whichever is more restrictive, of the aggregate of our outstanding common stock. Our Board of Directors has discretion to grant exemptions from the 9.9% ownership limitation, subject to such terms and conditions as it deems appropriate. These restrictions on ownership of our common stock and capital stock are intended to

	preserve our qualification as a REIT for federal income tax purposes. See “Summary—Recent Developments — Change in Ownership Limit Under Our Charter” in this prospectus supplement and “Description of Common Stock — Restrictions on Ownership and Transfer” and “Material Federal Income Tax Considerations” in the accompanying prospectus.
Risk Factors	An investment in our common stock is subject to a high degree of risk. Please refer to “Risk Factors” and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before investing in shares of our common stock.

(1) Assumes no exercise of the underwriters' over-allotment option.

RISK FACTORS

Investing in our shares of common stock involves a high degree of risk. Please see the risks described below in addition to the risk factors beginning on page 18 of our Annual Report on Form 10-K for the year ended December 31, 2011 and on page 62 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, which are incorporated by reference into this prospectus supplement. Such risks are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect us and the market value of our common stock. The risks described could affect our business, financial condition, liquidity, results of operations and the market value of our common stock. In such a case, you may lose all or part of your original investment. You should carefully consider the risks described below and in these reports, as well as other information and data set forth in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein before making an investment decision with respect to the shares of our common stock.

The stock ownership limit imposed by our charter may inhibit market activity in our common stock and may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of the issued and outstanding shares of our capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year (other than our first year as a REIT). This test is known as the "5/50 test." Attribution rules in the Code apply to determine if any individual or entity actually or constructively owns our capital stock for purposes of this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of each taxable year (other than our first year as a REIT). To help ensure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provides that, unless exempted by our Board of Directors, no person may own more than 9.9% in value of the aggregate of the outstanding shares of our capital stock or more than 9.9% in value or in number of shares, whichever is more restrictive, of the aggregate of our outstanding shares of common stock. The ownership limits contained in our charter could delay or prevent a transaction or a change in control of our company under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then current market price for our common stock or would otherwise be in the best interests of our stockholders.

Your interest in us may be diluted if we issue additional shares.

Existing stockholders of our company and potential investors in the shares of common stock being offered pursuant to this prospectus supplement and the accompanying prospectus do not have preemptive rights to any common stock issued by us in the future. Therefore, investors purchasing shares in this offering may experience dilution of their equity investment if we sell additional common stock in the future, sell securities that are convertible into common stock or issue shares of common stock or options exercisable for shares of common stock. In addition, we could sell securities at a price less than our then-current book value per share.

Investing in our common stock may involve a high degree of risk.

The investments we make in accordance with our investment strategy may result in a high degree of risk, volatility or loss of principal than alternative investment options. Our investments may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for someone with lower risk tolerance.

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USE OF PROCEEDS

We estimate that the net proceeds of this offering will be approximately $ (or approximately $ if the underwriters exercise their option to purchase additional shares in full), after deduction of the underwriting discount and estimated offering expenses payable by us.

We expect to use the net proceeds of this offering to acquire certain of our targeted assets, including multi-family CMBS and Agency RMBS. With respect to the net proceeds that will be used to acquire Agency RMBS, we expect then to borrow against the Agency RMBS through repurchase agreements and to use the proceeds of the borrowings to acquire additional Agency RMBS. We may also use net proceeds for general working capital purposes, including the repayment of indebtedness.

Pending these uses, we intend to maintain the net offering proceeds in interest-bearing, short-term, marketable investment grade securities or money market accounts or (interest or non-interest bearing) checking (or escrow) accounts that are consistent with our intention to maintain our qualification as a REIT. These investments may include, for example, government securities other than agency securities, certificates of deposit and interest-bearing bank deposits. These investments are expected to provide a lower net return than we will seek to achieve from our targeted assets.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, total capitalization and total liabilities and equity as of March 31, 2012 (1) on an actual basis and (2) on an as adjusted basis to give effect to the consummation of this offering and the consummation of our public offering on May 25, 2012. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and the notes thereto incorporated by reference in this prospectus supplement.

	As of March 31, 2012			
	Actual		As Adjusted(1)	
	(Dollars in thousands) unaudited			
Cash and cash equivalents	$	8,875	$	
Debt:				
Financing arrangements, portfolio investments	$	118,385	$	118,385
Residential collateralized debt obligations(2)		194,765		194,765
Multi-family collateralized debt obligations, at fair value(3)		1,130,851		1,130,851
Subordinated debentures		45,000		45,000
Total debt	$	1,489,001	$	1,489,001
Stockholders' equity				
Common stock, $0.01 par value, 400,000,000 shares authorized, 14,175,494 shares issued and outstanding actual and 21,087,994 shares issued and outstanding as adjusted		142		211
Additional paid-in capital		150,221		
Accumulated other comprehensive income		15,617		15,617
Accumulated deficit		(74,024)		(74,024)
Total stockholders' equity		91,956		
Noncontrolling interest		1,080		1,080
Total equity	$	93,036	$	
Total capitalization(4)	$	1,580,957	$	
Total liabilities and equity	$	1,841,449	$	

(1) The as-adjusted amount reflects (a) the net proceeds to us from the sale of shares of common stock in this offering at an offering price of $ per share, and the receipt of the total estimated net proceeds of approximately $ (assuming no exercise of the underwriter's over-allotment option) and (b) the net proceeds to us from the sale of 3,162,500 shares of common stock in our public offering on May 25, 2012 (including 412,500 shares issued pursuant to the exercise in full of the underwriter's over-allotment option) at a public offering price of $6.65 per share, and the receipt of the total net proceeds of approximately $19,974,400 from the May 25, 2012 offering.

(2) The residential collateralized debt obligations ("Residential CDO") permanently finance our residential mortgage loans held in securitization trusts. For financial reporting purposes, the ARM loans held as collateral in the securitization trusts are recorded as our assets and the Residential CDO is recorded as our debt. We have completed

four securitizations since inception, the first three were accounted for as a permanent financing and the fourth was accounted for as a sale and accordingly, not included in our financial statements. We have a net equity investment of $7.4 million in these residential securitization trusts as of March 31, 2012.

(3) Represents multi-family collateralized debt obligations ("Multi-family CDO") that permanently finance multi-family mortgage loans held in the Freddie Mac Multi-Family Loan Securitization Series 2011-K03 (the "K-03 Series"). Based on a number of factors, we determined that we were the primary beneficiary of the K-03 Series and have consolidated the K-03 Series and related debt, interest income and expense in our financial statements as of January 4, 2012. For financial reporting purposes, the multi-family mortgage loans held in the securitization trust that comprises the K-03 Series are recorded as our assets and the Multi-family CDO is recorded as our debt. We have a net equity investment of approximately $24.3 million in the K-03 Series multi-family securitization trust at March 31, 2012.

(4) Total capitalization is defined as the sum of our total stockholders' equity and total debt, including short term indebtedness.

UNDERWRITING

In accordance with the terms and conditions contained in the underwriting agreement, we have agreed to sell to each of the underwriters named below, and each of the underwriters, for which Ladenburg Thalmann & Co. Inc. is acting as the representative, has, severally, and not jointly, agreed to purchase from us, on a firm commitment basis the shares offered in this offering set forth opposite their respective names below:

Underwriters	Number of Shares
Ladenburg Thalmann & Co. Inc.	
Total	3,750,000

A copy of the underwriting agreement will be filed as an exhibit to the registration statement of which this prospectus supplement forms a part.

We have been advised by the representative of the underwriters that the underwriters propose to offer the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement. Any shares sold by the underwriters to securities dealers will be sold at the public offering price less a selling concession not in excess of $ per share.

The underwriting agreement provides that the underwriters' obligations to purchase the shares are subject to conditions contained in the underwriting agreement. The underwriters are obligated to purchase and pay for all of the shares offered by this prospectus supplement and the accompanying prospectus other than those covered by the over-allotment option, if any of these securities are purchased.

Underwriting Discount

The following table summarizes the underwriting discount to be paid to the underwriters by us.

	Total, Without Over-allotment	Total, With Over-allotment
Underwriting discount to be paid to the underwriters by us for the shares (4.0% of gross proceeds)	$	$

The expenses of the offering, exclusive of the underwriting discount, are estimated at approximately $150,000 and payable by us.

We are not under any contractual obligation to engage any of the underwriters to provide investment banking, lending, asset management or financial advisory services to us in the future. If any of the underwriters provide such services to us after this offering, we may pay such underwriter fair and reasonable fees that would be determined at that time in an arm's length negotiation. However, we will not enter into any agreement with any of the underwriters, nor will we pay any fees for such services to any of the underwriters, prior to the date which is 90 days after the date of this offering, unless the Financial Industry Regulatory Authority, Inc. determines that such payment would not be deemed underwriters' compensation in connection with the offering.

Over-allotment Option

We have granted to the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to 562,500 shares at the public offering price, less the underwriting discount, set forth on the cover page of this prospectus supplement. The representative may exercise the option solely to cover over-allotments, if any, made in connection with this offering. If any additional shares are purchased pursuant to the over-allotment option, the underwriters will offer these additional shares on the same terms as those on which the other shares are being offered hereby.

Lock-Ups

We have agreed that we will not directly or indirectly, issue, sell, offer, agree to sell, contract or grant any option to sell (including, without limitation, pursuant to any short sale), pledge, make any short sale of, maintain any short position with respect to, transfer, establish or maintain an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Exchange Act, enter into any swap, derivative transaction or other arrangement (whether such transaction is to be settled by delivery of our common stock, other securities, cash or other consideration) that transfers to another, in whole or in part, any of the economic consequences of ownership, or otherwise dispose of any shares of our common stock, options or warrants to acquire shares of our common stock, or securities exchangeable or exercisable for or convertible into shares of our common stock, or publicly disclose the intention to take any such action, without, in each case, the prior written consent of the representative for a period of 30 days after the date of this prospectus. However, we may, during this 30-day “lock-up” period, (a) grant common stock-based awards and compensation to our directors under our existing 2010 Stock Incentive Plan and (b) file any amendments to the registration statement of which this prospectus supplement forms a part.

Each of our directors and executive officers has agreed that they will not sell or offer or contract to sell or offer, grant any option or warrant for the sale of, assign, transfer, pledge, hypothecate, or otherwise encumber or dispose of any legal or beneficial interest in any shares of our common stock, enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representative for a period of 30 days after the date of this prospectus. However, each of our directors and executive officers may transfer or dispose of our shares during this 30-day “lock-up” period, provided, that (i) such transfer shall not involve a disposition for value, (ii) the transferee agrees to be bound in writing by the restrictions set forth in this paragraph for the remainder of the 30-day “lock-up” period prior to such transfer, and (iii) no filing by the transferor or transferee under the Exchange Act is required or voluntarily made in connection with such transfer (other than a filing on a Form 5 made after the expiration of the 30-day “lock-up” period).

Stabilization, Short Positions and Penalty Bids

The underwriters may engage in over-allotment, syndicate covering transactions, stabilizing transactions and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of our common stock:

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by an underwriter is not greater than the number of shares that it may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. An underwriter may close out any short position by exercising its over-allotment option, in whole or in part, or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of securities in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of securities needed to close out the short position, the representatives will consider, among other things, the price of the securities available for purchase in the open market as compared to the price at which it may purchase the securities through the over-allotment option. If the underwriters sell more securities than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying securities in the open market. A naked short position is more likely to be created if the representatives are concerned that there could be downward pressure on the price of the securities in the open market after pricing that could adversely affect investors who purchase in the offering.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specific maximum.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the securities originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These syndicate covering transactions, stabilizing transactions and penalty bids may have the effect of raising or maintaining the market prices of our securities or preventing or retarding a decline in the market prices of our securities. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq, in the over-the-counter market or on any trading market and, if commenced, may be discontinued at any time.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the prices of our securities. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these stabilizing transactions or that any transactions, once commenced, will not be discontinued without notice.

Indemnification

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make with respect to any of these liabilities.

This prospectus supplement and the accompanying prospectus in electronic format may be made available on websites maintained by the underwriter as selling group member, and the underwriter or selling group member may distribute the prospectus supplement and accompanying prospectus electronically.

Nasdaq Capital Market Listing

The shares are listed on Nasdaq under the symbol "NYMT."

EXPERTS

The consolidated financial statements incorporated by reference in this prospectus supplement and elsewhere in the registration statement have been so incorporated by reference in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in giving said report.

LEGAL MATTERS

Certain corporate and securities opinions in connection with the common stock offered by this prospectus supplement and accompanying prospectus will be passed upon for us by Hunton & Williams LLP and, with respect to certain matters of Maryland law, Venable LLP. In addition, the description of federal income tax consequences contained in the section of the accompanying prospectus entitled “Material Federal Income Tax Considerations” is based on the opinion of Hunton & Williams LLP. Certain legal matters will be passed upon for the underwriters by Graubard Miller.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

We have entered into the securitization transaction, which is structured as a taxable mortgage pool. As such, the securitization transaction may produce excess inclusion income. For a discussion of the federal income tax considerations to us and our stockholders with respect to excess inclusion income, see “Material Federal Income Tax Considerations—Requirements for Qualification” in the accompanying prospectus.

PROSPECTUS

$250,000,000

Common Stock
Preferred Stock
Debt Securities

We may offer and sell, from time to time, in one or more offerings, up to an aggregate of $250,000,000 of the common stock, preferred stock and debt securities described in this prospectus. We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis.

The specific terms of any securities to be offered, and the specific manner in which they may be offered, will be described in one or more supplements to this prospectus. This prospectus may not be used to consummate sales of any of these securities unless it is accompanied by a prospectus supplement. Before investing, you should carefully read this prospectus and any related prospectus supplement.

Our shares of common stock are listed on the Nasdaq Capital Market under the symbol "NYMT." The last reported sale price of our common stock on the Nasdaq Capital Market on April 5, 2012, was $6.66 per share.

To preserve our qualification as a real estate investment trust, or REIT, for federal income tax purposes, we impose certain restrictions on the ownership and transfer of our capital stock. See "Description of Common Stock — Restrictions on Ownership and Transfer" and "Description of Preferred Stock — Restrictions on Ownership and Transfer; Change of Control Provisions."

Investing in our securities involves substantial risks. You should carefully read and consider the information under "Risk Factors" on page 3 of this prospectus and any prospectus supplement before making a decision to purchase these securities.

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

The date of this prospectus is April 11, 2012.

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You should rely only on the information contained in this prospectus and the accompanying prospectus supplement or incorporated by reference in these documents. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or the accompanying prospectus supplement. If anyone provides you with different, inconsistent or unauthorized information or representations, you must not rely on them. This prospectus and the accompanying prospectus supplement are an offer to sell only the securities offered by these documents, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or any prospectus supplement is current only as of the date on the front of those documents.

ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC. Under this shelf registration statement, we may offer and sell any combination of our common stock, preferred stock and debt securities in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities under this shelf registration statement, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may add, update or change information contained in this prospectus. Before you buy any of our securities, it is important for you to consider the information contained in this prospectus and any prospectus supplement together with additional information described under the headings "Incorporation By Reference Of Information Filed With The SEC" and "Where You Can Find More Information."

The SEC allows us to incorporate by reference information that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. You should rely only on the information incorporated by reference or set forth in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with information different from that contained in this prospectus. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representation. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus or any prospectus supplement is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since that date.

In this prospectus, we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as "we," "us," "Company," or "our," unless we specifically state otherwise or the context indicates otherwise. In addition, the following defines certain of the commonly used terms in this prospectus: "RMBS" refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only, and principal only mortgage-backed securities; "Agency RMBS" refers to RMBS representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. government, such as the Government National Mortgage Association ("Ginnie Mae"); "IOs" refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; "POs" refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; "ARMs" refers to adjustable-rate residential mortgage loans; "prime ARM loans" refers to prime credit quality residential ARM loans ("prime ARM loans") held in securitization trusts; and "CMBS" refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

When used in this prospectus and in any accompanying prospectus supplement, in future filings with the SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “would,” “could “objective,” “will,” “may” or similar expressions, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, and, as such, may involve known and unknown risks, uncertainties and assumptions.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; the impact of the downgrade of the long-term credit ratings of the U.S., Fannie Mae, Freddie Mac, and Ginnie Mae; market volatility; changes in the prepayment rates on the mortgage loans underlying our investment securities; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets; changes in government regulations affecting our business; our ability to maintain our qualification as a real estate investment trust for federal tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described in Item 1A of our most recent Annual Report on Form 10-K, as updated by our subsequent filings under the Exchange Act, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OUR COMPANY

We are a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes investments sourced from distressed markets over recent years that create the potential for capital appreciation, as well as more traditional types of mortgage-related investments, such as Agency RMBS consisting of adjustable-rate and hybrid adjustable-rate RMBS, which we sometimes refer to as Agency ARMs, and Agency RMBS comprised of IOs, which we sometimes refer to as Agency IOs, that generate interest income.

We commenced operations as a vertically integrated mortgage origination and portfolio investment manager in 2004 upon the completion of our initial public offering. Facing increasingly difficult operating conditions, we elected to exit the mortgage origination business in 2007 to preserve our capital and focus on our existing mortgage securities portfolio. In January 2008, concurrent with the private placement of $20 million of our preferred stock to JMP Group Inc. and certain of its affiliates, we engaged Harvest Capital Strategies LLC ("HCS") (formerly known as JMP Asset Management LLC), an affiliate of JMP Group Inc., to serve as our investment advisor for the purpose of helping us increase our capital base and source certain types of alternative investments or nontraditional mortgage related investments that could provide significant net realized capital gains.

Since 2009, we have endeavored to build a diversified investment portfolio that includes elements of interest rate and credit risk, as we believe a portfolio diversified among interest rate and credit risks is best suited to delivering stable cash flows over various economic cycles. In 2009 and 2010, we invested in several alternative assets, including a collateralized loan obligation, RMBS backed by prime jumbo and Alternative A-paper, or non-Agency RMBS, individual loans and distressed residential single family mortgage loans. In 2011, we refined our investment strategy from one focused on a broad range of alternative assets sponsored by HCS to an investment strategy focused on residential and multi-family loans and securities. In connection with this focus, we entered into separate investment management agreements with The Midway Group, L.P. and RiverBanc, LLC to provide investment management services with respect to certain of our investment strategies, including our investments in Agency IOs and CMBS backed by commercial mortgage loans on multi-family properties, which we sometimes refer to as multi-family CMBS. In connection with the refinement of our investment focus away from the alternative assets sourced by HCS, we ended our advisory relationship with HCS on December 31, 2011.

Under our investment strategy, our targeted assets currently include:

- Agency ARMs and Agency IOs; and
- multi-family CMBS.

Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations, residential mortgage loans and certain commercial real estate-related debt investments.

We have elected to be taxed as a REIT and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended, or Internal Revenue Code, with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we expect to be subject to some federal, state and local taxes on our income generated in our taxable REIT subsidiaries, or TRSs.

Corporate Offices

We are a Maryland corporation that was formed in 2003. Our principal executive offices are located at 52 Vanderbilt Avenue, Suite 403, New York, New York 10017, and our telephone number is (212) 792-0107. Our website is www.nymtrust.com. Our website and the information contained at or connected to our website do not constitute a part of this prospectus or any accompanying prospectus supplement.

RISK FACTORS

Investing in our securities involves substantial risks, including the risk that you might lose your entire investment. Before making an investment decision, you should carefully read and consider the information set forth under the heading "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q (which information is incorporated by reference in this prospectus), as well as the other information contained or incorporated by reference in this prospectus or in any prospectus supplement hereto. See "Where You Can Find More Information" below. Any one of the risks discussed could cause actual results to differ materially from expectations and could adversely affect our business, financial condition and results of operations. Additional risks and uncertainties not presently known to us or not identified, may also materially and adversely affect our business, financial condition and results of operations.

USE OF PROCEEDS

Unless otherwise indicated in an accompanying prospectus supplement, we intend to use the net proceeds from the sale of securities offered by this prospectus and the accompanying prospectus supplement to acquire our target assets and for general corporate purposes, including the repayment of indebtedness.

DESCRIPTION OF THE SECURITIES WE MAY OFFER

This prospectus contains a summary description of the common stock, preferred stock and debt securities that we may offer from time to time. As further described in this prospectus, these summary descriptions are not meant to be complete descriptions of each security. The particular terms of any security will be described in the accompanying prospectus supplement and other offering material. The accompanying prospectus supplement may update, change or add to the terms and conditions of the securities as described in this prospectus.

DESCRIPTION OF COMMON STOCK

The following summary description of our common stock does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law, our charter and our bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."

General

Our charter provides that we may issue up to 400,000,000 shares of common stock, par value $0.01 per share. As of March 31, 2012, 14,175,494 shares of common stock were issued and outstanding. Under Maryland law, our stockholders are not generally liable for our debts or obligations. Our charter authorizes our board of directors to amend our charter to increase or decrease the aggregate number of shares of capital stock of any class or series that we have the authority to issue, without stockholder approval.

Voting Rights of Common Stock

Subject to the provisions of our charter regarding restrictions on the transfer and ownership of shares of common stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as provided with respect to any other class or series of shares of our stock, the holders of our common stock possess the exclusive voting power. There is no cumulative voting in the election of directors, which means that the holders of a majority of our outstanding shares of common stock can elect all of the directors then standing for election. Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, or engage in a share exchange or engage in similar transactions outside the ordinary course of business unless approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter, unless a lesser percentage (but not less than a majority of all the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter provides for approval by a majority of all the votes entitled to be cast on the matter for the matters described in the preceding sentence.

Dividends, Liquidation and Other Rights

All of our outstanding shares of common stock are duly authorized, fully paid and nonassessable. Holders of our shares of common stock are entitled to receive dividends when authorized by our board of directors and declared by us out of assets legally available for the payment of dividends. They also are entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up, after payment of or adequate provision for all of our known debts and liabilities. These rights are subject to the preferential rights of any other class or series of our stock and to the provisions of our charter regarding restrictions on transfer and ownership of our stock.

Holders of our shares of common stock have no appraisal, preference, conversion, exchange, sinking fund or redemption rights and have no preemptive rights to subscribe for any of our securities. Subject to the restrictions on transfer of capital stock contained in our charter and to the ability of the board of directors to create shares of common stock with differing voting rights, all shares of common stock have equal dividend, liquidation and other rights.

Power to Issue Additional Shares of Common Stock and Preferred Stock

Our charter also authorizes our board of directors to amend our charter to increase or decrease the aggregate number of shares of capital stock of any class or series that we have the authority to issue, to classify and reclassify any unissued shares of our common stock and preferred stock into any other classes or series of classes of our stock, to establish the number of shares in each class or series and to set the terms, preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such class or series. We believe that the power of our board of directors to take these actions provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as our common stock, are available for issuance without further action by our stockholders, unless stockholder action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors has no intention at the present time of doing so, it could authorize us to issue a class or series that could, depending upon the terms of such class or series, delay, defer or prevent a transaction or a change in control of us that might involve a premium price for holders of our common stock that our common stockholders or otherwise believe to be in their best interest.

Restrictions on Ownership and Transfer

In order to qualify as a REIT under the Internal Revenue Code, our shares of stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of any taxable year. In addition, if certain "disqualified organizations" hold our stock, although the law on the matter is unclear, a tax might be imposed on us if a portion of our assets is treated as a taxable mortgage pool. In addition, a tax will be imposed on us if certain disqualified organizations hold our stock and we hold a residual interest in a real estate mortgage investment conduit, or REMIC.

To help us to qualify as a REIT, our charter, subject to certain exceptions, contains restrictions on the number of shares of our capital stock that a person may own and prohibits certain entities from owning our stock. Our charter was amended in June 2009 to reduce the aggregate stock ownership limit and common stock ownership limit from 9.9% to 5%. As amended, our charter provides that generally no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, either (i) more than 5% in value of the aggregate of our outstanding shares of capital stock or (ii) more than 5% in value or in number of shares, whichever is more restrictive, of the aggregate of our outstanding common stock. However, to the extent that any person's "beneficial ownership" or "constructive ownership" of our stock immediately prior to the effectiveness of the June 2009 charter amendment exceeded the 5% ownership limit described in the preceding sentence, the ownership limit is not effective for such person until that person's ownership percentage falls below the 5% ownership limit; provided, however, that until such time as the person's ownership percentage falls below the 5% ownership limit, any further acquisition of our capital stock by such person will be in violation of the ownership limits established by our charter. Our board of directors is permitted under our charter to increase or decrease the common stock ownership limit and the aggregate stock ownership limit from time to time, and to waive these ownership limits on a case by case basis so long as the waiver will not allow five or fewer individuals to beneficially own more than 49.9% in value of our outstanding capital stock or otherwise cause us to fail to comply with applicable REIT ownership requirements under the Internal Revenue Code. Our charter prohibits the following "disqualified organizations" from owning our stock: the United States; any state or political subdivision of the United States; any foreign government; any international organization; any agency or instrumentality of any of the foregoing; any other tax-exempt organization, other than a farmer's cooperative described in Section 521 of the Internal Revenue Code, that is exempt from both income taxation and from taxation under the unrelated business taxable income provisions of the Internal Revenue Code and any rural electrical or telephone cooperative.

Our charter also prohibits any person from (a) beneficially or constructively owning shares of our capital stock that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code, and (b) transferring shares of our capital stock if such transfer would result in our capital stock being beneficially owned by fewer than 100 persons. Any person who acquires or attempts or intends to acquire beneficial ownership of shares of our capital stock that will or may violate any of the foregoing restrictions on transferability and ownership will be required to give notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our status as a REIT. The foregoing restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Our board of directors, in its sole discretion, may exempt a person from the above ownership limits and any of the restrictions described in the first sentence of the paragraph directly above. However, the board of directors may not grant an exemption to any person unless the board of directors obtains such representations, covenants and undertakings as the board of directors may deem appropriate in order to determine that granting the exemption would not result in our losing our status as a REIT. As a condition of granting the exemption, our board of directors may require a ruling from the Internal Revenue Service, or IRS, or an opinion of counsel, in either case in form and substance satisfactory to the board of directors, in its sole discretion, in order to determine or ensure our status as a REIT. Our board of directors has granted exemptions from the ownership limits from time to time in the past, including the grant of a waiver to allow Joseph A. Jolson, an affiliate of HCS and JMP Group Inc., to own up to 25% of the aggregate value of our outstanding stock.

Any transfer that results in our shares of stock being owned by fewer than 100 persons will be void. However, if any transfer of our shares of stock occurs which, if effective, would result in any person beneficially or constructively owning shares of stock in excess or in violation of the above transfer or ownership limitations, known as a prohibited owner, then that number of shares of stock, the beneficial or constructive ownership of which otherwise would cause such person to violate the transfer or ownership limitations (rounded up to the nearest whole share), will be automatically transferred to a charitable trust for the exclusive benefit of a charitable beneficiary, and the prohibited owner will not acquire any rights in such shares. This automatic transfer will be considered effective as of the close of business on the business day before the violative transfer. If the transfer to the charitable trust would not be effective for any reason to prevent the violation of the above transfer or ownership limitations, then the transfer of that number of shares of stock that otherwise would cause any person to violate the above limitations will be void. Shares of stock held in the charitable trust will continue to constitute issued and outstanding shares of our stock. The prohibited owner will not benefit economically from ownership of any shares of stock held in the charitable trust, will have no rights to dividends or other distributions and will not possess any rights to vote or other rights attributable to the shares of stock held in the charitable trust. The trustee of the charitable trust will be designated by us and must be unaffiliated with us or any prohibited owner and will have all voting rights and rights to dividends or other distributions with respect to shares of stock held in the charitable trust, and these rights will be exercised for the exclusive benefit of the trust's charitable beneficiary. Any dividend or other distribution paid before our discovery that shares of stock have been transferred to the trustee will be paid by the recipient of such dividend or distribution to the trustee upon demand, and any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or distribution so paid to the trustee will be held in trust for the trust's charitable beneficiary. Subject to Maryland law, effective as of the date that such shares of stock have been transferred to the trustee, the trustee, in its sole discretion, will have the authority to:

- rescind as void any vote cast by a prohibited owner prior to our discovery that such shares have been transferred to the trustee; and
- recast such vote in accordance with the desires of the trustee acting for the benefit of the trust's beneficiary.

However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast such vote.

Within 20 days of receiving notice from us that shares of stock have been transferred to the charitable trust, and unless we buy the shares first as described below, the trustee will sell the shares of stock held in the charitable trust to a person, designated by the trustee, whose ownership of the shares will not violate the ownership limitations in our charter. Upon the sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the prohibited owner and to the charitable beneficiary. The prohibited owner will receive the lesser of:

- the price paid by the prohibited owner for the shares or, if the prohibited owner did not give value for the shares in connection with the event causing the shares to be held in the charitable trust (for example, in the case of a gift or devise), the market price of the shares on the day of the event causing the shares to be held in the charitable trust; and
- the price per share received by the trustee from the sale or other disposition of the shares held in the charitable trust (less any commission and other expenses of a sale).

The trustee may reduce the amount payable to the prohibited owner by the amount of dividends and distributions paid to the prohibited owner that are owed by the prohibited owner to the trustee. Any net sale proceeds in excess of the amount payable to the prohibited owner will be paid immediately to the charitable beneficiary. If, before our discovery that shares of stock have been transferred to the charitable trust, such shares are sold by a prohibited owner, then:

- such shares will be deemed to have been sold on behalf of the charitable trust; and
- to the extent that the prohibited owner received an amount for such shares that exceeds the amount that the prohibited owner was entitled to receive as described above, the excess must be paid to the trustee upon demand.

In addition, shares of stock held in the charitable trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of:

- the price per share in the transaction that resulted in such transfer to the charitable trust (or, in the case of a gift or devise, the market price at the time of the gift or devise); and
- the market price on the date we, or our designee, accept such offer.

We may reduce the amount payable to the prohibited owner by the amount of dividends and distributions paid to the prohibited owner that are owed by the prohibited owner to the trustee. We may pay the amount of such reduction to the trustee for the benefit of the charitable beneficiary. We will have the right to accept the offer until the trustee has sold the shares of stock held in the charitable trust. Upon such a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the prohibited owner and any dividends or other distributions held by the trustee will be paid to the charitable beneficiary.

All certificates representing shares of our capital stock will bear a legend referring to the restrictions described above.

Every holder of more than 5% (or such lower percentage as required by the Internal Revenue Code or the regulations promulgated thereunder) in value of all classes or series of our capital stock, including shares of common stock, within 30 days after the end of each taxable year, will be required to give written notice to us stating the name and address of such holder, the number of shares of each class and series of shares of our stock that the holder beneficially owns and a description of the manner in which the shares are held. Each holder shall provide to us such additional information as we may request in order to determine the effect, if any, of the holder's beneficial ownership on our status as a REIT and to ensure compliance with our ownership limitations. In addition, each stockholder shall upon demand be required to provide to us such information as we may request, in good faith, in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

Our ownership limitations could delay, defer or prevent a transaction or a change in control of us that might involve a premium price for holders of our common stock or might otherwise be in the best interest of our stockholders.

Transfer Agent and Registrar

The transfer agent and registrar for our shares of common stock is American Stock Transfer & Trust Company, LLC.

DESCRIPTION OF PREFERRED STOCK

The following summary description of our preferred stock does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law, our charter and our bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."

General

Our charter authorizes our board of directors to issue 200,000,000 shares of preferred stock, par value $0.01 per share, in one or more series and with rights, preferences, privileges and restrictions that our board of directors may fix or designate without any further vote or action by our stockholders.

Our charter authorizes our board of directors to reclassify any unissued shares of common stock into preferred stock, to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series of preferred stock previously authorized by our board of directors. Prior to issuance of shares of each class or series of preferred stock, our board of directors is required by Maryland law and our charter to fix, subject to our charter restrictions on transfer and ownership, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, our board could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for you or otherwise be in your best interest.

Terms

When we issue preferred stock, it will be fully paid and non-assessable. The preferred stock will not have any preemptive rights.

Articles supplementary that will become part of our charter will reflect the specific terms of any new series of preferred stock offered. A prospectus supplement will describe these specific terms, including:

- the title and stated value;
- the number of shares, liquidation preference and offering price;
- the dividend rate, dividend periods and payment dates;
- the date on which dividends begin to accrue or accumulate;
- any auction and remarketing procedures;
- any retirement or sinking fund requirement;
- the price and the terms and conditions of any redemption right;
- any listing on any securities exchange;
- the price and the terms and conditions of any conversion or exchange right;
- any voting rights;

- the relative ranking and preferences as to dividends, liquidation, dissolution or winding up;

- any limitations on issuing any series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividends, liquidation, dissolution or winding up;
- any limitations on direct or beneficial ownership and restrictions on transfer; and
- any other specific terms, preferences, rights, limitations or restrictions.

Restrictions on Ownership and Transfer; Change of Control Provisions

As discussed above under “Description of Common Stock — Restrictions on Ownership and Transfer,” our charter contains restrictions on ownership and transfers of our capital stock. In addition, the articles supplementary designating the terms of each series of preferred stock may also contain additional provisions restricting the ownership and transfer of the preferred stock. The prospectus supplement will specify any additional ownership limitation relating to a series of preferred stock.

For a discussion of provisions in our charter that may have the effect of delaying, deferring or preventing a change of control, see “Certain Provisions of Maryland Law and of our Charter and Bylaws.”

Transfer Agent

The prospectus supplement will identify the transfer agent and registrar for the preferred stock.

DESCRIPTION OF DEBT SECURITIES

General

The debt securities offered by this prospectus will be our direct unsecured general obligations. This prospectus describes certain general terms of the debt securities offered through this prospectus. In the following discussion, we refer to any of our direct unsecured general obligations as the “Debt Securities.” When we offer to sell a particular series of Debt Securities, we will describe the specific terms of that series in a prospectus supplement or any free writing prospectus. The Debt Securities will be issued under an open-ended Indenture (for Debt Securities) between us and a trustee to be selected by us at or about the time we offer our Debt Securities. The open-ended Indenture (for Debt Securities) is incorporated by reference into the registration statement of which this prospectus is a part and is filed as an exhibit to the registration statement. In this prospectus we refer to the Indenture (for Debt Securities) as the Debt Securities Indenture. We refer to the trustee under any Debt Securities Indenture as the “Debt Securities Trustee.”

The prospectus supplement or any free writing prospectus applicable to a particular series of Debt Securities may state that a particular series of Debt Securities will be our subordinated obligations. The form of Debt Securities Indenture referred to above includes optional provisions (designated by brackets (“[ ]”)) that we would expect to appear in a separate indenture for subordinated debt securities in the event we issue subordinated debt securities. In the following discussion, we refer to any of our subordinated obligations as the “Subordinated Debt Securities.” Unless the applicable prospectus supplement or any free writing prospectus provides otherwise, we will use a separate Debt Securities Indenture for any Subordinated Debt Securities that we may issue. Our Debt Securities Indenture will be qualified under the Trust Indenture Act of 1939, as amended, or the Trust Indenture Act, and you should refer to the Trust Indenture Act for the provisions that apply to the Debt Securities.

We have summarized selected provisions of the Debt Securities Indenture below. Each Debt Securities Indenture will be independent of any other Debt Securities Indenture unless otherwise stated in a prospectus supplement or any free writing prospectus. The summary that follows is not complete and the summary is qualified in its entirety by reference to the provisions of the applicable Debt Securities Indenture. You should consult the applicable Debt Securities, Debt Securities Indenture, any supplemental indentures, officers’ certificates and other related documents for more complete information on the Debt Securities. These documents appear as exhibits to, or are incorporated by reference into, the registration statement of which this prospectus is a part, or will appear as exhibits to other documents that we will file with the SEC, which will be incorporated by reference into this prospectus. In the summary below, we have included references to applicable section numbers of the Debt Securities Indenture so that you can easily locate these provisions.

Ranking

Our Debt Securities that are not designated Subordinated Debt Securities will be effectively subordinated to all secured indebtedness that we have outstanding from time to time to the extent of the value of the collateral securing such secured indebtedness. Our Debt Securities that are designated Subordinated Debt Securities will be subordinate to all outstanding secured indebtedness as well as Debt Securities that are not designated Subordinated Debt Securities. We incur indebtedness from time to time to finance many of our assets pursuant to repurchase agreements and certain other structured finance instruments, such as the trust preferred securities issued by our subsidiary, Hypotheca Capital, LLC, or Hypotheca, pursuant to which we guarantee the payment of notes by Hypotheca that back the trust preferred securities issued by it. This indebtedness is deemed to be secured indebtedness. As a result, we have a significant amount of secured indebtedness at any given time in relation to our total assets. The Debt Securities Indenture does not limit the amount of secured indebtedness that we may issue or incur.

Our ability to meet our financial obligations with respect to any future Debt Securities, and cash needs generally, is dependent on our operating cash flow, our ability to access various sources of short- and long-term liquidity, including repurchase agreements, financing and the capital markets. Holders of our Debt Securities will effectively have a junior position to claims of our creditors, including trade creditors, debt holders, secured creditors, taxing authorities and guarantee holders.

Provisions of a Particular Series

The Debt Securities may from time to time be issued in one or more series. You should consult the prospectus supplement or free writing prospectus relating to any particular series of Debt Securities for the following information:

- the title of the Debt Securities;
- any limit on the aggregate principal amount of the Debt Securities of the series of which they are a part;
- the date(s), or method for determining the date(s), on which the principal of the Debt Securities will be payable;
- the rate, including the method of determination, if applicable, at which the Debt Securities will bear interest, if any, and:
- the date from which the interest will accrue;
- the dates on which we will pay interest;
- to whom the interest is payable, if other than the registered holder;
- our ability, if any, to defer interest payments and any related restrictions during any interest deferral period; and
- the record date for any interest payable on any interest payment date;
- the place where:
- the principal of, premium, if any, and interest on the Debt Securities will be payable;
- you may register the transfer of the Debt Securities;
- you may exchange the Debt Securities; and
- you may serve notices and demands upon us regarding the Debt Securities;
- the security registrar for the Debt Securities and whether the principal of the Debt Securities is payable without presentment or surrender of them;
- the terms and conditions upon which we may elect to redeem any Debt Securities, including any replacement capital or similar covenants limiting our ability to redeem any Subordinated Debt Securities;
- the denominations in which we may issue Debt Securities, if other than $1,000 and integral multiples of $1,000;
- the terms and conditions upon which the Debt Securities must be redeemed or purchased due to our obligations pursuant to any sinking fund or other mandatory redemption or tender provisions, or at the holder's option, including any applicable exceptions to notice requirements;
- the currency, if other than United States currency, in which payments on the Debt Securities will be payable;

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- the terms according to which elections can be made by us or the holder regarding payments on the Debt Securities in currency other than the currency in which the Debt Securities are stated to be payable;
- if any Debt Securities are denominated in a currency other than U.S. dollars or in a composite currency, the obligations or instruments that will be considered eligible obligations with respect to such Debt Securities and any additional provisions for the reimbursement of the Company's indebtedness with respect to such Debt Securities after the satisfaction or discharge thereof;
  - if payments are to be made on the Debt Securities in securities or other property, the type and amount of the securities and other property or the method by which the amount shall be determined;
- the manner in which we will determine any amounts payable on the Debt Securities that are to be determined with reference to an index or other fact or event ascertainable outside of the applicable indenture;
- if other than the entire principal amount, the portion of the principal amount of the Debt Securities payable upon declaration of acceleration of their maturity;
- any addition to the events of default applicable to any Debt Securities and any addition to our covenants for the benefit of the holders of the Debt Securities;
- the terms applicable to any rights to convert Debt Securities into or exchange them for other of our securities or those of any other entity;
- whether we are issuing Debt Securities as global securities, and if so:
- the terms and conditions upon which the global securities may be exchanged for certificated Debt Securities;
- the depositary for the global securities; and
- the form of legend to be set forth on the global securities;
- whether we are issuing the Debt Securities as bearer certificates;
- any limitations on transfer or exchange of Debt Securities or the right to obtain registration of their transfer, and the terms and amount of any service charge required for registration of transfer or exchange;
- any exceptions to the provisions governing payments due on legal holidays, or any variations in the definition of business day with respect to the Debt Securities;
- any collateral security, assurance, guarantee or other credit enhancement applicable to the Debt Securities;
- any other terms of the Debt Securities not in conflict with the provisions of the applicable Debt Securities Indenture; and
- the material federal income tax consequences applicable to the Debt Securities.

For more information, see Section 3.01 of the applicable Debt Securities Indenture.

Debt Securities may be sold at a substantial discount below their principal amount. You should consult the applicable prospectus supplement or free writing prospectus for a description of certain material federal income tax considerations that may apply to Debt Securities sold at an original issue discount or denominated in a currency other than U.S. dollars.

Unless the applicable prospectus supplement or free writing prospectus states otherwise, the covenants contained in the applicable indenture will not afford holders of Debt Securities protection in the event we have a change in control or are involved in a highly-leveraged transaction.

Subordination

The applicable prospectus supplement or free writing prospectus may provide that a series of Debt Securities will be Subordinated Debt Securities, subordinate and junior in right of payment to all of our Senior Indebtedness, as defined below. If so, we will issue these securities under a separate Debt Securities Indenture for Subordinated Debt Securities. For more information, see Article XV of the form of Debt Securities Indenture.

Unless the applicable prospectus supplement or free writing prospectus states otherwise, in the event:

- there occur certain acts of bankruptcy, insolvency, liquidation, dissolution or other winding up of our company;
- any Senior Indebtedness is not paid when due;
- any applicable grace period with respect to other defaults with respect to any Senior Indebtedness has ended, the default has not been cured or waived and the maturity of such Senior Indebtedness has been accelerated because of the default; or
- the maturity of the Subordinated Debt Securities of any series has been accelerated because of a default and Senior Indebtedness is then outstanding;

then no payment of principal of, including redemption and sinking fund payments, or any premium or interest on, the Subordinated Debt Securities may be made until all amounts due to holders of Senior Indebtedness have been paid in full.

Upon any distribution of our assets to creditors upon any dissolution, winding up, liquidation or reorganization, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of, and any premium and interest due or to become due on, all outstanding Senior Indebtedness must be paid in full before the holders of the Subordinated Debt Securities are entitled to payment. For more information, see Section 15.02 of the applicable Debt Securities Indenture. The rights of the holders of the Subordinated Debt Securities will be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions applicable to Senior Indebtedness until all amounts owing on the Subordinated Debt Securities are paid in full. For more information, see Section 15.04 of the applicable Debt Securities Indenture.

Unless the applicable prospectus supplement or free writing prospectus states otherwise, the term “Senior Indebtedness” means all:

- obligations (other than non-recourse obligations and the indebtedness issued under the applicable Subordinated Debt Securities Indenture) of, or guaranteed or assumed by, us:
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for borrowed money (including both senior and subordinated indebtedness for borrowed money, but excluding the Subordinated Debt Securities); or

- for the payment of money relating to any lease that is capitalized on our consolidated balance sheet in accordance with generally accepted accounting principles;

- indebtedness evidenced by bonds, debentures, notes or other similar instruments;
- obligations with respect to letters of credit, bankers' acceptances or similar facilities issued for our account;
- obligations issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable or accrued liabilities arising in the ordinary course);
- obligations for claims, as defined in section 101(5) of the United States Bankruptcy Code of 1978, as amended, in respect of derivative products such as interest and foreign exchange rate contracts, commodity contracts and similar arrangements; and
- obligations of another person for which we have guaranteed or assumed direct or indirect responsibility or liability.

In the case of any such indebtedness or obligations, Senior Indebtedness includes amendments, renewals, extensions, modifications and refundings, whether existing as of the date of the Subordinated Debt Securities Indenture or subsequently incurred by us.

The Subordinated Debt Securities Indenture does not limit the aggregate amount of Senior Indebtedness we may issue.

Form, Exchange and Transfer

Unless the applicable prospectus supplement or free writing prospectus states otherwise, we will issue Debt Securities only in fully registered form without coupons and in denominations of $1,000 and integral multiples of that amount. For more information, see Sections 2.01 and 3.02 of the applicable Debt Securities Indenture.

Holders may present Debt Securities for exchange or for registration of transfer, duly endorsed or accompanied by a duly executed instrument of transfer, at the office of the security registrar or at the office of any transfer agent we may designate. Exchanges and transfers are subject to the terms of the applicable indenture and applicable limitations for global securities. We may designate ourselves the security registrar.

No charge will be made for any registration of transfer or exchange of Debt Securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge that the holder must pay in connection with the transaction. Any transfer or exchange will become effective upon the security registrar or transfer agent, as the case may be, being satisfied with the documents of title and identity of the person making the request. For more information, see Section 3.05 of the applicable Debt Securities Indenture.

The applicable prospectus supplement or free writing prospectus will state the name of any transfer agent, in addition to the security registrar initially designated by us, for any Debt Securities. We may at any time designate additional transfer agents or withdraw the designation of any transfer agent or make a change in the office through which any transfer agent acts. We must, however, maintain a transfer agent in each place of payment for the Debt Securities of each series. For more information, see Section 6.02 of the applicable Debt Securities Indenture.

We will not be required to issue, register the transfer of, or exchange any:

- Debt Securities or any tranche of any Debt Securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any Debt Securities called for redemption and ending at the close of business on the day of mailing; or
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Debt Securities selected for redemption except the unredeemed portion of any Debt Securities being partially redeemed.

For more information, see Section 3.05 of the applicable Debt Securities Indenture.

Payment and Paying Agents

Unless the applicable prospectus supplement or free writing prospectus states otherwise, we will pay interest on a Debt Security on any interest payment date to the person in whose name the Debt Security is registered at the close of business on the regular record date for the interest payment. For more information, see Section 3.07 of the applicable Debt Securities Indenture.

Unless the applicable prospectus supplement or free writing prospectus provides otherwise, we will pay principal and any premium and interest on Debt Securities at the office of the paying agent whom we will designate for this purpose. Unless the applicable prospectus supplement or free writing prospectus states otherwise, the corporate trust office of the Debt Securities Trustee in New York City will be designated as our sole paying agent for payments with respect to Debt Securities of each series. Any other paying agents initially designated by us for the Debt Securities of a particular series will be named in the applicable prospectus supplement or free writing prospectus. We may at any time add or delete paying agents or change the office through which any paying agent acts. We must, however, maintain a paying agent in each place of payment for the Debt Securities of a particular series. For more information, see Section 6.02 of the applicable Debt Securities Indenture.

All money we pay to a paying agent for the payment of the principal and any premium or interest on any Debt Security that remains unclaimed at the end of two years after payment is due will be repaid to us. After that date, the holder of that Debt Security shall be deemed an unsecured general creditor and may look only to us for these payments. For more information, see Section 6.03 of the applicable Debt Securities Indenture.

Redemption

You should consult the applicable prospectus supplement or free writing prospectus for any terms regarding optional or mandatory redemption of Debt Securities. Except for any provisions in the applicable prospectus supplement or free writing prospectus regarding Debt Securities redeemable at the holder's option, Debt Securities may be redeemed only upon notice by mail not less than 30 nor more than 60 days prior to the redemption date. Further, if less than all of the Debt Securities of a series, or any tranche of a series, are to be redeemed, the Debt Securities to be redeemed will be selected by the Debt Securities Trustee by the method provided for the particular series. In the absence of a selection provision, the Debt Securities Trustee will select a fair and appropriate method of selection. For more information, see Sections 4.02, 4.03 and 4.04 of the applicable Debt Securities Indenture.

A notice of redemption we provide may state:

- that redemption is conditioned upon receipt by the paying agent on or before the redemption date of money sufficient to pay the principal of and any premium and interest on the Debt Securities; and
- that if the money has not been received, the notice will be ineffective and we will not be required to redeem the Debt Securities.

For more information, see Section 4.04 of the applicable Debt Securities Indenture.

Consolidation, Merger and Sale of Assets

We may not consolidate with or merge into any other corporation, nor may we transfer or lease substantially all of our assets and property to any other person, unless:

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the corporation formed by the consolidation or into which we are merged, or the person that acquires by conveyance or transfer, or that leases, substantially all of our property and assets:

- is organized and validly existing under the laws of any domestic jurisdiction; and

Aplite ore (Andesine Feldspar) deposit is intermixed with an assemblage of other minerals that must be separated out to make an acceptable product. The controlling attributes are titanium (TiO2), aluminum (AI2O3), iron (Fe2O3) and phosphorous (P2O5). Ore is blended from multiple faces to produce a product generally at 21% AI2O3, 0.25% Fe2O3, 0.11% TiO2, and 0.55% P2O5.

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Rockwood, Michigan

The deposit has a minimum silica (SiO_2) content of 99%. The controlling attribute is iron content (Fe_2O_3). Mineable sand must have less than 0.01% Fe_2O_3.

Jackson, Tennessee

The deposit has a minimum silica (SiO_2) content of 99%. The controlling attribute of iron (Fe_2O_3) content is managed through keeping clay overburden from intermixing with the sand and maintaining adequate washing of sand in the wet processing of the sand.

Dubberly, Louisiana

The deposit has a minimum silica (SiO_2) content of 99%. The controlling attributes are iron (Fe_2O_3) content and grain size distribution. Mining full-face average for iron is 0.045%. The grain size distribution averages greater than 25% plus 50 mesh. Fine and coarse areas are blended to meet the grain size average.

Hurtsboro, Alabama

The deposit has a minimum silica (SiO_2) content of 99%. The controlling attribute is grain size distribution. Sand reserves are located on the crests of rolling hills and mining occurs from multiple pits and faces within pits to assure optimum grain size distribution is available to meet the market product mix.

Sparta, Wisconsin

The deposit has a minimum silica (SiO_2) content of 99%. The controlling attributes are sand grain crush strength and size distribution. A thin layer of silt overlies the deposit that ranges between 50 to 100 feet thick. The deposit is unconsolidated, well sorted and falls predominantly within the 20/70 grain size distribution.

Batesville, Arkansas

The deposit has a minimum silica (SiO_2) content of 99%. The controlling attribute is iron (Fe_2O_3) content. Deposit has two horizons; a low iron horizon where sand has less than 0.009% Fe_2O_3 and a regular iron horizon where sand has greater than 0.009% Fe_2O_3.

Mineral Rights

The mineral rights and access to mineral reserves for the majority of our operations are secured through land that is owned in fee. There are no underlying agreements and/or royalties associated with these lands. The operations in this category include: Berkeley Springs, Dubberly, Jackson, Kosse, Mauricetown, Montpelier, Ottawa, Pacific, Batesville, Rockwood and Sparta.

The mineral rights and access to mineral reserves at our Mill Creek operation are a combination of land owned in fee that includes a non-participating royalty payment of $0.11 per saleable ton that was contractually negotiated with and paid to the original sellers of the property that covers 95% of the reserves and a lease agreement on one property that involves an annual minimum payment of $50,000 and a production royalty payment of $0.55 per saleable ton on the remaining 5% of reserves.

The Columbia operation mineral reserves and rights are secured under a long-term mineral lease. The lease expires in 2033 and includes an annual minimum payment of $175,000 and a production royalty of 5.5% of the gross revenue.

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The Hurtsboro operation mineral reserves and rights are secured under two mineral leases. The majority of the reserves are under a long-term lease that expires in 2019 and includes an annual minimum payment of $8,000 and a production royalty payment of 3% of weighted average selling price. The second mineral lease expires in 2013 and includes an annual minimum payment of $15,000 and a production royalty of 3% of the weighted average selling price. All reserves will be mined from the property prior to the expiration of lease in 2013. The mineral lease that expires in 2019 has been renewed in the past, and it is expected that if mining is still occurring on this property we will have no problem negotiating an extension of this lease.

The Mapleton Depot operation mineral reserves and rights are secured under two long-term mineral leases that expire in 2025 but may continue thereafter on a year-to-year basis if mining is still occurring. Annual minimums are $1,000, and production royalty payments are either 6.5% of free on board pit price or 0.255 cents per mined ton, whichever is higher.

None of our operations are on government land and, accordingly, we do not have any mineral rights or associated mining claims.

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Summary of Reserves

The following table provides information on our 14 production facilities that have reserves, and a currently undeveloped site in Batesville, Arkansas, as of December 31, 2012. Included is the location and area of the facility; the type, amount and ownership status of its reserves; and the primary end markets that it serves. Our facility in Rochelle, IL has no reserves.

Mine/Plant Location	Owned/ Leased	Area (in acres)	Proven Reserves	Probable Reserves	Combined Proven and Probable Reserves	2012 Tons Mined	Primary End Markets Served
			(amounts in thousands of tons)				
Ottawa, IL	Owned	1,781 owned	74,095	40,801	114,895	3,217	Oil and gas proppants, glass, chemicals and foundry
Mill Creek, OK	Owned	2,214 owned 15 mineral lease		19,276	19,276	1,240	Oil and gas proppants, glass, foundry and building products
Pacific, MO	Owned	524 owned	16,496	7,994	24,490	598	Oil gas proppants, glass, foundry and fillers and extenders
Berkeley Springs, WV	Owned	4,435 owned	2,990		2,990	414	Glass, building products and fillers and extenders
Mapleton Depot, PA	Owned/ Leased	1,761 owned 194 mineral lease 98 access lease	5,315	10,000	15,315	691	Glass and building products
Kosse, TX (1)	Owned	960 owned 118 mineral lease	12,266		12,266	409	Glass, building products and fillers and extenders
Mauricetown, NJ	Owned	1,279 owned	12,669		12,669	134	Filtration, foundry and building products
Columbia, SC	Leased	648 lease 204 owned	5,120	1,680	6,800	400	Glass, building products and fillers and extenders
Montpelier, VA (2)	Owned	824 owned		14,146	14,146	307	Glass and building products
Rockwood, MI (3)	Owned	872 owned	6,563		6,563		Glass and building products
Jackson, TN	Owned	132 owned	1,250		1,250	150	Fiberglass and building products
Dubberly, LA	Owned	356 owned	4,462		4,462	221	

		25 tailings lease					Glass, foundry and building products
Batesville, AR	Owned	477 owned		34,732	34,732		
Hurtsboro, AL	Leased	117 owned 1,108 mineral lease	1,216		1,216	185	Foundry and building products
Sparta,WI	Owned	520 owned	33,542	2,740	36,282	358	Oil and gas proppants
Total			175,984	131,369	307,352	8,324	

(1) Kosse s reserves are comprised of 8,586 tons of silica sand (70.0%) and 3,680 tons of kaolin clay (30.0%).

(2) Montpelier s reserves are comprised entirely of the mineral aplite.

(3) Rockwood s products were produced from ore sourced from a third party. It did not mine any of its reserves in 2012.

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ITEM 3. LEGAL PROCEEDINGS

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

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

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

As a result of the above developments, the filing rate of new claims against us over the past three years has decreased to below pre-2001 levels, and we were named as a defendant in ten, three and two new silicosis cases filed in 2010, 2011 and 2012, respectively. As of December 31, 2012, there were a total of approximately 102 active silica-related products liability claims pending in which we were a defendant, and, as of February 26, 2013, approximately 3,147 inactive claims. Almost all of the claims pending against us arise out of the alleged use of our silica products in foundries or as an abrasive blast media, and involve various other defendants. Prior to the fourth quarter of 2012, we had insurance policies for both our predecessors that cover certain claims for alleged silica exposure for periods prior to certain dates in 1985 and 1986 (with respect to various insurance). As a result of a settlement with a former owner and its insurers in the fourth quarter of 2012, some of these policies are no longer available to us and we will not seek reimbursement for any defense costs or claim payments from these policies. Other insurance policies, however, continue to remain available to us and will continue to make such payments on our behalf.

The silica-related litigation brought against us to date has not resulted in material liability to us. However, we continue to have silica-related products liability claims filed against us, including claims that allege silica exposure for periods for which we do not have insurance coverage. Any such pending or future claims or inadequacies of our insurance coverage could have a material adverse effect on our business, reputation or results of operations. For more information regarding silica-related litigation, see Risk Factors Risks Related to Our Business Silica-related health issues and litigation could have a material adverse effect on our business, reputation or results of operations.

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ITEM 4. MINE SAFETY DISCLOSURES

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

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

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PART II

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

Market Information

Shares of our common stock, traded under the symbol SLCA, have been publicly traded since February 1, 2012, when our common stock was listed and began trading on the NYSE. Accordingly, no market for our stock existed prior to February 1, 2012.

The following table sets forth for the indicated periods, the high and low sales prices, per share, for our common stock on the NYSE.

	Sales Price	
	High	Low
Fiscal 2012		
First Quarter	$ 21.19	$ 15.50
Second Quarter	$ 20.55	$ 9.78
Third Quarter	$ 14.70	$ 9.20
Fourth Quarter	$ 17.00	$ 12.40

Holders of Record

On February 20, 2013, there were 52,936,821 shares of our common stock outstanding, which were held by approximately 144 stockholders of record. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. For additional information related to ownership of our stock by certain beneficial owners and management, refer to Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Dividend

On December 10, 2012, we declared a special cash dividend of $0.50 per share of outstanding common stock. The dividend was paid on December 28, 2012 to stockholders of record as of the close of business on December 20, 2012.

Management and our Board of Directors remain committed to evaluating additional ways of creating shareholder value. Any determination to pay dividends and other distributions in cash, stock, or property by U.S. Silica in the future will be at the discretion of our Board of Directors and will be dependent on then-existing conditions, including our business conditions, our financial condition, results of operations, liquidity, capital requirements, contractual restrictions including restrictive covenants contained in debt agreements and other factors.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. We may repurchase our common stock for a variety of reasons, such as to offset dilution related to equity-based incentives and to optimize our capital structure.

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

We consider several factors in determining when to make share repurchases including, among other things, our cash needs, the availability of funding, our future business plans and the market price of our stock. We expect that cash provided by future operating activities, as well as available cash and cash equivalents and short-term investments, will be the sources of funding for our share repurchase program. Based on the anticipated amounts to be generated from those sources of funds in relation to the remaining authorization approved by our Board of Directors under the June 2012 share repurchase program, we do not expect that future share repurchases will have a material impact on our short-term or long-term liquidity.

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program(1)
October 2012		$		
November 2012		$		
December 2012		$		
Total				$ 23,928,275

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

Subsequent to December 31, 2012, we repurchased no additional shares of our common stock. As of February 26, 2013, we have the authorization to repurchase up to $23.9 million of our common stock under the program.

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Securities Authorized for Issuance under Equity Compensation Plans

The table below contains information about securities authorized for issuance under our 2011 Incentive Compensation Plan (the 2011 Plan). The features of the 2011 Plan are disclosed further in Note M to our consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(1) (c)
Equity compensation plans approved by security holders	1,823,400	$ 14.38	4,097,072
Equity compensation plans not approved by security holders			
Total	1,823,400	$ 14.38	4,097,072

(1) The aggregate number of shares of common stock which may be issued under the 2011 Plan is subject to automatic increase on the first day of each fiscal year beginning in 2012 and ending in 2019 by the lesser of (1) 2% of the shares of common stock outstanding on the last day of the immediately preceding fiscal year, or (2) such lesser number of shares as determined by the Compensation and Governance Committee.

U.S. Silica Holdings, Inc. Comparative Stock Performance Graph

The information contained in this U.S. Silica Holdings, Inc. Comparative Stock Performance Graph section shall not be deemed to be soliciting material or filed or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

The graph below compares the cumulative total shareholder return on our common stock, the cumulative total return on the Russell 2000 Index and the Standard and Poor s SmallCap 600 GICS Oil & Gas Equipment & Services Sub-Industry index since January 31, 2012, the first day our stock traded on the NYSE.

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The graph assumes $100 was invested on January 31, 2012, the first day our stock was traded on the NYSE, in our common stock, the Russell 2000 and the Standard and Poor s SmallCap 600 GICS Oil & Gas Equipment & Services Sub-Industry Index. The cumulative total return assumes the reinvestment of all dividends.

ITEM 6. SELECTED FINANCIAL DATA

The following table and discussion sets forth our consolidated statement of operations data and the historical combined financial data of our predecessor for the periods presented. The results of operations by segment are discussed in further detail following this combined overview.

	Successor Year Ended December 31,				Predecessor 1/ Successor Combined (Non-GAAP) (1)
	2012	2011	2010	2009	2008
	(amounts in thousands, excluding per ton figures)				
Statement of Operations Data:					
Sales	$ 441,921	$ 295,596	$ 244,953	$ 191,623	$ 233,583
Operating income	118,988	60,803	45,991	25,614	26,573
Income before income taxes	109,805	37,415	13,721	2,280	24,061
Net income	79,154	30,253	11,392	5,539	17,277
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ 100,950	$ 42,565	$ 36,738	$ 13,863	$ 38,256
Investing activities	(104,461)	(66,639)	(15,163)	(13,308)	(332,206)
Financing activities	5,334	18,773	28,451	(288)	303,719
Other Financial Data:					
Capital expenditures	$ 105,719	$ 66,745	$ 15,241	$ 13,350	$ 10,042
Operating Data:					
Total tons sold	7,170	6,289	5,965	5,089	6,389
Average realized price (per ton)	$ 61.63	$ 47.00	$ 41.07	$ 37.65	$ 36.56
Production costs (per ton) (2)	$ 35.76	$ 28.81	$ 26.49	$ 26.76	$ 26.33
Oil & Gas Proppants:					
Sales	$ 243,765	$ 107,074	$ 69,556	$ 35,836	$ 37,875
Segment contribution margin(3)	$ 140,070	$ 67,590	$ 43,118	$ 23,515	$ 23,557
Industrial and Specialty Products:					
Sales	$ 198,156	$ 188,522	$ 175,397	$ 155,787	$ 195,708
Segment contribution margin(3)	$ 53,601	$ 53,013	$ 46,031	$ 37,419	$ 41,688
Balance Sheet Data:					
Cash and cash equivalents	$ 61,022	$ 59,199	$ 64,500	$ 14,474	$ 14,207
Total assets	686,810	605,796	508,534	463,967	471,190
Total long-term debt, including current portion	255,425	261,789	238,442	179,107	177,018
Total liabilities	455,116	483,862	410,970	336,937	349,527
Total stockholders equity	231,694	121,934	97,564	127,030	121,663

(1) As a result of our acquisition by an affiliate of Golden Gate Capital (the Golden Gate Capital Acquisition) in November 2008, our financial data is presented on a predecessor and successor basis. We refer to U.S. Silica as it existed for the period from October 18, 2007 until November 24, 2008 as the Predecessor 1 period, and we refer to U.S. Silica for the period from and after November 25, 2008 as the Successor period. The Golden Gate Capital Acquisition established a new basis of accounting that primarily affected inventory, intangible assets, goodwill, taxes, debt and equity. The combined data is not presented in accordance with GAAP and Article 11 of Regulation S-X. Except for purchase accounting adjustments primarily relating to depreciation, depletion and amortization, the results for the two combined periods are comparable. Therefore, we believe that combining the two periods into a single period for comparative purposes gives the most clarity for the users of this financial information.

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	Period from January 1, 2008 to November 24, 2008 (Predecessor 3)	Period from November 25, 2008 to December 31, 2008 (Predecessor 2)
	(amounts in thousands, excluding per ton figures)	
Statement of Operations Data:		
Sales	$ 216,386	$ 17,197
Operating income (loss)	26,906	(333)
Income (loss) before income taxes	27,592	(3,531)
Net income (loss)	19,135	(1,858)
Statement of Cash Flows Data:		
Net cash provided by (used in):		
Operating activities	$ 27,913	$ 10,343
Investing activities	(7,043)	(325,163)
Financing activities	(18,803)	322,522
Other Financial Data:		
Capital expenditures	$ 7,818	$ 2,224
Operating Data:		
Total tons sold	5,896	493
Average realized price (per ton)	$ 36.70	$ 34.88
Production costs (per ton)	$ 26.22	$ 27.60
Oil & Gas Proppants:		
Sales	$ 34,684	$ 3,191
Segment contribution margin	21,649	1,908
Industrial and Specialty Products:		
Sales	$ 181,702	$ 14,006
Segment contribution margin	41,666	22
Balance Sheet Data:		
Cash and cash equivalents	$ 14,440	$ 14,207
Total assets	476,135	471,190
Total long-term debt, including current portion	176,615	177,018
Total liabilities	354,935	349,527
Total stockholders equity	121,200	121,663

(2) Production costs (per ton) equal cost of goods sold including shipping cost, divided by total tons sold.

(3) In the second quarter of 2011 we changed our segment reporting structure to two segments 1.) Oil & Gas Proppants and 2.) Industrial & Specialty Products, and recast the historical financial statements presented within this report and as required by GAAP. See Note T to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

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ITEM 7. 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 Item 6, Selected Financial Data, the description of the business appearing in Item 1, Business, of this report, and the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K and the related notes included elsewhere in this report. This discussion contains forward-looking statements as a result of many factors, including those set forth under Item 1, Business Forward-Looking Statements and Item 1A, Risk Factors, and elsewhere in this Annual Report on Form 10-K. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those discussed in or implied by forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in Item 1A, Risk Factors.

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

Overview A general description of our business, our strategic initiatives and the commercial silica industry.

Results of Operations An analysis of our consolidated and combined results of operations for the three years presented in our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Liquidity and Capital Resources An analysis of our cash flows, sources and uses of cash, contractual obligations and other items that may impact our financial position.

Critical Accounting Estimates A discussion of accounting policies that require critical judgments and estimates.

Recent Accounting Pronouncements A summary of accounting pronouncements which have been issued by relevant accounting standards.

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

Segment contribution margin; and

Net income (loss) adjusted to remove interest, taxes, depreciation, amortization, impairment, and other special items in order to arrive at Adjusted EBITDA as defined in our new senior secured credit facility.

Segment contribution margin and Adjusted EBITDA, as used herein, are not recognized measures under GAAP and should not be considered alternatives to or superior to expense and profitability measures derived in accordance with GAAP. For a detailed description of the non-GAAP measures used in this MD&A, please see the discussion under How We Evaluate Our Business beginning on page 66.

Overview

We are the second largest domestic producer of commercial silica, a specialized mineral that is a critical input into a variety of attractive end markets. During our 112-year history, we have developed core competencies in mining, processing, logistics and materials science that enable us to produce and cost-effectively deliver products to customers across these markets. In our largest end market, oil and gas proppants, our frac sand is used to stimulate and maintain the flow of hydrocarbons in horizontally drilled oil and natural gas wells. This segment of our business is experiencing rapid growth due to recent technological advances in the hydraulic fracturing process, which have made the extraction of large volumes of oil and natural gas from U.S. shale

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formations economically feasible. Our silica is also used as an economically irreplaceable raw material in a wide range of industrial applications, including glassmaking and chemical manufacturing. Additionally, in recent years a number of attractive new end markets have developed for our high-margin, performance silica products, including high performance glass, specialty coatings, polymer additives and geothermal energy systems.

As of February 26, 2013, we operate 15 facilities across the United States and control 307 million tons of reserves. We own one of the largest frac sand processing plants in the United States and control approximately 144 million tons of reserves that can be processed to meet API frac sand size specifications. Our operations are organized into two segments based on end markets served: (1) Oil & Gas Proppants and (2) Industrial & Specialty Products. Our segments are complementary because our ability to sell to a wide range of customers across end markets allows us to maximize recovery rates in our mining operations, optimize our asset utilization and reduce the cyclicality of our earnings.

Recent Trends and Outlook

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

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

- *Rebound of demand in industrial end markets and continued growth in specialty end markets.* The economic downturn resulting from the financial crisis negatively impacted demand for our products in industrial and specialty products end markets, most notably in the glassmaking, building products foundry and chemicals end markets. This drop coincided with a similar drop in key economic demand drivers, including housing starts, light vehicle sales, repair and remodel activity and industrial production. To the extent these demand drivers recover to historical levels, which is difficult to predict given current economic uncertainty, we expect to see a corresponding increase in the demand for commercial silica. In addition, to the extent commercial silica products continue to be used in key alternative energy markets, we anticipate continued volume growth in specialty end markets, such as high performance glass and geothermal energy systems as well as the increased use of commercial silica in new applications such as specialty coatings and polymer additives.

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

Our Strategy

The key drivers of our growth strategy include:

- *Expand our oil and gas proppant production capacity and product portfolio.* Beginning in the fourth quarter of 2011, we executed several initiatives to increase our frac sand production capacity and augment our proppant product portfolio. At our Ottawa, Illinois facility, we implemented operating improvements and installed a new dryer and six mineral separators to increase our annual frac sand production capacity by 900,000 tons. At our Rockwood, Michigan facility, we added 250,000 tons of annual frac sand production capacity by installing an entirely new processing circuit. In 2012, we neared completion of a new resin-coated sand facility that we expect will resin coat up to 400 million pounds of sand annually and will significantly expand our addressable oil and gas proppant market upon its completion. We expect this production facility to be fully operational in the first quarter of 2013. During the second half of 2012, we expanded our production capacity with the development of a Greenfield site and construction of a production facility near Sparta, Wisconsin and expect the facility to be fully operational in the second quarter of 2013. We expect this new facility to increase our annual production by 1,700,000 tons when fully operational.

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

Optimize product mix and further develop value-added capabilities to maximize margins. We continue to actively manage our product mix at each of our plants to ensure we maximize our profit margins. This requires us to use our proprietary expertise in balancing key variables, such as mine geology, processing capacities, transportation availability, customer requirements and pricing. In 2012, while our tons sold increased by 14%, we believe this expertise helped enable us to increase our operating income by 96%. We also expect to continue investing in ways to increase the value we provide to our customers by expanding our product offerings, increasing our transportation assets, improving our supply chain management, upgrading our information technology, and creating a world class customer service model.

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

Evaluate both Greenfield and Brownfield expansion opportunities. We will continue to leverage our reputation, processing capabilities and infrastructure to increase production, as well as explore other opportunities to expand our reserve base. We may accomplish this by developing Greenfield projects, where we can capitalize on our technical knowledge of geology, mining and processing and our strong reputation within local communities. Additionally, we may pursue other opportunistic acquisitions, taking advantage of our asset footprint, our management s experience with high-growth businesses and our strong customer relationships. We may also evaluate international acquisitions as unconventional oil and natural gas drilling expands globally.

Maintain financial strength and flexibility. We intend to maintain financial strength and flexibility to enable us to pursue acquisitions and new growth opportunities as they arise. On December 31, 2012, we amended our Revolver to, among other items, increase the availability under the agreement by

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$15.0 million and extend the termination date of the agreement to October 31, 2016. As of December 31, 2012, we had $61.0 million of cash on hand and $32.1 million of available borrowings under our credit facilities.

How We Generate Our Sales

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

We primarily sell our products under short-term price agreements or at prevailing market rates. For a limited number of customers, we sell under long-term, competitively-bid contracts. As of February 26, 2013, we have eight take-or-pay supply agreements with customers in the Oil and Gas Proppants segment with initial terms expiring between 2013 and 2016. These agreements define, among other commitments, the volume of product that our customers must purchase, the volume of product that we must provide and the price that we will charge and that our customers will pay for each product. As discussed in Item 1A, Risk Factors A large portion of our sales is generated by our top customers, and the loss of, or significant reduction in, purchases by our largest customers could adversely affect our operations, these customers may not continue to purchase the same levels of product in the future due to a variety of reasons, contract requirements notwithstanding. Prices under these agreements are generally fixed and subject to upward adjustment in response to certain cost increases. As a result, our realized prices may not grow at rates consistent with broader industry pricing. For example, during periods of rapid price growth, our realized prices may grow more slowly than those of competitors, and during periods of price decline, our realized prices may outperform industry averages. Additionally, at the time the take-or-pay supply agreements were signed, two of these customers provided advance payments for future shipments aggregating $27.0 million (as of December 31, 2012, we have recorded $4.9 million of these payments as deferred revenue in our Consolidated Balance Sheets). A percentage of these advance payments is recognized as revenue with each ton of applicable product shipped to the customer. The pricing terms of these agreements are currently less than prevailing market prices. Collectively, sales to customers with supply agreements accounted for 31%, 17% and 18% of our total sales in 2012, 2011 and 2010, respectively.

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

The Costs of Conducting Our Business

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

Operating labor costs represented approximately 12%, 17% and 19% of our sales in 2012, 2011 and 2010, respectively. We employ a mix of union and non-union labor, with 50% of our workforce being unionized as of December 31, 2012. Our union contracts stipulate annual escalation factors for certain wages and benefits.

We incur significant electricity and drying fuel (principally natural gas) costs in connection with the operation of our processing facilities. Energy costs directly related to the production of our products represented 5%, 8% and 9% of our total sales in 2012, 2011 and 2010, respectively.

We capitalize the costs of our mining equipment and generally depreciate it over its expected useful life. Depreciation, depletion and amortization costs represented approximately 6%, 7% and 8% of our sales for 2012, 2011 and 2010, respectively. Preventive and remedial repair and maintenance costs that do not involve the replacement of major components of our equipment and facilities are expensed as incurred. These repair and maintenance costs can be significant due to the abrasive nature of our products and represented approximately 4%, 6%, and 7% of our sales in 2012, 2011 and 2010, respectively.

Additionally, we incur expenses related to our corporate operations, including costs for the sales and marketing; research and development; finance; legal; and environmental, health and safety functions of our organization. These costs are principally driven by personnel expenses. In total, our selling, general and administrative costs represented approximately 9%, 8% and 8% of sales in 2012, 2011 and 2010, respectively. As a public company we will continue to incur additional legal, accounting, insurance and other expenses that we had not incurred as a private company, including costs associated with public company reporting requirements. These requirements include compliance with the Sarbanes-Oxley Act as well as other rules implemented by the SEC, and applicable stock exchange rules. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make certain financial reporting and other activities more time-consuming and costly.

Our effective income tax rate was approximately 28%, 19%, and 17% of pretax earnings in 2012, 2011, and 2010, respectively. Historically, our actual effective tax rates have been lower than the statutory effective rate primarily due to the benefit received from statutory percentage depletion allowances.

How We Evaluate Our Business

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

Segment Contribution Margin

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

Adjusted EBITDA

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

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(including dividends) and retain excess cash flow based, in some cases, on our ability to meet leverage ratios calculated based on our Adjusted EBITDA.

Results of Operations

	For the Years Ended December 31,			Percent Change	
	2012	2011	2010	12 vs. 11	11 vs. 10
	(amounts in thousands)				
Sales					
Oil & Gas Proppants	$ 243,765	$ 107,074	$ 69,556	>100.0%	53.9%
Industrial & Specialty Products	198,156	188,522	175,397	5.1%	7.5%
Total Sales	$ 441,921	$ 295,596	$ 244,953	49.5%	20.7%

Sales

Sales increased $146.3 million, or 50%, to $441.9 million for the year ended December 31, 2012 compared to $295.6 million for the year ended December 31, 2011. Oil & Gas Proppants sales increased by $136.7 million, accounting for 93% of the total growth. Industrial & Specialty Products sales increased $9.6 million, representing 7% of the growth in overall sales. Overall, average realized price increased 31% and volumes increased 14% from the comparable prior period.

Oil & Gas Proppant sales increased $136.7 million, or nearly 128%, to $243.8 million for the year ended December 31, 2012 compared to $107.1 million for the year ended December 31, 2011. The growth was driven by a combination of increases in volume and pricing. Volume increased 45% due to our ability to reallocate certain production from industrial end markets to the oil and gas proppants end market in response to continued growth in hydraulic fracturing activity. Additionally, increases in pricing and a more favorable product mix in the year ended December 31, 2012 contributed to a 56% increase in average realized price.

Industrial & Specialty Products sales increased $9.6 million, or 5%, to $198.2 million for the year ended December 31, 2012 compared to $188.5 million for the year ended December 31, 2011. Increases in pricing across all of our end markets and favorable product mix drove a nearly 6% increase in average realized price. Volume decreased by 0.4%, due to the reallocation of some production away from certain industrial and specialty products end markets to the oil and gas proppants end market.

For the year ended December 31, 2011, sales increased $50.6 million, or nearly 21%, to $295.6 million compared to $245.0 million for the year ended December 31, 2010. Oil & Gas Proppants sales increased by $37.5 million while Industrial & Specialty Products sales increased $13.1 million, driven by overall increases in average realized price and volume of 15% and 5%, respectively.

Oil & Gas Proppant sales increased $37.5 million, or nearly 54%, to $107.1 million for the year ended December 31, 2011 compared to $69.6 million for the year ended December 31, 2010. The growth was driven by a combination of increases in volume and pricing. Volume increased 33% due to our ability to reallocate certain production from industrial end markets to the oil and gas proppants end market in response to continued growth in hydraulic fracturing activity. Additionally, increases in pricing and a more favorable product mix in the year ended December 31, 2011 contributed to a 16% increase in average realized price.

Industrial & Specialty Products sales increased $13.1 million, or 7.5%, to $188.5 million for the year ended December 31, 2011 compared to $175.4 million for the year ended December 31, 2010. Increases in pricing across all of our end markets drove a nearly 12% increase in average realized price. Volumes decreased by nearly 4%, due to the reallocation of some production away from certain industrial and specialty products end markets to the oil and gas proppants end market.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $18.0 million, or 75%, to $41.3 million for the year ended December 31, 2012 compared to $23.3 million for the year ended December 31, 2011, driven by approximately $7.0 million of year over year increases in employee compensation and benefits related to headcount increase in our sales and marketing function to support the continued growth in our oil and gas business as well as increases in corporate headcount to support our transformation as a public company. We continue to incur additional public company costs as well as costs related to growth and expansion initiatives, which include legal, audit and accounting, and consulting and advisory services expenses, which have grown nearly $2.7 million year over year. Additionally, we incurred compensation expense of $1.1 million related to awards of equity instruments to certain management and employees. As a percentage of sales, selling, general and administrative expenses increased 1.4% year over year.

Selling, general and administrative expenses increased $2.9 million, or 14%, to $23.3 million for the year ended December 31, 2011 compared to $20.4 million for the year ended December 31, 2010, driven by increases in employee compensation and benefits related to headcount increase in our sales and marketing function to support the continued growth in our oil and gas business as well as increases in corporate headcount to support our transformation as a public company. We also incurred $0.6 million of additional rental expense related to our new corporate headquarters in Frederick, Maryland. These increases were partially offset in 2011 as we recognized a gain of $2.6 million due to the reversal of previously recognized expense associated with our silicosis litigation accrual, whereas in 2010 we recognized $0.8 million of expense related to our silicosis litigation reserve.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expense was $25.1 million, $21.0 million and $19.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Year over year increases have been driven by continued increases in capital spending associated with our growth and capacity expansion initiatives combined with increased depletion due to additional volume of mined silica sands. We expect depreciation, depletion and amortization expense to continue to grow due to a significant increase in capital spending in 2012 for assets, of which some were placed into service in late 2012 and the remainder will be placed into service in 2013.

Operating Income

Operating income increased $58.6 million, or 96%, to $119.0 million for the year ended December 31, 2012 compared to $60.8 million for the year ended December 31, 2011 guided by a 50% increase in sales and an 8% increase in gross margin.

Operating income increased $14.8 million, or 32%, to $60.8 million for the year ended December 31, 2011 compared to $46.0 million for the year ended December 31, 2010 guided primarily by a 21% increase in sales and a 9% increase in gross margin. Excluding an $8.0 million advisory agreement termination fee paid to GGC Holdings, operating income increased $22.8 million, or 49.6%, for the year ended December 31, 2011 over the same prior year period.

Interest Expense

Interest expense decreased $4.6 million, or 25%, to $13.8 million for the year ended December 31, 2012 compared to $18.4 million for the year ended December 31, 2011. This was primarily due to a refinancing of the Term Loan and repayment of a mezzanine loan facility in the second quarter of 2011, as well as the conversion to equity of the $15.0 million note payable to our former parent in connection with our initial public offering in January 2012. The note had a stated interest rate equal to 10.0%. The refinancing transaction and the conversion of the note payable drove a reduction in the effective interest rate on our debt for the year ended December 31, 2012 to 5.1%, compared to an effective rate of 7.2% for the year ended December 31, 2011.

Interest expense decreased $4.6 million, or 20%, to $18.4 million for the year ended December 31, 2011 compared to $23.0 million for the year ended December 31, 2010. This was primarily due to an effective interest rate on our debt equal to 7.2% compared to an effective rate of 10.7% for the year ended December 31, 2010. These savings were partially offset by a higher average debt balance for the year.

Early Extinguishment of Debt

On June 8, 2011, the Term Loan was refinanced to increase the principal borrowings, reduce the overall interest rate by 25 basis points (bps) and extend the maturity date to June 8, 2017. As a result, we recognized $6.0 million of expense related to the transaction. These expenses included non-cash charges related to unamortized original issue discounts and debt issuance costs, and payments for lender fees.

On May 7, 2010, both the Term Loan and a mezzanine loan facility were refinanced with significantly more favorable terms to prior loan agreements. As a result, expenses related to the early extinguishment of the existing debt were incurred totaling $10.2 million. These expenses included non-cash charges related to unamortized original issue discounts and debt issuance costs, payments for lender fees and a prepayment penalty on the mezzanine loan facility.

Provision for Income Taxes

The provision for income taxes increased $23.5 million, or 328%, to $30.7 million for the year ended December 31, 2012, compared to $7.2 million for the year ended December 31, 2011 due to the increase in pre-tax income of 193%. The effective tax rates were 27.9% for the year ended December 31, 2012 and 19.1% for the year ended December 31, 2011.

The provision for income taxes increased $4.8 million, or 208%, to $7.2 million for the year ended December 31, 2011, compared to a $2.3 million benefit for the year ended December 31, 2010 due to the increase in pre-tax income of 172.7%.

Net Income/Loss

Net income was $79.2 million, $30.3 million and $11.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. Year over year increases are due to the factors noted above.

Liquidity and Capital Resources

Overview

Our principal liquidity requirements have historically been to service our debt, to meet our working capital, capital expenditure and mine development expenditure needs, to pay dividends to our shareholder and to finance acquisitions. We have historically met our liquidity and capital investment needs with funds generated through operations. We have historically funded our acquisitions through borrowings under our credit facilities and equity investments. Our working capital is the amount by which current assets exceed current liabilities and is a measure of our ability to pay our liabilities as they become due. As of December 31, 2012, our working capital was $97.2 million and we had $32.1 million of availability under the Revolver. See Credit Facilities Revolver.

We believe that cash generated through operations and our financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures and scheduled debt payments for at least the next 12 months. We anticipate that we will retain all of our future earnings for use in the development and expansion of our business and for general corporate purposes. Any determination to pay dividends and other distributions in cash, stock, or property in the future will be at the discretion of our Board of Directors and will be dependent on

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then-existing conditions, including our business conditions, our financial condition, results of operations, liquidity, capital requirements, contractual restrictions including restrictive covenants contained in debt agreement and other factors.

Cash Flow Analysis

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

	As of December 31,			Percent Change	
	2012	2011	2010	12 vs. 11	11 vs. 10
	(amounts in thousands)				
Net cash provided by (used in):					
Operating activities	$ 100,950	$ 42,565	$ 36,738	>100.0%	15.9%
Investing activities	(104,461)	(66,639)	(15,163)	56.8%	>100.0%
Financing activities	5,334	18,773	28,451	(71.6)%	(34.0)%

Net Cash Provided by Operating Activities

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

Net cash provided by operating activities was $101.0 million for the year ended December 31, 2012 compared to $42.6 million for the year ended December 31, 2011. This $58.4 million increase was primarily the result of a $72.4 million improvement in earnings before income taxes, offset by a one-time termination fee payment related to an advisory agreement with Golden Gate Capital of $8.0 million which was accrued at December 31, 2011 and made during the first quarter of 2012 and the net build in working capital year over year of $13.5 million. Several non-cash adjustments during the year ended December 31, 2012 and 2011, including a $6.0 million loss related to the early extinguishment of debt in 2011, netted to a $6.9 million impact on cash flows for each period presented.

Net cash provided by operating activities was $42.6 million in 2011 compared to $36.7 million in 2010. This $5.9 million increase was primarily the result of a $23.7 million improvement in earnings before income taxes, offset by a $4.6 million increase in contributions to our employee pension plan, the collection of a $4.4 million insurance settlement in 2010 that did not occur in 2011, non-cash adjustments related to the early extinguishment of debt in 2011 and 2010 and a net build in working capital year over year of $8.3 million.

Net Cash Used in Investing Activities

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

Net cash used in investing activities was 104.5 million in the year ended December 31, 2012. This use of cash is due to capital expenditures which totaled $105.7 million for the year ended December 31, 2012, partially offset by proceeds of $1.3 million received from the sale of a building and various equipment. Capital expenditures in 2012 have been primarily for the construction of our resin coating production facility in Rochelle, Illinois and the engineering, procurement, and construction of a Greenfield raw sand plant in Sparta, Wisconsin.

Net cash used in investing activities was $66.6 million in the year ended December 31, 2011. This use of cash is due to capital expenditures which totaled $66.7 million for the year ended December 31, 2011 and included the acquisition of land in Sparta, Wisconsin for $8.0 million and the investment in our Ottawa and Rockwood facilities of $38.2 million and $8.7 million, respectively, for the expansion of our production capacity which we finalized during the fourth quarter of 2011. These two projects at our Ottawa and Rockwood facilities increased annual production capacity of frac sand by 900,000 tons and 250,000 tons, respectively.

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Net cash used in investing activities was $15.2 million in 2010. This use of cash is primarily due to customary maintenance capital spending, as well as $3.0 million in reserves acquisition costs and $3.8 million to expand production capacity at one of our facilities.

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

Net Cash Provided by (Used in) Financing Activities

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

Net cash provided by financing activities was $5.3 million in the year ended December 31, 2012. During the period, dividends of $26.5 million were paid to stockholders, we paid $1.1 million to repurchase stock, we made scheduled principal payments on our Term Loan of $2.6 million, and our short-term debt of $3.9 million was paid in full.

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

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

Net cash provided by financing activities in 2011 was $18.8 million. During the period, net outstanding debt increased $22.5 million and included an increase in the Term Loan of $95.6 million with $75.0 million of those proceeds used to repay the entire amount outstanding on the mezzanine loan facility as well as new borrowings of $4.0 million related to the acquisition of the land in Sparta, Wisconsin. We incurred financing fees of $4.1 million and a prepayment penalty of $1.5 million in connection with this refinancing.

Net cash provided by financing activities in 2010 was $28.5 million, which included a $64.7 million increase in the size of the Term Loan, a $6.5 million decrease in the size of the mezzanine loan facility, the issuance of a $15.0 million note to GGC Holdings, an $11.8 million capital contribution from GGC Holdings and a $51.6 million dividend paid to GGC Holdings. In addition, we paid $3.9 million in financing fees and prepayment penalties related to the debt refinancing.

Share Repurchase Program

On June 11, 2012, the Board of Directors authorized the repurchase of up to $25.0 million of our common stock. The authorization remains open for a period of 18 months, concluding on December 11, 2013. For additional information on our share repurchase program and repurchase activity during the fourth quarter of fiscal year 2012, see Purchase of Equity Securities by the Issuer and Affiliated Purchasers included in Part II, Item 5 of this Annual Report on Form 10-K.

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Credit Facilities

Revolver

On August 9, 2007, we entered into the Revolver with various banks and other financial institutions as lenders thereunder and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association) as administrative agent and lender.

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

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

Borrowing availability under the Revolver is determined by a formula that considers eligible accounts receivable and inventory less any outstanding letters of credit plus a reserve for derivatives. We had no borrowings outstanding as of December 31, 2012, $10.9 million of outstanding letters of credit, which left $32.1 million available under the Revolver.

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

Term Loan

On November 25, 2008, in connection with our acquisition by an affiliate of Golden Gate Capital, we entered into the Term Loan with various banks and other financial institutions as lenders thereunder and BNP Paribas, as administrative agent. On May 7, 2010, the Term Loan was amended and restated to, among other things, (1) increase the aggregate principal amount available thereunder from $102.0 million to $165.0 million and (2) add an incremental term loan facility in the maximum aggregate principal amount of $25.0 million.

On June 8, 2011, the Term Loan was again amended and restated to, among other things, (1) further increase the aggregate principal amount available thereunder to $260.0 million and (2) increase the maximum aggregate principal amount under the incremental term loan facility to $50.0 million (or $100.0 million if the total leverage ratio on a pro forma basis would not exceed 3x).

On January 31, 2012, we again amended and restated the Term Loan to reduce the covenants and restrictions on our activities. The Term Loan, as amended, contains customary covenants and restrictions on our activities related to, among other things: the incurrence of additional indebtedness; liens and negative pledges;

dividends and distributions; investments and acquisitions; contingent obligations; transactions with stockholders (holders of at least 10% of the equity securities) and affiliates; fundamental changes to our business, property and assets; sale lease-backs; the ability to change the nature of our business, our fiscal year and our accounting policies; the ability to amend or waive any of the terms of the Revolver and other material agreements; designations of senior debt other than the Term Loan obligations and the Revolver obligations; and the performance of material contracts, including real property leases and intellectual property licenses.

Off-Balance Sheet Arrangements

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

Contractual Obligations

As of December 31, 2012, the total of our future contractual cash commitments, including the repayment of our debt obligations under the Term Loan, is summarized as follows:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(amounts in thousands)				
Long-term debt obligations[1]	$ 255,425	$ 2,433	$ 4,871	$ 248,121	$
Estimated interest payments on long-term debt	49,207	12,118	23,866	13,223	
Retirement plans	54,151	3,729	12,445	10,298	27,679
Operating lease obligations[2]	42,094	10,813	15,754	9,975	5,552
Other long-term liabilities[3]	2,174	208	402	402	1,162
Total Contractual Cash Obligations[4][5]	$ 403,051	$ 29,301	$ 57,338	$ 282,019	$ 34,393

(1) On June 8, 2011, we amended and restated the Term Loan to, among other things, increase the aggregate principal amount available thereunder to $260.0 million and adjust the interest rate to the London Interbank Offered Rate (LIBOR), plus 375 basis points, and used the proceeds to prepay the mezzanine loan facility in its entirety. As of December 31, 2012, we had $255.4 million, net of unamortized original issue discount, outstanding under the Term Loan. See Liquidity and Capital Resources Credit Facilities.

(2) We are obligated under certain operating leases for railroad cars, mining properties, mining and processing equipment, office space, transportation and other equipment. Certain of our operating lease arrangements include options to purchase the equipment for fair market value at the end of the original lease term. Annual operating lease commitments are presented in more detail in Note N to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

(3) Other long-term obligations include estimated future minimum royalty payments provided for under our mineral leases.

(4) The above table excludes discounted asset retirement obligations in the amount of $6.7 million at December 31, 2012, the majority of which have a settlement date beyond 2025.

(5) We have indemnified underwriters for surety bonds issued on our behalf and are a contingent guarantor on a railcar lease, both of which are excluded from this table. See Note R to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Environmental Matters

We are subject to various federal, state and local laws and regulations governing, among other things, hazardous materials, air and water emissions, environmental contamination and reclamation and the protection of the environment and natural resources. We have made, and expect to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures. We may also from time to time incur fines and penalties associated with noncompliance with such laws and regulations. In particular, on September 8, 2011 we voluntarily disclosed potential violations of air emission permits at our Rockwood, Michigan facility to the EPA and the Michigan Department of Environmental Quality, and while no proceedings have been instituted at this time by either agency we could incur penalties or be subject to other requirements in the future as a result of such potential violations. As of December 31, 2012, we had $6.7 million accrued for future reclamation costs, as compared to $9.5 million as of December 31, 2011.

We discuss certain environmental matters relating to our various production and other facilities, certain regulatory requirements relating to human exposure to crystalline silica and our mining activity and how such matters may affect our business in the future under Item 1, Business, Item 1A, Risk Factors and Item 3, Legal Proceedings.

Non-GAAP Financial Performance Measures

Segment Contribution Margin

Oil & Gas Proppants contribution margin increased $72.5 million, or 107.2%, to $140.1 million for the year ended December 31, 2012 compared to $67.6 million for the year ended December 31, 2011 due to the factors noted above. For the year ended December 31, 2011, contribution margin increased $24.5 million, or 57% to $67.6 million compared to $43.1 million for the year ended December 31, 2010 due to the factors noted above.

Industrial & Specialty Products contribution margin increased $0.6 million, or 1.1%, to $53.6 million for the year ended December 31, 2012 compared to $53.0 million for the year ended December 31, 2011 due to the factors noted above. For the year ended December 31, 2011, contribution margin increased $7.0 million, or 15% to $53.0 million compared to $46.0 million for the year ended December 31, 2010 due to the factors noted above.

For more detail on the reconciliation of segment contribution margin to its most directly comparable GAAP financial measure, income (loss) before income taxes, see Note T to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Adjusted EBITDA

Adjusted EBITDA is not a measure of our financial performance or liquidity under GAAP and should not be considered as an alternative to net income as a measure of operating performance, cash flows from operating activities as a measure of liquidity or any other performance measure derived in accordance with GAAP. Additionally, Adjusted EBITDA is not intended to be a measure of free cash flow for management s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Adjusted EBITDA contains certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized, and excludes certain non-recurring charges 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.

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

	Year Ended December 31,		
	2012	2011	2010
	(amount in thousands)		
Net income	$ 79,154	$ 30,253	$ 11,392
Total interest expense, net of interest income	13,615	18,347	22,989
Provision for taxes	30,651	7,162	2,329
Total depreciation, depletion and amortization expenses	25,099	20,999	19,305
EBITDA	148,519	76,761	56,015
Non-cash deductions, losses and charges (1)	379	(526)	1,364
Non-recurring expenses (income) (2)	(4,206)	(2,028)	
Transaction expenses (3)	156	6,043	10,669
Permitted management fees and expenses (4)		9,250	1,250
Non-cash incentive compensation (5)	2,330	1,237	383
Post-employment expenses (excluding service costs) (6)	1,794	1,689	2,113
Other adjustments allowable under our existing credit agreements (7)	1,617	1,131	358
Adjusted EBITDA	$ 150,589	$ 93,557	$ 72,152

(1) Includes non-cash deductions, losses and charges arising from adjustments to estimates of a future litigation liability and the decision by our hourly workforce at our Rockwood facility to withdraw from a pension plan administered by a third party.

(2) Includes the gain on insurance settlements of $(3,734), $(2,028), and $0 for the years ended December 31, 2012, 2011, and 2010, respectively. Includes the (gain) on the sale of assets of $(472) for the year ended December 31, 2012.

(3) Includes natural gas hedging losses, purchase accounting adjustments, management bonuses and other expenses related to the Golden Gate Capital acquisition, as well as unamortized transaction fees and expenses arising from the refinancing of our Term Loan and Revolver.

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

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

(6) Includes net pension cost and net post-retirement cost relating to pension and other post-retirement benefit obligations during the applicable period, but in each case excluding the service cost relating to benefits earned during such period. See Note Q to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

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

Critical Accounting Policies

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 acceptable 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.

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A summary of our significant accounting policies is included in Note B to the Consolidated Financial Statements in Item 8 of this 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.

Listed below are the accounting policies we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved, and that we believe are critical to the understanding of our operations.

Impairment of Long-Lived Assets

We periodically evaluate whether current events or circumstances indicate that the carrying value of our long-lived assets, including goodwill and other intangible assets, to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of future cash flows produced by the long-lived assets, or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. A detailed determination of the fair value may be carried forward from one year to the next if certain criteria have been met. We report an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Factors we generally consider important in our evaluation and that could trigger an impairment review of the carrying value of long-lived assets include significant underperformance relative to expected operating trends, significant changes in the way assets are used, underutilization of our tangible assets, discontinuance of certain products by us or by our customers, a decrease in estimated mineral reserves, and significant negative industry or economic trends.

The recoverability of the carrying value of our mineral properties is dependent upon the successful development, start-up and commercial production of our mineral deposit and the related processing facilities. Our evaluation of mineral properties for potential impairment primarily includes assessing the existence or availability of required permits and evaluating changes in our mineral reserves, or the underlying estimates and assumptions, including estimated production costs. Assessing the economic feasibility requires certain estimates, including the prices of products to be produced and processing recovery rates, as well as operating and capital costs.

Although we believe the carrying values of our long-lived assets were realizable as of the relevant balance sheet date, future events could cause us to conclude otherwise.

Mine Reclamation Costs

We recognize the fair value of any liability for conditional asset retirement obligations, including environmental remediation liabilities when incurred, which is generally upon acquisition, construction or development and/or through the normal operation of the asset, if sufficient information exists to reasonably estimate the fair value of the liability. These obligations generally include the estimated net future costs of dismantling, restoring and reclaiming operating mines and related mine sites, in accordance with federal, state and local regulatory requirements. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset s carrying value and amortized over the life of the related asset. Reclamation costs are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The reclamation obligation is based on when spending for an existing environmental disturbance will occur. If the asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss is recognized on settlement. We review, on an annual basis, unless otherwise deemed necessary, the reclamation obligation at each mine site in accordance with ASC guidance for accounting reclamation obligations.

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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.

Self-Insurance and Product Liability Claim Reserves

We are self-insured for various levels of employee health insurance coverage, workers compensation and third party product liability claims alleging occupational disease. We purchase insurance coverage for claim amounts which exceed our self-insured retentions. Depending on the type of insurance, these self-insured retentions range from $100,000 to $500,000 per occurrence.

Our insurance reserves are accrued based on estimates of the ultimate cost of claims expected to occur during the covered period. These estimates are prepared with the assistance of outside actuaries and consultants. Our actuaries periodically review the volume and amount of claims activity, and based upon their findings, we adjust our insurance reserves accordingly. The ultimate cost of claims for a covered period may differ from our original estimates.

Employee Benefit Plans

We provide a range of benefits to our employees and retired employees, including pensions and post-retirement healthcare and life insurance benefits. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions, including discount rates, assumed rates of returns, compensation increases, turnover rates and healthcare cost trend rates. We review the actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. As required by U.S. generally accepted accounting principles, the effect of the modifications is generally recorded or amortized over future periods. We believe that the assumptions utilized in recording our obligations under the plans, which are presented in Note P to our audited Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K, are reasonable based on advice from our actuaries and information as to assumptions used by other employers.

Equity-Based Awards

In July 2011, we adopted the U.S Silica Holdings, Inc. 2011 Incentive Compensation Plan which provides for grants of stock options, stock appreciation rights, restricted stock and other incentive-based awards. In 2012, we only awarded equity-based awards from the provisions of the 2011 Incentive Compensation Plan.

We account for equity-based awards in accordance with applicable guidance, which establishes standards of accounting for transactions in which an entity exchanges its equity instruments for goods or services. Equity-based compensation expense is recorded based upon the fair value of the award at grant date. Such costs are recognized as expense on a straight-line basis over the corresponding vesting period. In calculating the compensation expense for options granted, we have estimated the fair value of each grant issued through December 31, 2012 using the Black-Scholes option-pricing model. The fair value of stock options granted have been calculated based on the stock price on the date of the option grant, the exercise price of the option and the following assumptions, which are evaluated and revised, as necessary, to reflect market conditions and experience. These assumptions are the weighted-average of the assumptions used for all grants which occurred during the respective fiscal year.

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The following table illustrates the assumptions used in the Black-Scholes pricing model for options granted during the respective fiscal year:

	2012
Risk-free interest rate	0.83 1.05%
Expected volatility	45%
Expected term	6.25 years
Expected dividend yield	0.00%
Expected forfeiture yield	0.00%

Risk-free interest rate This is an interpolated rate from the U.S. constant maturity treasury rate for a term corresponding to the expected term, as described below. An increase in the risk-free rate will increase compensation expense.

Expected volatility This is a measure of the amount by which the price of various comparable companies common stock has fluctuated or is expected to fluctuate, as our common stock has not been publicly-traded for an adequate period of time. The comparable companies were selected by analyzing public companies in the industry based on various factors including, but not limited to, company size, financial data availability, active trading volume, and capital structure. An increase in the expected volatility will increase compensation expense.

Expected term This is the period of time over which the options are expected to remain outstanding. An increase in the expected term will increase compensation expense. The computation of the expected term is based on the simplified method as our stock options are standard options and we have little recent history of exercise data. Under the simplified method, the expected term is presumed to be the mid-point between the average vesting date and the end of the contractual term.

While we declared a special cash dividend of $0.50 per share of outstanding common stock on December 10, 2012, our expected divided yield is equal to 0.00% as we have never declared a recurring dividend on our common stock and our board has not approved the payment of a dividend in the foreseeable future.

Our expected forfeiture rate is the estimated percentage of options granted that are expected to be forfeited or cancelled on an annual basis before becoming fully vested. We have assumed that there will be no forfeitures due to the fact that we do not have adequate historical forfeiture data on which to base the assumption.

The application of a valuation model involves assumptions that are judgmental and highly sensitive in the valuation of incentive awards, which affects compensation expense related to these awards. We will continue to use judgment in evaluating the risk-free interest rate, expected volatility and lives related to our equity-based compensation on a prospective basis and incorporating these factors into our pricing model.

Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. This approach requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based upon the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the expenses are expected to reverse. Valuation allowances are provided if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We recognize a tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the tax benefit as the

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largest amount that it judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management. At the adoption date, we applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open. The adoption of this guidance did not have a material impact on our consolidated financial condition or results of operations.

We evaluate quarterly the realizability of our deferred tax assets by assessing the need for a valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. Factors that may affect our ability to achieve sufficient forecasted taxable income include, but are not limited to, the following: a decline in sales or margins, increased competition or loss of market share. In addition, we operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended time to resolve. We believe that adequate provisions for income taxes have been made for all years.

The largest permanent item in computing both our effective tax rate and taxable income is the deduction allowed for statutory depletion. The impact of statutory depletion on the effective tax rate is presented in Note P to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K. The deduction for statutory depletion does not necessarily change proportionately to changes in income before income taxes.

Recent Accounting Pronouncements

New accounting guidance that we have recently adopted, as well as accounting guidance that has been recently issued but not yet adopted by us, are included in Note B to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Internal Control over Financial Reporting

We reissued our 2010 financial statements after management identified a material weakness in its internal controls related to stock-based compensation. Based on a misinterpretation of accounting guidance, management did not properly record compensation for equity-based awards granted at GGC Holdings to certain of our employees. This resulted in an understatement of stock-based compensation expense in 2009 and 2010. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. No additional equity-based awards are expected to be granted to our employees at GGC Holdings in the future and, therefore, no additional remediation efforts are necessary.

If we fail to maintain effective internal controls in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis, which could cause investors to lose confidence in our financial information or cause our stock price to decline.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks, which exist as a part of our ongoing business operations. We use derivative financial and commodity instruments, where appropriate, to manage these risks. As a matter of policy, we do not engage in trading or speculative transactions. Refer to Note K to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further information on our derivative financial and commodity instruments.

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Interest Rate Risk

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

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

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of December 31, 2012, we have assessed that the impact of the credit valuation adjustments on the overall valuation of our derivative positions is not significant. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

		December 31, 2012			December 31, 2011		
	Maturity Date	Contract/Notional Amount	Carrying Amount	Fair Value	Contract/Notional Amount	Carrying Amount	Fair Value
			(dollars in thousands)			(dollars in thousands)	
Interest rate cap agreement[1]	2012				$ 100 million	$	$
Interest rate cap agreement[1]	2013	$ 130 million	$	$	$ 30 million	$ 11	$ 11

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

We have designated these contracts as qualified cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and recognized in earnings in the same period or periods during which the hedged transaction affects earnings. We had no ineffective contracts as of December 31, 2012.

Assuming that LIBOR is greater than the 1.0% minimum base rate on the Term Loan, a hypothetical increase or decrease in interest rates by 1.0% would have changed our interest expense by $2.5, $2.5 and $2.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Market Risk

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

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Credit Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K:

U.S. SILICA HOLDINGS, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of U.S. Silica Holdings, Inc.

We have audited the accompanying consolidated balance sheets of U.S. Silica Holdings, Inc. (a Delaware Corporation) (and subsidiaries) (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Silica Holdings, Inc. (and subsidiaries) as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Baltimore, Maryland

February 26, 2013

Grant Thornton LLP

U.S. member firm of Grant Thornton International Ltd

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U.S. SILICA HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 61,022	$ 59,199
Accounts receivable, net	59,564	46,600
Inventories, net	39,835	29,307
Prepaid expenses and other current assets	6,738	8,561
Deferred income taxes, net	10,108	28,007
Income tax receivable		3,895
Total current assets	177,267	175,569
Property, plant and mine development, net	414,218	336,788
Debt issuance costs, net	2,111	1,291
Goodwill	68,403	68,403
Trade names	10,436	10,436
Customer relationships, net	6,531	6,942
Other assets	7,844	6,367
Total assets	$ 686,810	$ 605,796
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Book overdraft	$ 5,390	$ 5,588
Accounts payable	37,333	36,579
Accrued liabilities	9,481	9,875
Accrued interest	2	1,659
Current portion of long-term debt	2,433	6,364
Income tax payable	20,596	
Current portion of deferred revenue	4,855	10,393
Total current liabilities	80,090	70,458
Long-term debt	252,992	255,425
Note payable to parent		15,000
Liability for pension and other post-retirement benefits	52,747	52,078
Deferred revenue		2,128
Deferred income taxes, net	59,111	75,915
Other long-term obligations	10,176	12,858
Total liabilities	455,116	483,862
Commitments and contingencies		
Stockholders Equity:		
Common stock	529	500
Preferred stock		
Additional paid-in capital	163,579	103,757

Retained earnings	82,731	30,038
Treasury stock, at cost	(970)	
Accumulated other comprehensive loss	(14,175)	(12,361)
Total stockholders equity	231,694	121,934
Total liabilities and stockholders equity	$ 686,810	$ 605,796

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

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U.S. SILICA HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2012	**2011**	**2010**
	(in thousands, except per share amounts)		
Sales	$ 441,921	$ 295,596	$ 244,953
Cost of goods sold (excluding depreciation, depletion and amortization)	256,535	181,196	157,994
Operating expenses			
Selling, general and administrative	41,299	23,348	20,413
Advisory fees to parent		9,250	1,250
Depreciation, depletion and amortization	25,099	20,999	19,305
	66,398	53,597	40,968
Operating income	118,988	60,803	45,991
Other (expense) income			
Interest expense	(13,795)	(18,407)	(23,034)
Early extinguishment of debt		(6,043)	(10,195)
Other income, net, including interest income	4,612	1,062	959
	(9,184)	(23,388)	(32,270)
Income before income taxes	109,805	37,415	13,721
Income tax expense	(30,651)	(7,162)	(2,329)
Net income	$ 79,154	$ 30,253	$ 11,392
Earnings per share:			
Basic	$ 1.50	$ 0.61	$ 0.23
Diluted	$ 1.50	$ 0.61	$ 0.23

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

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U.S. SILICA HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011	2010
		(in thousands)	
Net income	$ 79,154	$ 30,253	$ 11,392
Other comprehensive income:			
Unrealized gain (loss) on derivatives (net of tax of $144, $78 and $308 for 2012, 2011, and 2010, respectively)	227	123	(483)
Pension and other post-retirement benefits liability adjustment (net of tax of $1,299, $4,627 and $1,339 for 2012, 2011, and 2010, respectively)	(2,041)	(7,244)	(957)
Comprehensive income	$ 77,340	$ 23,132	$ 9,952

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

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U.S. SILICA HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2009	$ 500	$	$ 126,649	$ 3,681	$ (3,800)	$ 127,030
Net income				11,392		11,392
Unrealized gain (loss) on derivatives					(483)	(483)
Minimum pension liability					(957)	(957)
Capital contributed by parent			11,800			11,800
Equity-based compensation			383			383
Dividend			(36,313)	(15,288)		(51,601)
Balance at December 31, 2010	500		102,519	(215)	(5,240)	97,564
Net income				30,253		30,253
Unrealized gain (loss) on derivatives					123	123
Minimum pension liability					(7,244)	(7,244)
Equity-based compensation			1,238			1,238
Balance at December 31, 2011	500		103,757	30,038	(12,361)	121,934
Net income				79,154		79,154
Unrealized gain (loss) on derivatives					227	227
Minimum pension liability					(2,041)	(2,041)
Cash dividend declared ($0.50 per share of common stock)				(26,461)		(26,461)
Equity-based compensation			2,330			2,330
Issuance of common stock (January 2012 initial public offering at $17.00 per share, net of issuance costs of $9,171)	29		40,800			40,829
Issuance of treasury stock		102				102
Repurchase of common stock		(1,072)				(1,072)
Capital contributed by parent			16,692			16,692
Balance at December 31, 2012	$ 529	$ (970)	$ 163,579	$ 82,731	$ (14,175)	$ 231,694

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

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U.S. SILICA HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	**2011**	**2010**
		(in thousands)	
Operating activities:			
Net income	$ 79,154	$ 30,253	$ 11,392
Adjustments:			
Depreciation, depletion and amortization	25,099	20,999	19,305
Debt issuance amortization	515	265	450
Original issue discount amortization	168	157	383
Early extinguishment of debt		6,043	10,195
(Gain)/loss on disposal of property, plant and equipment	(472)	(35)	2
Deferred income taxes	1,095	(659)	(1,324)
Deferred revenue	(7,666)	(7,068)	(5,812)
Equity-based compensation	2,330	1,238	383
Other	(1,192)	(7,841)	(767)
Changes in assets and liabilities:			
Accounts receivable	(13,239)	(16,437)	1,717
Inventories	(10,528)	(6,889)	869
Prepaid expenses and other current assets	1,823	(5,370)	194
Income taxes	24,491	(1,745)	(2,341)
Accounts payable and accrued liabilities	8,458	25,388	4,133
Advisory services termination fee to Golden Gate Capital	(8,000)		
Accrued interest	(1,657)	1,558	22
Liability for pension and other post-retirement benefits	571	2,708	(2,063)
Net cash provided by operating activities	100,950	42,565	36,738
Investing activities:			
Capital expenditures	(105,719)	(66,745)	(15,241)
Proceeds from sale of property, plant and equipment	1,258	106	78
Net cash used in investing activities	(104,461)	(66,639)	(15,163)
Financing activities:			
Proceeds from issuance of common stock in initial public offering	50,000		
Dividends paid	(26,461)		(51,601)
Repurchase of common stock	(1,072)		
Issuance of treasury stock	102		
Issuance of long-term debt		259,061	65,909
Issuance of short-term debt		3,932	
Repayment of long-term debt	(2,600)	(240,476)	(11,214)
Repayment of short-term debt	(3,932)		
Change in book overdraft	(198)	1,861	2,497
Capital contributed by parent			11,800
Proceeds from issuance of note to parent			15,000
Principal payments on capital lease obligations			(5)
Prepayment penalties		(1,500)	(392)
Financing fees	(1,334)	(4,105)	(3,543)
Common stock issuance costs	(9,171)		
Net cash provided by financing activities	5,334	18,773	28,451

Net increase (decrease) in cash and cash equivalents	1,823	(5,301)	50,026
Cash and cash equivalents, beginning of period	59,199	64,500	14,474
Cash and cash equivalents, end of period	$ 61,022	$ 59,199	$ 64,500
Non-cash financing activities:			
Contribution of note from parent and related accrued interest	$ 16,692	$	$
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	$ 12,436	$ 18,404	$ 20,108
Taxes	$ 3,883	$ 6,915	$ 4,246

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

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U.S. SILICA HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

NOTE A ORGANIZATION

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

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

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

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 (the Financial Statements), present our financial position, results of operations, and cash flows. In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of December 31, 2012 and 2011, the results of our operations for the years ended December 31, 2012, 2011 and 2010, and our cash flows for the year ended December 31, 2012, 2011 and 2010. We have reclassified certain immaterial amounts in the prior years consolidated statement of cash flows within operating activities to conform to the current year presentation. These reclassifications had no effect on previously reported net cash flows from operations.

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

The Financial Statements include the accounts of Holdings and its direct and indirect wholly-owned subsidiaries and GGC RCS Holdings, Inc. (formed in 2010). In consideration of the contribution of GGC RCS Holdings, Inc. to us on January 31, 2012, we and our subsidiaries are presented on a consolidated basis with GGC RCS Holdings, Inc. as of and for the year ended December 31, 2012. As of December 31, 2011 and for the years ended December 31, 2011 and 2010, we and our subsidiaries are presented on a combined basis with GGC RCS Holdings, Inc. All significant intercompany balances and transactions have been eliminated in combination.

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U.S. SILICA HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

We follow FASB Accounting Standards Codification (ASC) guidance for identification and reporting of entities over which control is achieved through means other than voting rights. The guidance defines such entities as Variable Interest Entities (VIEs). As of December 31, 2012 and for the periods presented herein, we have identified no entities over which we maintain any level of control that would qualify for consolidation under ASC guidance.

Use of Estimates and Assumptions

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

Revenue Recognition

Revenue is recognized from a sale when persuasive evidence of an arrangement exists, the price is determinable, the product has been delivered or legal title has been transferred to the customer and collection of the sales price is reasonably assured. Amounts received from customers in advance of revenue recognition are deferred as liabilities.

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

We primarily sell our products under short-term price agreements or at prevailing market rates. For a limited number of customers, we sell under long-term, competitively-bid supply agreements. For the year ended December 31, 2012, we had take-or-pay supply agreements with nine of our customers in the oil & gas proppants segment with initial terms expiring between 2012 and 2016. These agreements define, among other commitments, the volume of product that our customers must purchase, the volume of product that it must provide and the price that it will charge and that our customers will pay for each product. Prices under these agreements are generally fixed and subject to upward adjustment in response to certain cost increases. As a result, our realized prices may not grow at rates consistent with broader industry pricing. For example, during periods of rapid price growth, our realized prices may grow more slowly than those of competitors, and during periods of price decline, our realized prices may outperform industry averages.

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We invoice the majority of our clients on a per shipment basis, although for some larger customers, we consolidate invoices weekly or monthly. Standard terms are net 30 days, although extended terms are offered in competitive situations. The amounts invoiced include the amount charged for the product, transportation costs (if paid by us) and costs for additional services as applicable, such as costs related to transload the product from railcars to trucks for delivery to the customer site.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with a maturity of three months or less when purchased. Because of the short maturity of these investments, the carrying amounts approximate their fair value. Cash and cash equivalents are invested primarily in money market securities with high quality institutions. Accounts at each institution are insured by Federal Deposit Insurance Corporation. Cash balances at times may exceed federally-insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash.

Accounts Receivable

The majority of our accounts receivable are due from companies in the glass, oil and natural gas drilling, building products, filler and extenders, foundries and other major industries. Credit is extended based on evaluation of a customer s financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the payment terms are considered past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, the customer s current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole. We write-off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Our five largest customers accounted for approximately 31%, 25% and 29% of sales in the years ended December 31, 2012, 2011 and 2010, respectively. No single individual customer accounted for more than 10% of sales in the years ended December 31, 2012, 2011 and 2010. Management believes it maintains adequate reserves for potential credit losses; ongoing credit evaluations are performed and collateral is generally not required.

Inventories

Inventories represent silica and other industrial sand available for shipment. We value inventory at the lower of cost or market. Cost is determined using the first-in, first-out and average cost methods.

Property, Plant and Mine Development

Property and equipment

Property and equipment is recorded at cost and depreciated over their estimated useful lives. Interest incurred during construction of facilities is capitalized and depreciated over the life of the asset. Depreciable properties, mining properties, and mineral deposits acquired in connection with business acquisitions are recorded at fair market value as of the date of acquisition.

Costs for normal repairs and maintenance that do not extend economic life or improve service potential are expensed as incurred. Costs of improvements that extend economic life or improve service potential are capitalized and depreciated over the estimated remaining useful life.

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Depreciation is recorded using the straight-line method over the assets estimated useful life as follows: buildings (15 years); land improvements (10 years); machinery & equipment, including computer equipment and software (3-10 years); furniture & fixtures (8 years). Leasehold improvements are depreciated over the shorter of the asset life or lease term. Construction-in-progress is primarily comprised of machinery and equipment, which has not yet been placed in service.

Gains on the sale of assets are included in income when the assets are disposed of provided there is more than reasonable certainty of the collectability of the sales price and any future activities required to be performed by us relating to the disposal of the assets are complete or insignificant. Upon retirement or disposal of assets, all costs and related accumulated depreciation or amortization are written-off.

Depletion and amortization of mineral deposits are recorded as the minerals are extracted, based on units of production and engineering estimates of mineable reserves. The impact of revisions to reserve estimates is recognized on a prospective basis.

We evaluate the carrying value of our property and equipment if impairment evaluation triggering events occur. If it is determined that the current net book value is in excess of the fair value, the excess of the net book value over the estimated fair value is recorded in our consolidated statements of operations as impairment loss. Fair value is generally estimated using valuation techniques that consider the discounted cash flows of the asset at rates deemed reasonable for the type of asset and prevailing market conditions, appraisals, including recent similar transactions in the market and if appropriate and available, current estimated net sales proceeds from pending offers.

We will classify an asset as held for sale when we have committed to a plan to sell the asset, the sale of the asset is probable within one year, and actions to complete the sale are unlikely to change or that the sale will be withdrawn. Accordingly, we typically classify assets as held for sale when our Board of Directors has approved the sale, a binding agreement to purchase the property has been signed under which the buyer has committed a significant amount of nonrefundable cash and no significant financing contingencies exist which could prevent the transaction from being completed in a timely manner. If these criteria are met, we will record an impairment loss if the fair value, less cost to sell, is lower than the carrying amount of the asset and will cease recording depreciation. We will classify the loss, together with the related operating results, including related interest expense on any debt assumed by the buyer or that is required to be repaid as a result of the sale, as discontinued operations on our consolidated statement of operations, presuming that we will not have continuing involvement with the property or asset after the sale, and classify the asset and related liability as held for sale on our consolidated balance sheet. Gains on sales of assets are recognized at the time of sale or deferred and recognized as income in subsequent periods as conditions requiring deferral are satisfied or expire without further cost to us.

Mine exploration and development

Mine exploration and development costs include engineering and mineral studies, drilling and other related costs to delineate an ore body, and the removal of overburden to initially expose an ore body for production. Costs incurred before mineralization are classified as proven and probable reserves are expensed and classified as exploration or advanced projects, research and development expense. Capitalization of mine development project costs, that meet the definition of an asset, begins once mineralization is classified as proven and probable reserves.

Drilling and related costs are capitalized for an ore body where proven and probable reserves exist and the activities are directed at obtaining additional information on the ore body or converting non-reserve

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mineralization to proven and probable reserves and the benefit is expected to be realized over a period beyond one year. All other drilling and related costs are expensed as incurred. Drilling costs incurred during the production phase for operational ore control are allocated to inventory costs and then included as a component of costs applicable to sales.

The cost of removing overburden and waste materials to access the ore body at an open pit mine prior to the production phase are referred to as pre-stripping costs. Pre-stripping costs are capitalized during the development of an open pit mine. Where multiple open pits exist at a mining complex utilizing common processing facilities, pre-stripping costs are capitalized at each pit. The removal, production, and sale of de minimis saleable materials may occur during development and are recorded as other income, net of incremental mining and processing costs.

The production phase of an open pit mine commences when saleable minerals, beyond a de minimis amount, are produced. Stripping costs incurred during the production phase of a mine are variable production costs that are included as a component of inventory to be recognized in costs applicable to sales in the same period as the revenue from the sale of inventory. Our definition of a mine and the mine s production phase may differ from that of other companies in the mining industry resulting in incomparable allocations of stripping costs to deferred mine development and production costs. Other mining companies may expense pre-stripping costs associated with subsequent pits within a mining complex.

Mine development costs are amortized using the units-of-production method based on estimated recoverable tons in proven and probable reserves. To the extent that these costs benefit an entire ore body, they are amortized over the estimated life of the ore body. Costs incurred to access specific ore blocks or areas that only provide benefit over the life of that area are amortized over the estimated life of that specific ore block or area.

Mine reclamation costs

We recognize the fair value of any liability for conditional asset retirement obligations, including environmental remediation liabilities when incurred, which is generally upon acquisition, construction or development and/or through the normal operation of the asset, if sufficient information exists to reasonably estimate the fair value of the liability. These obligations generally include the estimated net future costs of dismantling, restoring and reclaiming operating mines and related mine sites, in accordance with federal, state and local regulatory requirements. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset s carrying value and amortized over the life of the related asset. Reclamation costs are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The reclamation obligation is based on when spending for an existing environmental disturbance will occur. If the asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss is recognized on settlement. We review, on an annual basis, unless otherwise deemed necessary, the reclamation obligation at each mine site in accordance with ASC guidance for accounting reclamation obligations.

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

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In connection with our annual review of our reclamation obligations in 2012, we have determined that some of our estimates required revision due to changes in cost estimates and settlement dates at numerous sites with the largest change being caused by favorable legislation at our Rockwood, MI site. These changes in estimates resulted in the reversal of $3.5 million of reclamation obligations in 2012.

We reported a liability of $6.7 million and $9.5 million in other long-term obligations related to this obligation as of December 31, 2012 and 2011, respectively. Changes in the asset retirement obligation are as follows:

	2012	2011
Beginning balance	$ 9,504	$ 6,401
Payments		
Accretion	658	537
Revisions of prior estimates	(3,503)	2,566
Ending balance	$ 6,659	$ 9,504

Goodwill and Other Intangible Assets and Related Impairment

Our intangible assets consist of goodwill, which is not being amortized; indefinite lived intangibles, which consist of certain trade names that are not subject to amortization; and customer relationships, which are being amortized on a straight-line basis over their useful life of 20 years. Goodwill represents the excess of purchase price over the fair value of net assets from the business acquisition in 2008.

Goodwill and other intangible assets with indefinite lives are reviewed for impairment annually as of October 31 or more frequently whenever events or circumstances change that would more likely than not reduce the fair value of those assets. Prior to conducting a formal impairment test, we assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not (more than 50%) that the fair value of a reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events.

If the qualitative assessment determines that an impairment is more likely than not, then the impairment test for goodwill, or other intangible assets with indefinite lives, requires a comparison of the fair value with the carrying amount, including goodwill. If this comparison reflects impairment, then the loss would be measured as the excess of recorded goodwill, or other intangible assets with indefinite lives, over its implied fair value. Implied fair value is the excess of our fair value over the fair value of all recognized and unrecognized assets and liabilities.

The evaluation of goodwill, or other intangible assets with indefinite lives, for possible impairment includes estimating our fair value using discounted cash flows and multiples of cash earnings valuation techniques, plus valuation comparisons to similar businesses. These valuations require us to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, selling prices, profitability, and the cost of capital. Although we believe that the estimates and assumptions used were reasonable, actual results could differ from those estimates and assumptions. As of December 31, 2012 our qualitative assessment did not indicate that it was more likely than not that an impairment had occurred.

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As of December 31, 2012, the gross carrying amount of the customer relationships intangible asset was $8.2 million with accumulated amortization of $1.7 million. We review all finite-lived intangible assets for impairment when circumstances indicate that their carrying amounts may not be recoverable. We evaluate the carrying value of all finite-lived intangible assets for impairment by comparing the expected undiscounted future cash flows of the asset to the net book value of the asset. If the expected undiscounted future cash flows are less than the net book value of the assets, the excess of the net book value over the estimated fair value is recorded in our consolidated statements of operations as impairment loss. Fair value is generally estimated using valuation techniques that consider the discounted cash flows of the asset at rates deemed reasonable for the type of asset and prevailing market conditions, replacement cost, appraisals, including recent similar transactions in the market and if appropriate, current estimated net sales proceeds from pending offers. As of December 31, 2012, the remaining useful life of our customer relationships was 15.9 years. The estimated annual amortization in each of the next five years is $411.

Debt Issuance Costs

Debt issuance costs consist of loan origination costs, which are being amortized using the effective interest method over the term of the related debt principal. Amortization included in interest expense was $515, $265 and $447 for the years ended December 31, 2012, 2011 and 2010, respectively.

Transportation Revenue and Expense

Transportation revenue is the revenue we receive from charging our customers to deliver product to their locations. Revenue is recognized from a sale when persuasive evidence of an arrangement exists, the price is determinable, the product has been delivered or legal title has been transferred to the customer and collection of the sales price is reasonably assured. Transportation expense is the cost we pay to ship product from its production facilities.

Environmental Costs

Environmental costs, other than qualifying capital expenditures, are accrued at the time the exposure becomes known and costs can be reasonably estimated. Costs are accrued based upon management s estimates of all direct costs, after taking into account expected reimbursement by third parties (primarily the sellers of acquired businesses), and are reviewed by outside consultants. Environmental costs are charged to expense unless a settlement with an indemnifying party has been reached.

Self-Insurance

We are self-insured for various levels of employee health insurance coverage, workers compensation and third party product liability claims alleging occupational disease. We purchase insurance coverage for claim amounts which exceed our self-insured retentions. Depending on the type of insurance, these self-insured retentions range from $100,000 to $500,000 per occurrence.

Our insurance reserves are accrued based on estimates of the ultimate cost of claims expected to occur during the covered period. These estimates are prepared with the assistance of outside actuaries and consultants. Our actuaries periodically review the volume and amount of claims activity, and based upon their findings, we adjust our insurance reserves accordingly. The ultimate cost of claims for a covered period may differ from our original estimates.

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The current portion of our self-insurance reserves is included in accrued liabilities and the non-current portion is included in other long-term obligations in our consolidated balance sheets. Our self-insurance reserves totaled $4.0 million and $3.6 million at December 31, 2012 and 2011, respectively. Of these amounts, $1.3 million and $1.2 million, respectively, were classified as current.

Equity-based Compensation

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

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. This approach requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based upon the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the expenses are expected to reverse. Valuation allowances are provided if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We recognize a tax benefit associated with an uncertain tax position when, in management s judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the tax benefit as the largest amount that it judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management.

The largest permanent item in computing both our effective tax rate and taxable income is the deduction allowed for statutory depletion. The impact of statutory depletion on the effective tax rate is presented in Note P to these financial statements. The deduction for statutory depletion does not necessarily change proportionately to changes in income before income taxes.

Net Income per Common Share

Basic and diluted income per share is presented for net income. Basic income per share is computed by dividing income available to common stockholders by the weighted-average number of outstanding common shares for the period. Diluted income per share reflects the potential dilution that could occur if securities or other contracts that may require the issuance of common shares in the future were converted. Diluted income per share is computed by increasing the weighted-average number of outstanding common shares to include the additional common shares that would be outstanding after conversion and adjusting net income for changes that would result from the conversion. Only those securities or other contracts that result in a reduction in earnings per share are included in the calculation.

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Comprehensive Income

In addition to net income, comprehensive income (loss) includes all changes in equity during a period, such as adjustments to minimum pension liabilities and the effective portion of changes in fair value of derivative instruments that qualify as cash flow hedges.

Financial Instruments

We currently use interest rate hedge agreements and have historically utilized natural gas hedge agreements to manage interest and energy costs and the risk associated with changing interest rates and natural gas prices. Amounts to be paid or received under these hedge agreements are accrued as interest rates or natural gas prices change and are recognized over the life of the hedge agreements as an adjustment to interest expense or, in the case of natural gas, cost of goods sold. Our policy is to not hold or issue derivative financial instruments for trading or speculative purposes. When entered into, these financial instruments are designated as hedges of underlying exposures, associated with our long-term debt and energy costs, and are monitored to determine if they remain effective hedges. Gains and losses on derivatives designated as cash flow hedges are recorded in other comprehensive income net of tax and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. The ineffective portion of all hedges, if any, is recognized currently in income. Additional disclosures for derivative instruments are presented in Note L to these financial statements.

Recently Adopted Accounting Pronouncements

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

In June 2011, the FASB issued changes to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. We adopted this guidance, effective January 1, 2012, with no material impact on our Financial Statements.

In September 2011, the FASB issued changes to the testing of goodwill for impairment. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of a

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reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, go directly to the two-step quantitative impairment test. These changes become effective for us for any goodwill impairment test performed on January 1, 2012 or later, although early adoption is permitted. We adopted this guidance, effective January 1, 2012 with no material impact on our Financial Statements.

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

In July 2012, the FASB issued changes to the testing of indefinite-lived intangible assets for impairment. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of an indefinite-lived intangible asset is less than its carrying amount. In accordance with the amendment, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. In conducting a qualitative assessment, an entity should consider the extent to which relevant events and circumstances, both individually and in the aggregate, could have affected the significant inputs used to determine the fair value of the indefinite-lived intangible asset since the last assessment. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. These changes become effective for us for any impairment test on our indefinite-lived intangible assets performed on January 1, 2013 or later, although early adoption is permitted. We adopted this guidance, effective for the 2012 reporting period with no material impact on our Financial Statements.

NOTE C EARNINGS PER SHARE

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

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

	2012	2011	2010
Net income	$ 79,154	$ 30,253	$ 11,392
	$ 79,154	$ 30,253	$ 11,392
Weighted average common shares (thousands):			
Basic	52,662	50,000	50,000
Effect of employee stock based awards	49	6	
Diluted	52,711	50,006	50,000
Net income per common share:			
Basic	$ 1.50	$ 0.61	$ 0.23
Diluted	$ 1.50	$ 0.61	$ 0.23

There were no outstanding options to purchase common stock at December 31, 2012, 2011 and 2010 that were anti-dilutive.

NOTE D CAPITAL STRUCTURE AND ACCUMULATED COMPREHENSIVE INCOME

Common Stock

Our Amended and Restated Certificate of Incorporation, authorizes up to 500,000,000 shares of common stock, par value of $0.01. Subject to the rights of holders of any series of preferred stock, all of the voting power of the stockholders of the Corporation shall be vested in the holders of the common stock. There were 52,920,704 shares of common stock issued and outstanding at December 31, 2012. As of December 31, 2011, there were 50,000,000 shares issued and outstanding. On December 10, 2012, a special cash dividend of $0.50 per share of outstanding common stock was declared. The dividend was paid on December 28, 2012 to stockholders of record as of the close of business on December 20, 2012.

Management and our Board of Directors remain committed to evaluating additional ways of creating shareholder value. Any determination to pay dividends and other distributions in cash, stock, or property by U.S. Silica in the future will be at the discretion of our Board of Directors and will be dependent on then-existing conditions, including our business condition, our financial condition, results of operations, liquidity, capital requirements, contractual restrictions including restrictive covenants contained in debt agreements, and other factors.

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Preferred Stock

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

There are no shares of preferred stock issued or outstanding at December 31, 2012 and 2011. At present, we have no plans to issue any preferred stock.

Initial Public Offering

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

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

Share Repurchase Program

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

As of December 31, 2012, we have repurchased 100,000 shares of our common stock, at an average price of $10.72 and have the authorization to repurchase up to an additional $23.9 million of our common stock under the program. Of the 100,000 shares repurchased, 9,528 have been re-issued to satisfy employee option exercises leaving total treasury shares of 90,472 as of December 31, 2012.

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NOTE E ACCOUNTS RECEIVABLE

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

	At December 31, 2012	At December 31, 2011
Trade receivables	$ 56,519	$ 46,044
Less: Allowance for doubtful accounts	(1,053)	(779)
Net trade receivables	55,466	45,265
Other receivables	4,098	1,335
Total accounts receivable	$ 59,564	$ 46,600

Trade receivables relate to sales of commercial silica, for which credit is extended based on the customer s credit history. Other receivables primarily represent amounts due from an insurance settlement under an indemnity (Note O).

Changes in our allowance for doubtful accounts are as follows:

	At December 31, 2012	At December 31, 2011
Beginning balance	$ 779	$ 832
Bad debt provision	285	(34)
Accounts written off	(11)	(19)
Ending balance	$ 1,053	$ 779

NOTE F INVENTORIES

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

	At December 31, 2012	At December 31, 2011
Supplies	$ 13,472	$ 12,671
Raw materials and work in process	10,720	8,671
Finished goods	15,643	7,965

Total inventories	$	39,835	$	29,307

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

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NOTE G PROPERTY, PLANT AND MINE DEVELOPMENT

At December 31, 2012 and 2011, property, plant and mine development consisted of the following:

	At December 31, 2012	2011
Mining property and mine development	$ 163,538	$ 155,182
Asset retirement cost	5,124	8,362
Land	24,795	29,806
Land improvements	27,604	10,280
Buildings	31,558	17,380
Machinery and equipment	221,139	153,560
Furniture and fixtures	915	599
Construction-in-progress	18,049	17,228
	492,722	392,397
Accumulated depletion, depreciation and amortization	(78,504)	(55,609)
Total property, plant and mine development, net	$ 414,218	$ 336,788

Depreciation expense, including depletion and amortization, recognized during the year ended December 31, 2012, 2011 and 2010 was $25,099, $20,999 and $19,305, respectively. As of December 31, 2012, we hold no assets under a capital lease obligation.

The amount of interest costs capitalized in property, plant and equipment was $934, $575 and $456 for the year ended December 31, 2012, 2011 and 2010, respectively.

NOTE H ACCRUED LIABILITIES

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

	At December 31, 2012	2011
Accrued salaries and wages	$ 2,939	$ 2,215
Accrued vacation liability	2,397	2,669
Current portion of liability for pension and post-retirement benefits	1,413	1,510
Accrued healthcare liability	1,278	1,155
Other accrued liabilities	1,454	2,326
Total accrued liabilities	$ 9,481	$ 9,875

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

Other accrued liabilities consist of employee related compensation costs, taxes payable, accrued rebates, accrued shipping costs, accrued professional fees and other immaterial items.

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NOTE I DEBT

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

	At December 31, 2012	2011
Revolving line-of-credit: (expires October 31, 2016) (5.0% at December 31, 2012 and December 31, 2011, respectively)	$	$
Senior secured credit facility:		
Term loan facility (final maturity June 8, 2017) (4.75% at December 31, 2012 and 2011, respectively), net of unamortized original issue discount of $675 and $843, respectively	255,425	257,857
Short-term notes: (matured December 14, 2012) (6.0% fixed)		3,932
Total debt	255,425	261,789
Less: current portion	(2,433)	(6,364)
Total long-term portion of debt	$ 252,992	$ 255,425

Revolving Line-of-Credit

We have an asset-based revolving line-of-credit agreement (the Revolver) with Wells Fargo Bank, National Association (Wells Fargo), which expires October 31, 2016. Advances under the credit agreement bear interest at either, London Interbank Offered Rate (LIBOR), plus 275 basis points, or Prime plus 175 basis points, at our sole option. The interest rate is reduced by 25 basis points when availability under the credit agreement is greater than $10 million. The interest rate on the line-of-credit was 5.0% at December 31, 2012 and 2011.

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

Monthly borrowing availability (the borrowing base) is determined by a formula, taking into consideration eligible accounts receivable and inventory, reduced by any outstanding letters of credit and a provision based on the market value of any derivatives in place with Wells Fargo. Each day, all cash receipts are automatically applied as a reduction against any advances made by Wells Fargo to us, and subject to the satisfaction or waiver of the conditions to borrowings to meet its daily cash requirements, up to the amount available under the borrowing base. If the monthly borrowing base is less than the $50.0 million total line-of-credit, then, at Wells Fargo s sole discretion, advances in excess of the borrowing base may be made up to the full amount of the $50.0 million line-of-credit. The fixed charge coverage and leverage ratios are not applicable when availability is above $6.5 million.

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As of December 31, 2012, the available borrowing base was $43.0 million, with nothing drawn as of that date and $10.9 million allocated for letters of credit, leaving $32.1 million available for general corporate use under this revolving credit agreement.

Senior Secured Credit Facility

We entered into a $102 million senior secured term loan facility (the Term Loan) under the conditions set forth in a credit agreement dated November 25, 2008 (the Term Loan Agreement).

On May 7, 2010 the Term Loan Agreement was amended in several ways including an increase in the principal, a reduction in the interest rate, and an extension of the expiration date to May 7, 2016. As a result of the refinancing that occurred May 7, 2010, we recorded a charge to the Statement of Operations of $10.2 million for early debt extinguishment. This charge includes the write-off of the debt issuance cost and the original issue discount associated with the original term loan and note purchase agreements as well as lenders fees incurred as a result of the modification of these agreements.

On June 8, 2011, we again refinanced the Term Loan. Significant changes to the Term Loan Agreement included an increase in principal to $260 million from $165 million, a reduction in the interest rate to either LIBOR plus 375 basis points (previously 400) or Prime plus 275 basis points (previously 300) and an extension in the maturity date from May 7, 2016 to June 8, 2017. The amended Term Loan was issued at a 0.5% original issue discount of $825 which is being amortized as additional interest expense over the life of the loan based on the effective interest method. $75.0 million of the proceeds from the refinancing was used to prepay the mezzanine loan facility in full. As a result of the refinancing that occurred June 8, 2011, we recorded a charge to the Statement of Operations of $6.0 million for early debt extinguishment. This charge includes the write-off of the debt issuance cost and the original issue discount associated with the original term loan, subordinated notes and note purchase agreements, as well as lenders fees incurred as a result of the modification of these agreements.

On January 31, 2012, we again amended our Term Loan Agreement. The primary revisions to the Term Loan Agreement were the elimination of a requirement to provide monthly financial reports, removal of financial covenant restrictions related to capital expenditures, provide flexibility to make investments and acquisitions and to incur indebtedness, and to provide a new subsidiary guarantee from Coated Sand Solutions, LLC.

The Term Loan is secured by substantially all of our assets with the exception of our accounts receivable and inventory, for which we have pledged as collateral under the Revolver. The above agreements contain various covenants and conditions that, among other things, limit our ability to engage in certain transactions and maintain certain financial covenants, including a leverage ratio and a fixed charge coverage ratio. As of December 31, 2012, we are in compliance with all covenants in accordance with our debt agreements.

Short-term Notes

On December 30, 2011, in connection with the land acquisition in Sparta, Wisconsin, we issued a short-term note for $4.0 million with a stated interest rate of 6%. The note required only quarterly interest payments. On December 14, 2012 the note matured and the outstanding principal was repaid in full.

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Debt Maturities

At December 31, 2012, contractual maturities of long-term debt are as follows:

2013	2,433
2014	2,435
2015	2,436
2016	124,648
2017	123,473
Thereafter	
	$ 255,425

NOTE J DEFERRED REVENUE

On November 25, 2008, we, through an affiliate, received advances from two customers totaling $27 million. The deposits give these customers the right to purchase certain products for a fixed price at certain minimum volumes. In addition, the customers have security on their deposit in the form of promissory notes with an affiliate collateralized by undivided mineral interests in our mineral deposits. These notes originally bore interest at 10% compounded quarterly, to the extent any interest is unpaid. The obligations and related interest are reduced as shipments occur with a portion of the sales price being received in cash and a smaller noncash portion reducing first any accrued interest and then, to the extent available, any outstanding principal. As such, the notes do not require any payments in cash. The notes mature on December 31, 2015 and November 25, 2016. In December 2009, $12 million of the notes were amended to reduce the interest rate to 5%, retroactive to November 25, 2008. Effective January 1, 2010, the remaining $15 million was amended to reduce the interest rate to 6%, prospectively.

NOTE K FAIR VALUE ACCOUNTING

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

Cash equivalents

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

Long-Term Debt, including current maturities

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

Derivative Instruments

The estimated fair value of our derivative assets (interest rate caps) are recorded at each reporting period and are based upon widely accepted valuation techniques, including discounted cash flow analysis on the

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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 with 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 December 31, 2012, we have assessed that the impact of the credit valuation adjustments on the overall valuation of our derivative positions is not significant. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

In accordance with the fair value hierarchy, the following table presents the fair value as of December 31, 2012, of those derivative assets that we must measure at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Interest rate derivatives	$	$	$	$
Net asset	$	$	$	$

In accordance with the fair value hierarchy, the following table presents the fair value as of December 31, 2011, of those derivative assets that we must measure at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Interest rate derivatives	$	$ 11	$	$ 11
Net asset	$	$ 11	$	$ 11

NOTE L DERIVATIVE INSTRUMENTS

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

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate cap agreements

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as part of our interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an upfront premium.

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

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

Cash Flow Hedges of Commodities Risk

Our objectives in using commodities derivatives are to add stability to energy costs and to manage our exposure to fluctuations in natural gas prices. To accomplish this objective, we have historically used natural gas swap agreements as part of our commodities risk management strategy. These hedge agreements are used to exchange the difference between natural gas prices calculated by reference to an agreed-upon notional principal amount or natural gas quantity.

We had entered into natural gas swap agreements that effectively placed a fixed price for a specific quantity of natural gas. The agreements hedged against the increase in natural gas prices for the purchase of 420,000 MMBTU. The agreements matured on December 31, 2011.

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

		December 31, 2012			December 31, 2011		
	Maturity Date	Contract/Notional Amount	Carrying Amount	Fair Value	Contract/Notional Amount	Carrying Amount	Fair Value
			(dollars in thousands)			(dollars in thousands)	
Interest rate cap agreement[1]	2012				$ 100 million	$	$
Interest rate cap agreement[1]	2013	$ 130 million	$	$	$ 30 million	$ 11	$ 11

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

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

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The following table summarizes the effect of derivatives instruments on our income statements and our condensed consolidated statements of comprehensive income for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010
Deferred gains (losses) from derivatives in OCI, beginning of period	$ (409)	$ (532)	$ (49)
Gain (loss) recognized in OCI from derivative instruments		123	(483)
Gain (loss) reclassified from Accumulated OCI	227		
Deferred gains (losses) from derivatives in OCI, end of period	$ (182)	$ (409)	$ (532)

NOTE M EQUITY-BASED COMPENSATION

During 2009, the board of directors of our parent company, GGC USS Holdings, LLC, approved, and the parent company implemented, a management equity program (the Equity Program). The Equity Program granted Class C and Class D member units in the parent company, GGC USS Holdings, LLC, to three members of executive management. As of December 31, 2012, approximately 2,182,209 Class C and 3,680,855 Class D equity units were vested. Under the Equity Program, as of December 31, 2012, approximately 3,680,855 and 3,680,855 Class C and Class D equity incentive units, respectively, were authorized to be granted.

The Class C units vest ratably over five years. These units have no exercise price and as such the fair value of the incentive units is equal to the fair value of the underlying equity units. The Class D units were fully vested upon grant in 2009.

Even though the equity was granted at the former parent company, we recognized compensation expense related to Class C equity incentive units of $208, $239 and $383 in the years ended December 31, 2012, 2011 and 2010, respectively. During 2012, 210,333 Class C equity incentive units were forfeited. As a result, in 2012 we recorded a reversal of previously recognized compensation expense of $11 associated with these units and cancelled the remaining unamortized expense of $109. During 2011, 867,625 Class C equity incentive units were forfeited resulting in a reversal of previously recognized compensation expense of $344 associated with these units and canceled the remaining unamortized expense of $476. As of December 31, 2012, there was approximately $200 of total unrecognized compensation expense related to unvested Class C equity incentive units. That cost is expected to be recognized over a weighted-average period of 1.5 years. The grant date fair value of Class C and D equity incentive units was $0.52 and $0.17, respectively.

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Our activity with respect to Class C equity incentive units for 2012, 2011, and 2010 was as follows:

	Number of Class C Units	Class C Unit Grant Date Weighted Average Fair Value
Unvested, December 31, 2009	3,155,001	$ 0.52
Granted		
Vested	(736,167)	$ 0.52
Forfeited		
Unvested, December 31, 2010	2,418,834	$ 0.52
Granted		
Vested	(499,542)	$ 0.52
Forfeited	(867,625)	$ 0.52
Unvested, December 31, 2011	1,051,667	$ 0.52
Granted		
Vested	(420,667)	$ 0.52
Forfeited	(210,333)	$ 0.52
Unvested, December 31, 2012	420,667	$ 0.52

The total fair value of equity incentive units vested for the years ended December 31, 2012, 2011 and 2010 was $219, $260 and $383, respectively.

Fair value of the underlying equity units is determined by utilizing the Black-Scholes pricing model and taking into consideration the rights and preferences of the underlying equity units.

The following table illustrates the assumptions used in the Black-Scholes pricing model:

Risk-free interest rate	1.87%
Expected volatility	50%
Time to liquidity event	4 years

Risk-free interest rate This is an interpolated rate from the U.S. constant maturity treasury rate for a term corresponding to the time to liquidity event, as described below. An increase in the risk-free rate will increase compensation expense.

Expected volatility This is a measure of the amount by which the price of various comparable companies common stock has fluctuated or is expected to fluctuate, our common stock was not publicly-traded at the time of issuance. The comparable companies were selected by analyzing public companies in the industry based on various factors including, but not limited to, company size, financial data availability, active trading volume, and capital structure. An increase in the expected volatility will increase compensation expense.

Estimated term This is the period of time over which the underlying equity units are expected to remain outstanding. An increase in the expected term will increase compensation expense.

In July 2011, we adopted the U.S. Silica Holdings, Inc. 2011 Incentive Compensation Plan (the 2011 Plan), which provides for grants of stock options, stock appreciation rights, restricted stock and other incentive-based awards. In conjunction with the implementation of the 2011 Plan, we filed an amended and restated

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certificate of incorporation which, among other things, increased the authorized shares of common stock to 100 million and changed our name from GGC USS Holdings, Inc. to U.S. Silica Holdings, Inc. The amended and restated certificate of incorporation also created a 50,000-for-one split of our common stock. All of our common stock share and per share data contained in the financial statements have been retroactively adjusted to reflect this stock split for all periods presented.

As of December 31, 2012, there were a total of 1,823,400 options outstanding, 500,771 of which are exercisable, at a weighted-average exercise price of $14.38. The options vest on a graded vesting schedule and the related compensation expense is recognized over the vesting period of each separately vesting portion. We recognized $2.2 million and $1.0 million of equity-based compensation expense related to these options during the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012, there was $5.8 million of total unrecognized compensation expense related to these options, which is expected to be recognized over a weighted-average period of approximately 3.05 years.

Our activity with respect to stock options for the year ended December 31, 2012 and 2011 was as follows:

	Number of Shares	Range of Exercise Prices			Weighted Average Exercise Price		Fair Value	
Unvested, July 8, 2011 (plan inception)								
Granted	1,650,386	$	10.33	25.00	$	14.56	$	4.36
Exercised								
Vested								
Forfeited	(148,988)				$	14.21	$	3.81
Unvested, December 31, 2011	1,501,398	$	10.33	25.00	$	14.60	$	3.74
Granted	572,847	$	10.57	24.00		14.15	$	5.68
Exercised	(9,528)			10.33		10.33		4.67
Vested								
Forfeited	(241,317)					15.34		4.47
Unvested, December 31, 2012	1,823,400	$	10.33	25.00	$	14.38	$	5.04

The total intrinsic value of stock options exercised in 2012 was $98.4. Cash received from options exercised in 2012 was $46.3. The actual tax benefit realized for the tax deductions from option exercises in 2012 totaled $18.0.

In calculating the compensation expense for options granted, we have estimated the fair value of each grant issued through December 31, 2012 using the Black-Scholes option-pricing model. The fair value of stock options granted have been calculated based on the stock price on the date of the option grant, the exercise price of the option and the following assumptions, which are evaluated and revised, as necessary, to reflect market conditions and experience. These assumptions are the weighted-average of the assumptions used for all grants which occurred during the respective fiscal year.

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The following table illustrates the assumptions used in the Black-Scholes pricing model for options granted during the respective fiscal year:

	2012	2011
Risk-free interest rate	0.83 1.05%	1.21 2.01%
Expected volatility	45%	45%
Expected term	6.25 years	5.48 6.25 years
Expected dividend yield	0%	0%
Expected forfeiture yield	0%	0%

Risk-free interest rate This is an interpolated rate from the U.S. constant maturity treasury rate for a term corresponding to the expected term, as described below. An increase in the risk-free rate will increase compensation expense.

Expected volatility This is a measure of the amount by which the price of various comparable companies common stock has fluctuated or is expected to fluctuate, as our common stock has not been publicly-traded for an adequate period of time. The comparable companies were selected by analyzing public companies in the industry based on various factors including, but not limited to, company size, financial data availability, active trading volume, and capital structure. An increase in the expected volatility will increase compensation expense.

Expected term This is the period of time over which the options are expected to remain outstanding. An increase in the expected term will increase compensation expense. The computation of the expected term is based on the simplified method as our stock options are standard options and we have little recent history of exercise data. Under the simplified method, the expected term is presumed to be the mid-point between the average vesting date and the end of the contractual term.

While we declared a special cash dividend of $0.50 per share of outstanding common stock on December 10, 2012, our expected divided yield is equal to 0.00% as we have never declared a recurring dividend on our common stock and our board has not approved the payment of a dividend in the foreseeable future.

Our expected forfeiture rate is the estimated percentage of options granted that are expected to be forfeited or cancelled on an annual basis before becoming fully vested. We have assumed that there will be no forfeitures due to the fact that we do not have adequate historical forfeiture data on which to base the assumption.

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As of December 31, 2012, there were a total of 70,000 shares of restricted stock. The restricted stock vests on a graded vesting schedule and the related compensation expense is recognized over the vesting period of each separately vesting portion. The fair value of the restricted stock awards is equal to the market price of our stock at date of grant. We recognized $84 of equity-based compensation expense related to these restricted stock shares during the year ended December 31, 2012. As of December 31, 2012, there was $1.0 million of total unrecognized compensation expense related to these restricted stock shares, which is expected to be recognized over a period of 3.35 years.

	Number of Shares	Grant Date Weighted Average Fair Value
Unvested, December 31, 2011		
Granted	70,000	$ 15.58
Vested		
Forfeited		
Unvested, December 31, 2012	70,000	$ 15.58

NOTE N LEASES

We are obligated under certain operating leases for railroad cars, office space, mining property, mining/processing equipment and transportation and other equipment. Certain operating lease agreements include options to purchase the equipment for fair market value at the end of the original lease term. Future minimum annual commitments under such operating leases at December 31, 2012 are as follows:

2013	10,813
2014	8,226
2015	7,528
2016	5,924
2017	4,051
Thereafter	5,552
Total future lease commitments	$ 42,094

Expense related to operating leases and rental agreements for the years ended December 31, 2012, 2011 and 2010 totaled approximately $11.9 million, $6.5 million and $4.3 million, respectively.

In general, the above leases include renewal options and provide that we pay for all utilities, insurance, taxes and maintenance.

NOTE O COMMITMENTS AND CONTINGENCIES

Our operating subsidiary, U.S. Silica Company (U.S. Silica), has been named as a defendant in two product liability claims alleging silica exposure causing silicosis filed in the period January 1, 2012 to December 31, 2012. U.S. Silica was named as defendant in three claims filed in 2011, and ten filed in 2010. U.S. Silica has been named as a defendant in similar suits since 1975. As of December 31, 2012, there were 102 active silica-related products liability claims pending in which U.S. Silica is a defendant. Although the outcomes of these claims cannot be predicted with certainty, in the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on our financial position or results of operations.

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

We have recorded estimated liabilities for these claims in other long-term obligations as well as estimated recoveries under the indemnity agreement and an estimate of future recoveries under insurance in other assets on our consolidated balance sheets. As of December 31, 2012 and 2011, other noncurrent assets included $247 and $511, respectively, for insurance for third-party products liability claims and other long-term obligations included $1.3 million and $1.5 million, respectively, in third-party products claims liability. Based on decreases in the actual claims filed during the periods along with decreases in the estimated future product liability claims and their related costs, as well as the aforementioned settlement, we recorded pre-tax adjustments to selling, general and administrative expenses related to silica claims (including a $3.4 million gain in 2012, a $2.6 million gain in 2011, and a $762 loss in 2010).

NOTE P INCOME TAXES

The (expense) benefit for income taxes consisted of the following for the years ended December 31, 2012, 2011 and 2010.

	Years Ended December 31,		
	2012	**2011**	**2010**
Current:			
Federal	$ (22,165)	$ (3,222)	$ (1,951)
State	(6,237)	(51)	(55)
	(28,402)	(3,273)	(2,006)
Deferred:			
Federal	(3,645)	(2,624)	563
State	1,396	(1,265)	(886)
	(2,249)	(3,889)	(323)
Income tax expense	$ (30,651)	$ (7,162)	$ (2,329)

Deferred tax assets and liabilities are recognized for the estimated future tax effects, based on enacted tax laws, of temporary differences between the values of assets and liabilities recorded for financial reporting and for tax purposes and of net operating loss and other carry forwards.

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The tax effects of the types of temporary differences and carry forwards that gave rise to deferred tax assets and liabilities at December 31, 2012 and 2011 consisted of the following:

	At December 31, 2012	At December 31, 2011
Gross deferred tax assets:		
Federal and state net operating loss carry forward	$ 924	$ 23,027
Pension and post-retirement benefit costs	22,427	21,568
Alternative minimum tax credit carry forward	25,889	11,884
Property, plant and equipment	5,113	5,344
Accrued expenses	2,272	2,134
Inventories	1,689	3,667
Third-party products liability	531	601
Stock-based compensation expense	1,262	409
Other	6,019	6,445
Total deferred tax assets	$ 66,126	$ 75,079
Gross deferred tax liabilities:		
Land and mineral property basis difference	$ (60,954)	$ (63,427)
Fixed assets and depreciation	(46,396)	(51,455)
Intangible assets	(6,957)	(7,125)
Other	(822)	(980)
Total deferred tax liabilities	(115,129)	(122,987)
Net deferred tax liabilities	(49,003)	(47,908)
Less: Net current deferred tax assets	(10,108)	(28,007)
Net long-term deferred tax liabilities	$ (59,111)	$ (75,915)

At December 31, 2012 and 2011, we had federal net operating loss carry forwards of $0 and $59.9 million, respectively.

In addition, we have an alternative minimum tax credit carry forward at December 31, 2012 and 2011 of approximately $25.9 million and $11.9 million, respectively. The credit carry forward may be carried forward indefinitely to offset any excess of regular tax liability over alternative minimum tax liability subject to certain limitations.

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

At the end of each reporting period as presented, there were no material amounts of interest and penalties recognized in the statement of operations or balance sheets. We have no material unrecognized tax benefits or

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any known material tax contingencies at December 31, 2012 or December 31, 2011 and does not expect this to change significantly within the next twelve months. Tax returns filed with the IRS for the years 2009 through 2011 along with tax returns filed with numerous state entities remain subject to examination.

The effective income tax rate on pretax earnings differed from the U.S. federal statutory rate for the years ended December 31, 2012, 2011 and 2010 for the following reasons:

	Years Ended December 31,		
	2012	**2011**	**2010**
(Expense) benefit computed at U.S. federal statutory rate	(35.0)%	(35.0)%	(35.0)%
Decrease (increase) resulting from:			
Percentage depletion	9.9	17.5	31.5
Prior year tax return reconciliation	(0.5)	0.4	(3.4)
State income taxes, net of federal benefit	(2.7)	(1.6)	(0.4)
Domestic production deduction	0.7		
Medicare Part D subsidy		(0.1)	(8.7)
Equity-based compensation	(0.1)	(0.2)	(1.0)
Other, net	(0.2)	(0.1)	
Income tax (expense) benefit	(27.9)%	(19.1)%	(17.0)%

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

NOTE Q PENSION AND POST-RETIREMENT BENEFITS

We maintain a single-employer noncontributory defined benefit pension plan covering certain employees. There have been no new entrants to the plan since May 2009 when the plan was frozen to all new employees. The plan provides 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 plan consistent with a goal of appropriate minimization of the unfunded projected benefit obligation. The pension plan uses a benefit level per year of service for covered hourly employees and a final average pay method for covered salaried employees. The plan uses the projected unit credit cost method to determine the actuarial valuation.

We employ a total rate of return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

We employ a building block approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater

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return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

In addition, we provide defined benefit post-retirement healthcare 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 contribute to a Voluntary Employees Beneficiary Association trust that will be used to partially fund health care benefits for future retirees. Benefits are funded to the extent contributions are tax deductible, which under current legislation is limited. In general, retiree health benefits are paid as covered expenses are incurred.

Net pension benefit cost consisted of the following for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,		
	2012	**2011**	**2010**
Service cost benefits earned during the period	$ 1,118	$ 1,145	$ 993
Interest cost	4,734	4,755	4,780
Expected return on plan assets	(5,381)	(4,817)	(4,048)
Special termination benefit			30
Net amortization and deferral	1,105	595	146
Net pension benefit costs	$ 1,576	$ 1,678	$ 1,901

Net post-retirement cost consisted of the following for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,		
	2012	**2011**	**2010**
Service cost benefits earned during the period	$ 197	$ 185	$ 177
Interest cost	1,163	1,161	1,210
Expected return on plan assets	(4)	(5)	(5)
Net amortization and deferral	177		
Net pension costs	$ 1,533	$ 1,341	$ 1,382

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The changes in benefit obligations and plan assets, as well as the funded status of our pension and post-retirement plans at December 31, 2012 and 2011 were as follows:

	Pension Benefits		Post-retirement Benefits	
	2012	2011	2012	2011
Benefit obligation at January 1,	$ 100,083	$ 92,054	$ 26,528	$ 22,522
Service cost	1,118	1,145	197	185
Interest cost	4,734	4,755	1,163	1,161
Actuarial gain (loss)	10,255	7,022	(1,087)	3,800
Benefits paid	(9,238)	(5,215)	(1,529)	(1,584)
Amendments	667	322		
Other			445	444
Benefit obligation at December 31,	$ 107,619	$ 100,083	$ 25,717	$ 26,528
Fair value of plan assets at January 1,	$ 74,596	$ 65,191	$ 54	$ 59
Actual return on plan assets	10,711	3,611		(5)
Employer contributions	4,781	11,009	1,084	1,140
Benefits paid	(9,238)	(5,215)	(1,529)	(1,584)
Other			445	444
Fair value of plan assets at December 31,	$ 80,850	$ 74,596	$ 54	$ 54
Plan assets less than benefit obligations at December 31 recognized as liability for pension and other post-retirement benefits	$ (26,768)	$ (25,487)	$ (25,664)	$ (26,474)

The accumulated benefit obligation for the defined benefit pension plans, which excludes the assumption of future salary increases, totaled $107.0 million and $99.4 million at December 31, 2012 and 2011, respectively.

The amendments in 2012 reflect plan changes including increases in the benefit multiplier for certain participants as well as the reduction of certain benefits to estimated highly compensated salary participants. The amendments in 2011 include increased monthly benefit levels for flat-benefit plans as well as a limit of 35 years of service for participants with benefits based on final average earnings.

We also sponsor unfunded, nonqualified pension plans. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans were $1.7 million, $1.7 million and $0 at December 31, 2012 and $1.6 million, $1.6 million and $0 million at December 31, 2011.

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Future estimated annual benefit payments for pension and post-retirement benefit obligations as of December 31, 2012 are as follows:

		Benefits Post-retirement	
	Pension	Before Medicare Subsidy	After Medicare Subsidy
2013	5,930	1,506	1,339
2014	6,120	1,427	1,427
2015	6,345	1,447	1,447
2016	6,571	1,477	1,477
2017	6,827	1,581	1,581
2018-2022	36,763	8,401	8,401

Our best estimate of expected contributions to the pension and post-retirement medical benefit plans for the 2013 fiscal year are $2.3 million and $1.3 million, respectively.

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the 2013 fiscal year are as follows:

	Pension	Benefits Post-retirement	Total
Net actuarial loss	$ 1,728	$ 242	$ 1970
Prior service cost	83		83
	$ 1,811	$ 242	$ 2,053

The total amounts in accumulated other comprehensive income related to net actuarial loss and prior service costs, net of tax, as of December 31, 2012 were $16.2 and $1.8 million, respectively.

The following weighted-average assumptions were used to determine our obligations under the plans:

	Pension Benefits		Post-retirement Benefits	
	2012	2011	2012	2011
Discount rate	4.00%	4.85%	4.00%	4.85%
Long-term rate of compensation increase	3.50%	3.50%	N/A	N/A
Long-term rate of return on plan assets	8.00%	8.00%	8.00%	8.00%
Health care cost trend rate:				
Pre-65 initial rate/ultimate rate	N/A	N/A	8.5%/5%	9%/5%
Pre-65 ultimate year	N/A	N/A	0	2020
Post-65 initial rate/ultimate rate	N/A	N/A	7.5%/5%	8.5%/5%
Post-65 ultimate year	N/A	N/A	2020	2020

The discount rate reflects the expected long-term rates of return with maturities comparable to payments for the plan obligations utilizing Aon Hewitt s AA Only Above Medium Curve, rounded down to the next 0.05%.

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Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost	$ 164	$ (139)
Effect on post-retirement benefit obligation	3,161	(2,672)

The major investment categories and their relative percentage of the fair value of total plan assets as invested at December 31, 2012 and 2011 were as follows:

	Pension Benefits		Post-retirement Benefits	
	2012	2011	2012	2011
Equity securities	59.9%	58.7%	58.7%	57.9%
Debt securities	38.6%	38.9%	39.2%	42.2%
Cash	1.5%	2.4%	2.1%	(0.1)%

The fair values of the pension plan assets at December 31, 2012, by asset category, are as follows:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,208	$	$	$ 1,208
Mutual funds:				
Diversified emerging markets	8,186			8,186
Foreign large blend	13,827			13,827
Large-cap blend	16,666			16,666
Long-term bonds	31,198			31,198
Mid-cap blend	5,650			5,650
Real estate	4,026			4,026
Insurance policies			89	89
Net asset	$ 80,761		$ 89	$ 80,850

The fair values of the pension plan assets at December 31, 2011, by asset category, are as follows:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,813	$	$	$ 1,813
Mutual funds:				
Diversified emerging markets	7,022			7,022
Foreign large blend	11,776			11,776
Large-cap blend	15,652			15,652
Long-term bonds	28,951			28,951

Mid-cap blend	5,268			5,268
Real estate	4,002			4,002
Insurance policies			112	112
Net asset	$ 74,484	$	$ 112	$ 74,596

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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.

The risks of participating in multiemployer plans differ from single employer plans as follows: 1) assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, 2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and 3) if we cease to have an obligation to contribute to one or more of the multiemployer plans to which we contribute, we may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

A summary of each multiemployer pension plan for which we participate is presented below:

Pension Fund	EIN/ Pension Plan No.	Pension Protection Act Zone Status[1] 2012	2011	FIP/RP Status Pending/ Implemented	Company Contributions 2012	2011	2010	Surcharge Imposed	Expiration Date of CBA
LIUNA	52-6074345/001	Red	Red	Yes	$ 123	$ 116	$ 100	Yes	5/31/2014
IUOE	36-6052390/001	Green	Green	No	19	16	13	No	7/31/2015
CSSS[2]	36-6044243/001	Red	Red	Yes	51	26	16	NA	NA

(1) The Pension Protection Act of 2006 defines the zone status as follows: green healthy, yellow endangered, orange seriously endangered and red critical.

(2) In 2011, we withdrew from the Central States, Southeast and Southwest Areas Pension Plan. The withdrawal liability of $1.0 million will be paid in monthly installments of $4 until 2031.

Our contributions to individual multiemployer pension funds did not exceed 5% of the fund s total contributions in any of the three years ended December 31, 2012. Additionally, our contributions to multiemployer postretirement 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 also contribute an employee match of 25 cents, based on financial performance, for each dollar contributed by an employee, up to 8% of their earnings. For certain employees, we make a profit sharing match up to 75 cents, based on financial performance, for each dollar contributed up to 8% of their earnings. Finally, for some employees, we make a catch-up match of 25 cents for each dollar of catch-up contributions. Contributions were $1.4 million, $1.0 million and $802 for the years ended December, 31, 2012, 2011 and 2010, respectively.

NOTE R OBLIGATIONS UNDER GUARANTEES

We have indemnified St. Paul Travelers (Travelers) against any loss Travelers may incur in the event that holders of surety bonds, issued on behalf of us by Travelers, execute the bonds. As of December 31, 2012, Travelers had $4.7 million in bonds outstanding for us. The majority of these bonds ($4.6 million) relate to reclamation requirements issued by various governmental authorities. Reclamation bonds remain outstanding until the mining area is reclaimed and the authority issues a formal release. The remaining bonds relate to such indefinite purposes as licenses, permits, and tax collection.

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We have indemnified Safeco Insurance Company of America (Safeco) against any loss Safeco may incur in the event that holders of surety bonds, issued on behalf of us by Safeco, execute the bonds. As of December 31, 2012, Safeco had $513 in bonds outstanding for us. These are all reclamation bonds.

U.S. Silica is the contingent guarantor of Kanawha Rail Corporation s (KRC) obligations as lessee of 199 covered hopper railroad cars, which are used by U.S. Silica to ship sand to its customers. KRC s obligation as lessee includes paying monthly rent of $66 until June 30, 2013, maintaining the cars, paying for any cars damaged or destroyed, and indemnifying all other parties to the lease transaction against liabilities including any loss of certain tax benefits. By separate agreement between U.S. Silica and KRC, KRC may, upon the occurrence of certain events, assign the lease obligations to U.S. Silica, but none of these events have occurred.

NOTE S RELATED PARTY TRANSACTIONS

Advisory Agreement

In connection with the Golden Gate Capital Acquisition, we entered into an Advisory Agreement with Golden Gate Capital whereby Golden Gate Capital agreed to provide business and organizational strategy and financial and advisory services. Such services included support and assistance to management with respect to negotiating and analyzing acquisitions and divestitures, negotiating and analyzing financing alternatives, preparing financial projections, monitoring compliance with financing agreements, marketing functions and searching for and hiring management personnel.

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

On February 6, 2012, we paid $8.0 million to Golden Gate Capital to terminate the advisory agreement previously entered into in connection with the Golden Gate Capital Acquisition. The $8.0 million termination fee was accrued for at December 31, 2011 and no additional expense has been recognized during the year ended December 31, 2012. Advisory fees paid to Golden Gate Capital under the Advisory Agreement in 2011 and 2010 were $1.3 million and $1.3 million, respectively. These expenses are included in other operating expenses and presented as advisory fees to parent within our income statements.

Promissory Note

On December 22, 2010, we entered into a $15.0 million promissory note with our former parent LLC, GGC USS Holdings, LLC. The note provided working capital for a new subsidiary and matures on December 22, 2015. The note bore interest at 10%. Outstanding principal and interest under the note are payable upon demand, but no later than the maturity date. Upon sole election by GGC Holdings, any unpaid interest may be paid in cash on each December 22 of each year until the maturity date. As of and for the year ended December 31, 2011 and 2010, interest on the note is recorded in interest expense in the Income Statements and any unpaid interest is included in accrued interest on the Balance Sheets. On January 31, 2012, simultaneously with the IPO, GGC Holdings contributed to us all of the stock of GGC RCS Holdings, Inc. and converted the $15.0 million promissory note, including $1.7 million of accrued interest, to equity.

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NOTE T SEGMENT REPORTING

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

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

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

The Industrial & Specialty Products segment consists of over 250 products and materials used in a variety of industries including, container glass, fiberglass, specialty glass, flat glass, building products, fillers and extenders, foundry products, chemicals, recreation products and filtration products.

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The following table presents sales and segment contribution margin for the reporting segments and other operating results not allocated to the reported segments for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,		
	2012	**2011**	**2010**
Sales:			
Oil and gas proppants	$ 243,765	$ 107,074	$ 69,556
Industrial and specialty products	198,156	188,522	175,397
Total sales	441,921	295,596	244,953
Segment contribution margin:			
Oil and gas proppants	140,070	67,590	43,118
Industrial and specialty products	53,601	53,013	46,031
Total segment contribution margin	193,671	120,603	89,149
Operating activities excluded from segment cost of goods sold	(8,285)	(6,203)	(2,190)
Selling, general and administrative	(41,299)	(23,348)	(20,413)
Advisory fees to parent		(9,250)	(1,250)
Depreciation, depletion and amortization	(25,099)	(20,999)	(19,305)
Interest expense	(13,795)	(18,407)	(23,034)
Early extinguishment of debt		(6,043)	(10,195)
Other income, net, including interest income	4,612	1,062	959
Income (loss) before income taxes	$ 109,805	$ 37,415	$ 13,721

Asset information, including capital expenditures and depreciation, depletion, and amortization, by segment is not included in reports used by management in its monitoring of performance and, therefore, is not reported by segment. Goodwill of $68.4 million has been allocated to these segments with $47.7 million assigned to Oil & Gas Proppants and $20.7 million to Industrial & Specialty Products. No customer exceeded 10% or more of net sales in any of the periods presented.

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NOTE U UNAUDITED SUPPLEMENTARY DATA

The following table sets forth our unaudited quarterly consolidated statements of operations for each of the last four quarters ended December 31, 2012 and 2011. This unaudited quarterly information has been prepared on the same basis as our annual audited financial statements and includes all adjustments, consisting only of normal recurring adjustments that are necessary to present fairly the financial information for the fiscal quarters presented.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2012:				
Sales	$ 102,591	$ 104,599	$ 115,885	$ 118,846
Costs of goods sold	56,921	58,920	69,706	70,988
Operating expenses				
Selling, general and administrative	9,904	9,718	10,135	11,542
Depreciation, depletion and amortization	5,978	5,974	5,968	7,179
	15,882	15,692	16,103	18,721
Operating income	29,788	29,987	30,076	29,137
Other (expense) income				
Interest expense	(3,797)	(3,428)	(3,326)	(3,244)
Other income, net, including interest income	154	179	348	3,931
	(3,643)	(3,249)	(2,978)	687
Income before income taxes	26,145	26,738	27,098	29,824
Income tax expense	(7,032)	(7,287)	(8,302)	(8,030)
Net income	$ 19,113	$ 19,451	$ 18,796	$ 21,794
Earnings per share, basic	$ 0.37	$ 0.37	$ 0.36	$ 0.41
Earnings per share, diluted	$ 0.37	$ 0.36	$ 0.36	$ 0.41
Weighted average common shares outstanding (in thousands), basic	51,939	52,440	52,873	52,891
Weighted average common shares outstanding (in thousands), diluted	52,031	52,505	52,887	52,963

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011:				
Sales	$ 64,432	$ 74,080	$ 73,453	$ 83,631
Costs of goods sold	43,275	42,629	45,241	50,051
Operating expenses				
Selling, general and administrative	5,324	5,952	5,216	6,856
Advisory fees to parent	312	313	312	8,313
Depreciation, depletion and amortization	5,089	5,252	5,295	5,363
	10,725	11,517	10,823	20,532
Operating income	10,432	19,934	17,389	13,048

Other (expense) income				
Interest expense	(5,449)	(5,224)	(3,832)	(3,902)
Early extinguishment of debt		(6,043)		
Other income, net, including interest income	174	163	197	528
	(5,275)	(11,104)	(3,635)	(3,374)
Income before income taxes	5,157	8,830	13,754	9,674
Income tax (expense) benefit	(1,647)	(2,474)	(3,412)	371
Net income	$ 3,510	$ 6,356	$ 10,342	$ 10,045
Earnings per share, basis and diluted	$ 0.07	$ 0.13	$ 0.21	$ 0.20
Weighted average common shares outstanding (in thousands), basic	50,000	50,000	50,000	50,000
Weighted average common shares outstanding (in thousands), diluted	50,000	50,000	50,031	50,006

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U.S. SILICA HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

NOTE V SUBSEQUENT EVENTS

On February 21, 2013, we closed on the purchase of an existing silica sand processing facility from Quality Sand Products LLC (QSP) in Peru, Illinois for $7.9 million as a result of exercising our option under our toll processing agreement with QSP. As a condition of the sale, QSP will continue to operate the facility under the terms of a new management agreement.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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 December 31, 2012. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of December 31, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

Management s Annual Report on Internal Control over Financial Reporting

Our management, under the direction of our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f).

Our system of internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting using the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As noted in the COSO framework, an internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance to management and the Board of Directors regarding achievement of an entity s financial reporting objectives. Based upon the evaluation under this framework, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by our independent registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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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 December 31, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers

Bryan A. Shinn, age 51, has served as our President since March 2011 and as our Chief Executive Officer and a member of our board of directors since January 10, 2012. Prior to assuming this position, Mr. Shinn was our Senior Vice President of Sales and Marketing from October 2009 to February 2011. Before joining us, Mr. Shinn was employed by the E. I. du Pont de Nemours and Company from 1983 to September 2009, where he held a variety of key leadership roles in operations, sales, marketing and business management, including Global Business Director and Global Sales Director. Mr. Shinn earned a B.S. in Mechanical Engineering from the University of Delaware. As a result of these and other professional experiences, Mr. Shinn possesses particular knowledge and experience in operations, sales, marketing, management and corporate strategy that strengthen the board s collective qualifications, skills and experience.

John P. Blanchard, age 39, has served as our Vice President and General Manager, Industrial and Specialty Products since September 2011. Mr. Blanchard possesses over 17 years experience in a variety of industries, including nonwovens, composites, building materials and pharmaceuticals. Prior to joining us, Mr. Blanchard held various positions of increasing responsibility with Johns Manville from 2005 to September 2011, including Global Business Director from December 2010 to September 2011 and Global Business Manager from February 2008 to December 2010. Mr. Blanchard earned a B.S. in Chemical Engineering from Michigan Technological University and an M.B.A. from the University of Michigan.

Bradford B. Casper, age 38, has served as our Vice President of Strategic Planning since May 2011. Before joining us, Mr. Casper was at Bain & Company, Inc., where he held various positions from 2002 to May 2011 in the United States, Australia and Hong Kong, most recently serving as a Principal from July 2010 to May 2011. Mr. Casper earned a B.S. in Accounting from the University of Illinois at Urbana-Champaign and an M.B.A. from the Wharton School at the University of Pennsylvania.

Christine C. Marshall, age 51, has served as our General Counsel and Corporate Secretary since November 2012. Prior to joining us, Ms. Marshall served as Vice President and General Counsel of the Security Technologies Sector of Ingersoll Rand Company from September 2010 to January 2012. From 2005 to 2010, Ms. Marshall held various positions of increasing responsibility with Tyco International, including General Counsel of Tyco Flow Control Americas from January 2008 to May 2010. Ms. Marshall earned a B.A. from Harvard University and a J.D. from Georgetown University School of Law.

Donald A. Merril, age 48, has served as our Vice President and Chief Financial Officer since January 2013 and as our Vice President of Finance since October 2012. Previously, Mr. Merril had served as Senior Vice President and Chief Financial Officer of Myers Industries Inc. from January 2006 through August 2012. Prior to serving at Myers Industries, Mr. Merril held the role of Vice President and Chief Financial Officer, Rubbermaid Home Products Division at Newell Rubbermaid Inc. from 2003 through 2005. Mr. Merril has a B.S. in Accounting from Miami University.

David D. Murry, age 51, has served as our Vice President of Talent Management and Chief Human Resources Officer since October 2011. Prior to joining us, Mr. Murry was the Director of Human Resources and Talent Management for Arkema, a diversified chemicals company, from October 2005 to October 2011. He has held positions of increasing leadership with Armstrong, Dell, and Alcoa. Mr. Murry oversees our Human Resources, Occupational Health, and Safety team members in the corporate office as well as at all of our operating facilities. Mr. Murry earned a B.S. in Mining Engineering from Texas A&M University and a Master s of Science in Management from Antioch University.

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Jason L. Tedrow, age 38, has served as our Vice President of Supply Chain since January 2012. Before joining us, Mr. Tedrow was with Lafarge Cement where he held various distribution and supply chain management roles of increasing responsibility from 2006 through January 2012, most recently serving as the Director of Distribution for Lafarge s River Business Unit from July 2011 to January 2012. Mr. Tedrow also held various engineering and supply chain management positions with ConAgra Foods from 2000 to January 2006 and The Amway Corporation from 1998 to August 2000. Mr. Tedrow earned a B.S. in Industrial Engineering from Western Michigan University and an M.B.A. from the University of Chicago, Booth School of Business.

Don Weinheimer, age 54, has served as our Vice President and General Manager, Oil & Gas since July 2012. Before joining us, Mr. Weinheimer had served in various executive positions with Key Energy Services since October 2006 including as Senior Vice President, Strategy, Markets and Technology; Senior Vice President of Business Development, Technology and Strategic Planning; Senior Vice President of Product Development, Strategic Planning and Quality; and Senior Vice President, Production Services. Prior to joining Key Energy Services, Mr. Weinheimer held various positions of increasing responsibility with Halliburton Company, a global energy services company, since 1981 including as Vice President of Technology Globalization within its Energy Services Group from July 2006 to October 2006 and as Vice President of Innovation and Marketing in its Production Optimization Division from July 2004 to June 2006. Mr. Weinheimer has over 31 years of industry experience, including international operational and business development experience in both the Middle East and Algeria. Mr. Weinheimer earned his B.S. in Agricultural Engineering from Texas A&M University.

Michael L. Winkler, age 48, has served as our Vice President of Operations since June 2011. Before joining us, Mr. Winkler was Vice President of Operations for Campbell Soup Company from August 2007 to June 2011 and held various positions with Mars Inc. from 1996 to August 2007, including Plant Manager Columbus Plant and Director of Industrial Engineering. Mr. Winkler earned a B.S. in Industrial Engineering from the University of Wisconsin Platteville and an M.B.A. from the University of North Texas.

Directors

Charles Shaver, age 51, has served as a member of our board of directors since July 2011 and is currently our Chairman of the Board. Mr. Shaver has served as the Chairman and Chief Executive Officer of Axalta Coating Systems, a privately-held company, since February 2013. Mr. Shaver also has served as a member of the board of directors of Taminco Inc., a privately-held producer of alkylamines and alkylamine derivatives, since January 2013. Mr. Shaver was an Operating Partner of Golden Gate Capital from April 2011 to December 2012. Prior to joining Golden Gate Capital, Mr. Shaver served as the Chief Executive Officer and President of the TPC Group Inc. from 2004 to April 2011, as a Vice President and General Manager for Gentek, Inc. from 2001 to 2004 and as a Vice President and General Manager for Arch Chemicals, Inc. from 2001 to 2004. Mr. Shaver began his career with The Dow Chemical Company, where he held a series of operational and business positions from 1980 to 1996. Mr. Shaver earned a B.S. in chemical engineering from Texas A&M University. As a result of these and other professional experiences, Mr. Shaver possesses particular knowledge and experience in all aspects of corporate functions and company operations that strengthen the board s collective qualifications, skills and experience.

Rajeev Amara, age 36, has served as a member of our board of directors since November 2008. Mr. Amara is a Managing Director of Golden Gate Capital, which he joined in 2000. At Golden Gate Capital, Mr. Amara leads the investment effort in the industrials and energy sector. Prior to joining Golden Gate Capital, Mr. Amara worked as an investment banker with the Los Angeles office of Donaldson, Lufkin & Jenrette from 1997 to 1999. With respect to service on public company boards, Mr. Amara has served on the board of directors of Aspect Software, Inc. since January 2011. Mr. Amara earned a B.S. in economics from the Wharton School of the University of Pennsylvania. As a result of these and other professional experiences, Mr. Amara possesses particular knowledge and experience in accounting, finance and capital structure; strategic planning and leadership of complex organizations; and board practices of other major corporations that strengthen the board s collective qualifications, skills and experience.

Prescott H. Ashe, age 45, has served as a member of our board of directors since November 2008. Mr. Ashe has been a Managing Director of Golden Gate Capital since 2000. Mr. Ashe has over 20 years of private equity investing experience and has participated in both growth-equity and management buyout transactions with more than $20.0 billion in value. Prior to joining Golden Gate Capital, Mr. Ashe worked at Bain Capital, LLC from 1991 to 2000 and at Bain & Company, Inc. from 1990 to 1991. With respect to service on public company boards, Mr. Ashe has served on the board of directors of Aeroflex Holding Corp. since August 2007, GXS Worldwide, Inc. since June 2010, Aspect Software, Inc. since May 2003 and Infor Inc. since April 2012. Mr. Ashe earned a J.D. from Stanford Law School and a B.S. in business administration from the University of California at Berkeley. As a result of these and other professional experiences, Mr. Ashe possesses particular knowledge and experience in accounting, finance, and capital structure; strategic planning and leadership of complex organizations; and board practices of other major corporations that strengthen the board s collective qualifications, skills and experience.

Peter Bernard, age 51, has served as a member of our board of directors since May 2012. Mr. Bernard has been the Chairman of Zeitecs, a specialized artificial lift technology company, since October 2010 and in addition he has served as Chairman of Tendeka, a global completions solutions company headquartered in the United Kingdom, since January 2011. Mr. Bernard served in various roles of increasing responsibility and seniority at Halliburton Company until his retirement in December 2008, including as a member of the Executive Committee from 2007 until December 2008 and as Senior Vice President of Business Development and Marketing from 2006 to April 2008. Additionally, Mr. Bernard served as Vice President and Global Account Executive for Royal Dutch Shell from 2003 to 2004 and President and CEO of Landmark Graphics from 2004 to 2006. Mr. Bernard received his B.S. degree in Petroleum Engineering from the University of Louisiana at Lafayette. As a result of these and other professional experiences, Mr. Bernard brings extensive breadth, depth and expertise in the oil and natural gas services sector of the energy industry.

William J. Kacal, age 64, has served as a member of our board of directors since January 2012. Mr. Kacal currently serves as a director of Integrity Bancshares, Inc., located in Houston, Texas, and its wholly-owned subsidiary, Integrity Bank SSB (Integrity Bank), the National Association of Corporate Directors Texas Tri-Cities Chapter, Goodwill Industries International (Goodwill International), Goodwill Industries of Houston (Goodwill Houston) and the Boy Scouts of America Sam Houston Area Council (Boy Scouts Houston). Mr. Kacal serves on the Audit Committee of Integrity Bank, serves as the Chairman of the Audit Committee of Boy Scouts Houston, and previously served as the Chairman of the Audit Committee of Goodwill International and Goodwill Houston. Mr. Kacal has over 40 years of accounting and management experience with Deloitte & Touche LLP (Deloitte), most recently serving as a partner from 1981 until his retirement in May 2011, and prior to that serving as a member of the audit staff from 1970 to 1981. Mr. Kacal also served as a member of the board of directors of Deloitte from 2004 to May 2011 and as a member of the executive committee from 2004 to 2008. During his time with Deloitte, Mr. Kacal worked extensively with companies in the oil and natural gas industry. Mr. Kacal earned a B.B.A. in Accounting from Texas A&M University and is a licensed Certified Public Accountant in Texas. As a result of these and other professional experiences, Mr. Kacal possesses particular knowledge and experience in accounting, finance and capital structure; strategic planning and leadership of complex organizations; and board practices of other entities that strengthen the board s collective qualifications, skills and experience.

Brian Slobodow, age 44, has served as a member of our board of directors since March 2011. Mr. Slobodow has served as the Chief Operating Officer of Atrium Corporation, a portfolio company of Golden Gate Capital, since October 2012. Prior to assuming this position, Mr. Slobodow served as our Chief Administrative Officer from January 2012 to October 2012 and as our Chief Executive Officer from March 2011 to January 2012. Before joining us, Mr. Slobodow was President and Chief Operating Officer of Neways Worldwide, a portfolio company of Golden Gate Capital, from May 2007 to March 2011, held numerous positions at Johnson & Johnson Consumer Companies, Inc. from 2003 to May 2007, including Vice President, Global Supply Chain and served as a management consultant for A.T. Kearney from 1995 to 2003.

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Mr. Slobodow earned a B.S. in industrial and manufacturing engineering from the University of Rhode Island and an M.B.A. from the M.I.T. Sloan School of Management. As a result of these and other professional experiences, Mr. Slobodow possesses particular knowledge and experience in operations, management, corporate strategy, organizational design and private equity management that strengthen the board s collective qualifications, skills and experience.

Family Relationships

There are no family relationships between any of our executive officers or directors.

Corporate Governance

GGC Holdings continues to control a majority of the voting power of our outstanding common stock. As a result, we are a controlled company under the NYSE corporate governance standards. As a controlled company, exemptions under the standards will free us from the obligation to comply with certain corporate governance requirements, including the requirements:

- that we have a compensation committee or nominating and corporate governance committee;
- that a majority of our board of directors consists of independent directors, as defined under the rules of the NYSE;
- that any corporate governance and nominating committee or compensation committee be composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities;
- for an annual performance evaluation of the nominating and corporate governance committee and compensation committee; and
- once effective, to assess the independence of consultants, legal counsel and other advisors selected by the compensation committee.

Board Composition

Our board of directors consists of seven members. At any time that GGC Holdings owns at least a majority of our then outstanding common stock, the size of our board of directors is determined by the affirmative vote of at least a majority of our then outstanding common stock. At any time that GGC Holdings does not own at least a majority of our then outstanding common stock, the size of our board of directors is determined by the affirmative vote of our board of directors.

At any time that GGC Holdings owns at least a majority of our then outstanding common stock, vacancies are filled by the affirmative vote of at least a majority of our then outstanding common stock. At any time that GGC Holdings does not own at least a majority of our then outstanding common stock, vacancies are filled by the affirmative vote of our board of directors. The term of office for each director is until his or her successor is elected at our annual meeting or his or her death, resignation or removal, whichever is earliest to occur. Stockholders elect directors each year at our annual meeting.

Nomination of Directors by GGC Holdings

We have entered into a director designation agreement that provides for GGC Holdings to nominate designees to our board of directors. Any directors appointed pursuant to the director designation agreement may be removed at the discretion of GGC Holdings at any time with or without cause. See Certain Relationships and Related Party Transactions Director Designation Agreement.

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Committees of the Board of Directors

The Board of Directors has the following committees:

Executive Committee: This committee may exercise all of the powers of the Board of Directors, except that it may not amend the bylaws or approve or adopt, or recommend to shareholders, any action expressly required by the Delaware General Corporation Law to be submitted to shareholders for approval. Mr. Shaver is Chairman, and Messrs. Amara, Shinn and Slobodow are members.

Audit Committee: This committee is responsible for, among other matters:

- appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm;
- evaluating the independence of our independent registered public accounting firm;
- reviewing with our independent registered public accounting firm the scope and results of their audit;
- approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the SEC;
- reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls and compliance with legal and regulatory requirements;
- overseeing our internal audit function;
- overseeing our ethics and compliance function including establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters;
- reviewing and approving related person transactions; and
- overseeing our enterprise risk management program.

Mr. Kacal is Chairman, and Messrs. Bernard and Shaver are members. The committee is composed entirely of independent directors under NYSE listing standards, SEC requirements and other applicable laws, rules and regulations. Mr. Kacal is an audit committee financial expert as that term is defined in the applicable rules of the SEC, and Messrs. Bernard and Shaver are financially literate as that term is defined in the listing standards of the NYSE.

Compensation and Governance Committee: This committee is responsible for, among other matters:

reviewing key employee compensation goals, policies, plans and programs;

reviewing and providing recommendations to the Board of Directors regarding the compensation of our directors, chief executive officer and other executive officers;

reviewing and approving employment agreements and other similar arrangements between us and our executive officers;

overseeing benefits programs and policies;

administration of stock plans and other incentive compensation plans;

- assessing whether the work of executive and director compensation consultants creates conflicts of interest;
- reviewing and discussing with management the disclosure relating to executive compensation to be included in filings with the SEC;
- identifying individuals qualified to become members of our Board of Directors, consistent with criteria approved by our Board of Directors;
- overseeing the organization of our Board of Directors to discharge the board s duties and responsibilities properly and efficiently;
- identifying best practices and recommending corporate governance principles;
- developing and recommending to our Board of Directors a set of Corporate Governance Guidelines and principles applicable to us;
- overseeing management succession planning; and
- overseeing annual evaluations of the Board of Directors and its committees.

Mr. Shaver is Chairman, and Messrs. Amara and Kacal are members.

Each of the committees of the Board of Directors has adopted a charter, copies of which we maintain on our website, www.ussilica.com, as well as a copy of its Corporate Governance Guidelines. Stockholders may also request a free copy of these documents from: U.S. Silica Holdings, Inc., attn.: Investor Relations, 8490 Progress Drive, Suite 300, Frederick, Maryland 21701 (phone: (855) SILICA-7), or IR@ussilica.com.

Codes of Conduct

We expect our directors, officers and employees to act ethically at all times and acknowledge their adherence to the policies comprising our Codes of Conduct. Copies of the Code of Conduct for our Board of Directors and Code of Conduct and Ethics for our employees (including the chief executive officer, chief financial officer and corporate controller) can be found on our website. Any amendments or waivers to the Code of Conduct and Ethics applicable to the chief executive officer, chief financial officer and corporate controller can also be found in the Investor Relations section of our website. Stockholders may also request a free copy of these documents from: U.S. Silica Holdings, Inc., attn.: Investor Relations, 8490 Progress Drive, Suite 300, Frederick, Maryland 21701 (phone: (855) SILICA-7), or IR@ussilica.com.

Compensation Committee Interlocks and Insider Participation

No interlocking relationships exist between the members of our Compensation and Governance Committee and the board of directors or compensation committee of any other company.

ITEM 11. EXECUTIVE COMPENSATION

We are an emerging growth company as defined under the Jumpstart Our Business Startups (JOBS) Act. As such, we are permitted to meet the disclosure requirements of Item 402 of Regulation S-K by providing the reduced disclosure required of a smaller reporting company.

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Summary Compensation Table

The following table presents information concerning the total compensation for the last two years of (1) individuals who served as our principal executive officer during 2012 and (2) our two most highly compensated executive officers, other than our principal executive officer, who were serving as executive officers at the end of our fiscal year ended December 31, 2012 (the named executive officers). No disclosure is provided for 2011 for those persons who were not named executive officers in 2011.

Name and Principal Position	Year	Salary ($)	Bonus ($)[6]	Stock Awards ($)[7]	Option Awards ($)[8]	Non-Equity Incentive Plan Compensation ($)[9]	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)[10]	Total ($)
Bryan A. Shinn [1] *President and Chief Executive Officer*	2012	383,333		296,020		300,000		27,458	1,006,812
Brian Slobodow [2] *Former Chief Executive Officer*	2012	375,000(5)				140,625		26,246	541,871
	2011	299,760			1,326,332	235,000		68,328	1,949,420
Don Weinheimer [3] *Vice President and General Manager, Oil and Gas*	2012	140,038	150,000		705,671	148,500		6,016	1,150,225
Donald A. Merril [4] *Vice President and Chief Financial Officer*	2012	86,250	135,000		583,327	39,000		7,288	850,865

(1) Mr. Shinn became Chief Executive Officer on January 10, 2012 and became a named executive officer for the first time in 2012.

(2) Mr. Slobodow resigned as Chief Executive Officer on January 10, 2012 and became our Chief Administrative. He resigned as Chief Administrative Officer on October 8, 2012 but remained employed by us through December 31, 2012.

(3) Mr. Weinheimer joined us in July 2012. Mr. Weinheimer was entitled to an annual base salary of $330,000 in 2012.

(4) Mr. Merril joined us in October 2012. Mr. Merril was entitled to an annual base salary of $345,000 in 2012.

(5) Includes $93,750 in base salary paid to Mr. Slobodow by us after October 8, 2012 that has been reimbursed by an affiliate of Golden Gate Capital.

(6) Reflects signing bonus received upon commencement of employment. Messrs. Weinheimer and Merril are eligible to receive additional bonuses of $150,000 and $135,000, respectively, upon completing one year of employment.

(7) For 2012, this column reflects the aggregate grant date fair value of restricted stock awards granted in 2012 in accordance with FASB ASC Topic 718 and as reported in *Note M* to the audited financial statements contained in this Annual Report on Form 10-K, but assuming no forfeitures. Shares vest ratably over a four year period beginning May 6, 2013.

(8) For 2012, this column reflects the aggregate grant date fair value of stock option awards granted in 2012 in accordance with FASB ASC Topic 718 and as reported in *Note M* to the audited financial statements contained in this Annual Report on Form 10-K, but assuming no forfeitures.

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(9) For 2012, represents the performance-based cash incentive awards approved by the Compensation and Governance Committee for the 2012 performance year. For Messrs. Slobodow and Merril, the award was pro-rated for actual service during 2012. Mr. Weinheimer s participation in the performance-based cash incentive plan was extended back to January 1, 2012 in recognition of certain compensation Mr. Weinheimer forfeited upon terminating his prior employment to join us. The performance criteria for these awards are discussed in more detail below.

(10) For 2012, represents our employer contributions under its 401(k) plan, perquisites and amounts reimbursed for the payment of taxes. A breakdown of the amounts follows:

Name	Company Contributions to 401(k) Plan ($)	Perquisites ($)[b]	Tax Gross-Up ($)	Total ($)
B. Shinn	27,458			27,458
B. Slobodow	21,855[a]	4,391		26,246
D. Weinheimer	6,016			6,016
D. Merril	3,450	3,838		7,288

(a) Includes $5,148 in company contributions made after October 8, 2012 that have been reimbursed by an affiliate of Golden Gate Capital.

(b) In 2012, we paid family travel and entertainment expenses for Mr. Slobodow and living expenses to Mr. Merril prior to his relocation to Frederick, Maryland. Actual cost was the incremental cost to us of these perquisites.

Employment and Other Agreements

Bryan A. Shinn

In March 2012, we entered into a new employment agreement with Mr. Shinn, our President and Chief Executive Officer. Pursuant to the terms of the employment agreement, Mr. Shinn is entitled to an annual base salary of $400,000, subject to review and adjustment. Mr. Shinn is also eligible to earn a short-term, performance-based cash incentive payment for each year. The target annual incentive is equal to 75% of his annual base salary.

Mr. Shinn is also entitled to receive benefits in accordance with the health and welfare plans we provide to other members of our senior management. Mr. Shinn is also entitled to up to 25 days of paid time off and reimbursement for all reasonable business expenses that he incurs in the course of performing his duties and responsibilities which are consistent with our policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to our requirements with respect to reporting and documentation of such expenses.

Mr. Shinn s employment continues until the earlier of his resignation (with or without good reason), death or disability or termination by us (with or without cause). If we terminate Mr. Shinn s employment without cause or Mr. Shinn resigns for good reason, Mr. Shinn is entitled to receive severance equal to his annual base salary payable in regular installments from the date of termination through the later of (i) the twelve-month anniversary of this agreement and (ii) the twelve-month anniversary of the date of termination if Mr. Shinn has executed and delivered a general release of any and all claims arising out of or related to his employment with us and the termination of his employment. Mr. Shinn is also entitled to receive reimbursement of the then-prevailing monthly premium for COBRA healthcare coverage if he so elects.

Mr. Shinn has also agreed to customary restrictions with respect to the use of our confidential information and has agreed that all intellectual property developed or conceived by him while he is employed by us which relates to our business is our property. During the term of Mr. Shinn s employment with us and during the twelve-month period immediately thereafter, Mr. Shinn has agreed not to (i) participate (whether as an officer, director, employee or otherwise) in any businesses that compete with us, (ii) solicit or hire any of our employees and (iii) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee, distributor or other business relation of ours to cease doing business with us or in any way interfere with our relationship with such person or entity. During any period in which Mr. Shinn has breached the above restrictions, we have no obligation to pay Mr. Shinn any severance described above.

Brian Slobodow

In October 2012, Brian Slobodow, our Chief Administrative Officer, resigned as an executive officer to become an operating executive of Golden Gate Capital or one of its affiliates. To ensure a smooth transition, Mr. Slobodow continued as our employee through December 31, 2012.

In connection with Mr. Slobodow s departure, we entered into a separation and transition agreement with Mr. Slobodow pursuant to which Mr. Slobodow (1) continued to receive his current compensation and benefits through December 31, 2012 (but all such amounts were reimbursed to us by an affiliate of Golden Gate Capital) and (2) received a payout under our performance-based cash incentive program for 2012, prorated to reflect his service to us as an executive officer through October 7, 2012. In consideration for these payments, Mr. Slobodow (a) reaffirmed his confidentiality, non-disparagement, non-competition and non-solicitation obligations to us and (b) agreed to terminate his then existing employment agreement.

Mr. Slobodow has also agreed to customary restrictions with respect to the use of our confidential information and has agreed that all intellectual property developed or conceived by Mr. Slobodow while was employed by us which relates to our business is our property. During the term of Mr. Slobodow s employment with us and during the six-month period immediately thereafter, Mr. Slobodow has agreed not to (1) participate (whether as an officer, director, employee or otherwise) in any businesses that compete with us, (2) solicit or hire any of our employees and (3) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee, distributor or other business relation of us to cease doing business with us or in any way interfere with our relationship with such person or entity. During any period in which Mr. Slobodow has breached the above restrictions, we have no obligation to make the payments described above.

Mr. Slobodow continues to serve on our Board of Directors until such time as we determine not to re-nominate him, or earlier if Golden Gate Capital requests him to resign. In lieu of receiving an annual cash retainer in connection with his continued service on the Board of Directors, Mr. Slobodow has retained the equity awards that he was granted during his service as our employee, and all remaining unvested awards as of January 1, 2013 (options to purchase 89,992 shares at a weighted average exercise price of $14.11) now vest equally over the three year time period beginning January 1, 2013.

Other Named Executive Officers

None of our other named executive officers have an employment or change in control agreement. All other named executive officers are eligible for severance benefits under the same severance plan as our other salaried employees as described below.

Performance-Based Cash Incentives

We pay performance-based cash incentives in order to align the compensation of our employees, including our named executive officers, with our short-term operational and performance goals and to provide near-term rewards for employees to meet these goals. Our short-term, performance-based cash incentive plan provides for incentive payments for each fiscal year. For 2012, these incentive payments were based on the attainment of both pre-established objective financial goals and individual personal performance objectives. The financial goal for 2012 was achievement of an Adjusted EBITDA target, as further adjusted to eliminate the effects of

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(i) extraordinary, unusual or non-recurring items, (ii) changes in applicable laws, regulations or accounting principles, (iii) reorganization, merger, acquisition, divestiture, consolidation, spin-off, combination, liquidation, dissolution or other similar corporate transactions, (iv) payouts of 2012 performance-based cash incentives, (v) the opening of our new resin-coated sand facility in Rochelle, Illinois and (vi) such other items as may be determined by the Chairman of the Compensation and Governance Committee. After eliminating for these effects, target Adjusted EBITDA for 2012 was $150 million. Adjusted EBITDA was used because it is a key metric used by management and the Board of Directors to assess our operating performance. Upon attaining the 2012 Adjusted EBITDA target, each participant in the performance-based cash incentive plan was eligible to receive a payout equal to a target percentage of base salary, which, in the case of Messrs. Slobodow and Merril, was pro-rated for actual service in 2012. The following table shows each named executive officer s performance-based cash incentive minimum, target and maximum payouts as a percentage of base salary for 2012 as of December 31, 2012.

	Percentage of Base Salary		
Name	**Minimum Payout**	**Target Payout**	**Maximum Payout**
Bryan A. Shinn	0%	75%	150%
Brian Slobodow	0%	50%	100%
Don Weinheimer	0%	45%	90%
Donald A. Merril	0%	45%	90%

The performance-based cash incentive award pool increased 1.5% for each $1 million by which 2012 Adjusted EBITDA exceeded $150 million up to $165 million and by 3.5% for each $1 million by which 2012 Adjusted EBITDA exceeded $165 million with additional, discretionary individual payouts from the pool determined based on individual performance. Individual personal performance objectives were designed to coincide with the achievement of our overall short-term operational and performance goals, consisting of individual goals relating to (1) rapidly growing our oil and gas proppants business, (2) transforming our industrial and specialty products business, (3) building best in class capabilities and (4) continuing our cultural transformation. No defined weights were established for any of the individual performance objectives. Rather, each named executive officer was to be evaluated on his performance in comparison to his respective defined objectives taken as a whole.

Actual Adjusted EBITDA for 2012 was $152.3 million, resulting in an aggregate award pool of $4.2 million. Messrs. Shinn, Slobodow, Weinheimer and Merril each received a payout equal to his respective target percentage of base salary, which, in the case of Messrs. Slobodow and Merril, was pro-rated for actual service in 2012. None of the named executive officers received a payout from the discretionary pool. Actual payouts under the performance-based cash incentive plan to each of the named executive officers are disclosed in the Non-Equity Incentive Compensation Plan column of the Summary Compensation Table.

GGC Holdings Class C and Class D Membership Interests

In July 2009, Mr. Shinn was granted Class C Units and Class D Units in GGC Holdings. This grant was intended to permit Mr. Shinn to share in the increase in our value and to focus his efforts on our long-term results. Mr. Shinn owns 37% of the Class C Units and 29% of the Class D Units. The remaining Class C Units and Class D Units are held by our former CEO and former CFO. The Class C Units and the Class D Units were allocated based on the individual s relative position and responsibilities. The Class C Units vest ratably over five years, with vesting occurring on November 25 of each year. The Class D Units were fully vested upon grant. The Class C Units and the Class D Units may not be transferred without the prior written consent of Golden Gate Capital unless (1) all or substantially all of the outstanding units are being sold to an independent third party or (2) the transfer is to a spouse, lineal descendent, sibling, parent, heir, executor or similar person or entity. See Security Ownership of Certain Beneficial Owners for information on the holdings of Mr. Shinn in GGC Holdings.

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Outstanding Equity Awards at Fiscal Year-End

The market values in the table below are based on the closing price of our common stock on December 31, 2012 of $16.73 per share.

Outstanding Equity Awards at December 31, 2012

	Option Awards					Stock Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock that Have Not Vested (#)(1)**	**Market Value of Shares or Units of Stock that Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)**	**Equity Incentive Plan Awards: Market Value of Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)**
B. Shinn						19,000	317,870		
B. Slobodow (2)	114,341	38,114		10.33	7/12/2021				
	155,304	51,768		16.90	7/12/2021				
D. Weinheimer (3)		150,000		10.57	8/15/2022				
D. Merril (4)		100,000		13.17	10/15/2022				

(1) Service-based restricted stock units were granted on November 6, 2012 and vest ratably over four years beginning May 6, 2013.

(2) Options were granted on July 12, 2011. In connection with Mr. Slobodow s resignation as an executive officer of U.S. Silica, and in lieu of receiving an annual cash retainer in connection with his continued service on the Board of Directors, the vesting schedule for these options was modified and the unvested option awards as of January 1, 2013 now vest equally over the three year time period beginning January 1, 2013, subject to Mr. Slobodow s continued service on the Board of Directors.

(3) Option was granted on August 15, 2012. One-quarter of the total number of shares subject to the option vest annually beginning on the first anniversary, August 15, 2013, and continuing through the fourth anniversary, August 15, 2016, subject to Mr. Weinheimer s continued service to us on each such vesting date.

(4) Option was granted on October 15, 2012. One-quarter of the total number of shares subject to the option vest annually beginning on the first anniversary, October 15, 2013, and continuing through the fourth anniversary, October 15, 2016, subject to Mr. Merril s continued service to us on each such vesting date.

Benefit Plan Provisions Related to Employment Termination or Change in Control

Retirement Plans

We sponsor a 401(k) plan covering substantially all eligible employees. Employee contributions to the 401(k) plan are voluntary. We contribute an amount equal to 25% of a covered employee s eligible contribution up to 8% of a participant s salary. We also contribute from 0% to 75% of a covered employee s eligible contribution up to 8%, if applicable, based on our profits from the previous fiscal year as an incentive to encourage our employees to participate in the 401(k) plan. The contributions based on our profits are paid during the Spring of the following fiscal year. In the case of both the matching program and the profit sharing program, our contributions vest over a period of five years. Finally, we also provide a 4% defined contribution of monthly basic income into a participant s 401(k) account if that participant does not participate in our defined pension plan. These contributions vest each year. Contributions by participants are limited to their annual tax deferred contribution limit as allowed by the Internal Revenue Service.

None of our named executive officers participate in or have accounts balances in any qualified or nonqualified defined benefit plans sponsored by us. Either our Board of Directors or our Compensation and Governance Committee may elect to adopt qualified or nonqualified benefit plans in the future if it determines that doing so is in our best interest.

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Deferred Compensation

None of our named executive officers participate in or have account balances in our unfunded, deferred compensation plan.

Severance Plan

Mr. Shinn s severance amount is calculated pursuant to the terms of his employment agreement as disclosed in *Employment and Other Agreements*.

Messrs. Weinheimer and Merril are subject to our severance policy for salaried personnel. Such named executive officers are entitled to the same payments and benefits as all other salaried personnel. Pursuant to this policy, salaried employees who are terminated due to (1) force reductions caused by lack of business or (2) job eliminations caused by downsizing or restructuring are entitled to both regular and special severance pay. Regular severance pay consists of pay based on such named executive officer s base salary as in effect immediately prior to the termination of his employment for one week for each complete year of employment with the company. There is no proration of severance pay for partial years of employment. Minimum regular severance pay is five weeks. Special severance pay is available to employees eligible for regular severance pay who sign a standard release agreement. Special severance pay consists of pay based on such named executive officer s base salary as in effect immediately prior to the termination of his employment for one week for each complete year of employment with the company. Minimum special severance pay is five weeks. When combining regular severance pay and special severance pay, maximum severance pay is limited to fifty-two weeks.

2011 Incentive Compensation Plan

Stock Options. In the event of voluntary termination or involuntary termination without cause, unvested options would be forfeited and vested options are exercisable until the earlier of (1) 90 days following termination and (2) the expiration of the stated term of the options. In the event of involuntary termination for cause, all vested and unvested options would terminate and expire automatically. In the event of death or disability, unvested options would vest to the same extent as if the participant had been employed by us on the first vesting date to occur after such death or disability. All vested options will remain exercisable until the earlier of (1) one year from the date of death or disability and (2) the expiration of the stated term of the options. In the event of a change in control where the consideration paid is all cash, vesting would accelerate and unvested options would become exercisable. Any options that are not exercised as of the occurrence of a change in control will terminate following the change in control.

Service-Based Restricted Stock. Subject to the Compensation and Governance Committee s discretion to accelerate vesting, all unvested shares of restricted stock will be forfeited upon a participant s termination for any reason. Unless vesting is accelerated by the Committee, in the event of a change of control, unvested restricted stock will not vest and, at the Committee s discretion, either will be (1) continued or assumed or (2) purchased for an amount of cash equal to the highest price paid for shares of our common stock in the change in control transaction.

Under our 2011 Incentive Compensation Plan, a change in control is deemed to have occurred upon:

- a change in the composition of the Board of Directors from the beginning of any period of two consecutive years such that the existing Board or persons who were approved by two-thirds of directors or their successors on the existing Board no longer constitute a majority at the end of such period;

- the acquisition by a person of 50% or more of our voting securities;

- the completion of certain mergers, consolidations, share exchanges or similar transactions involving us;

the completion of the sale of all or substantially all of our assets; or

our liquidation or dissolution.

Director Compensation

We did not pay Messrs. Shinn and Slobodow, who also were our employees for all or some of 2012, for their service as directors. In addition, Messrs. Amara and Ashe, who are managing directors of Golden Gate Capital, did not receive any compensation from us for their service as directors.

In 2012, Messrs. Bernard and Kacal received the following compensation:

$70,000 annual retainer, an additional $35,000 annual retainer for Mr. Kacal for serving as the audit committee chairman and an additional $10,000 annual retainer for each other committee on which the director served, each paid in quarterly installments and pro-rated to reflect the director s service on the Board of Directors in 2012,

a stock option award to purchase 10,000 shares of our common stock, which vests quarterly over the 3 years following the date of grant, and

reasonable travel expenses to attend meetings.

In March 2012, the Board of Directors approved an annual retainer of $120,000 for Mr. Shaver for his service as Chairman of the Board, Chairman of the Compensation and Governance Committee and a member of the Audit Committee, payable in arrears in quarterly installments beginning April 1, 2012.

The following table sets forth a summary of the 2012 director compensation:

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Peter Bernard (2)	53,333		80,909(4)				134,242
William Kacal (3)	105,417		75,480(4)				180,897
Charles Shaver	120,000						120,000

(1) For 2012, this column reflects the aggregate grant date fair value of stock option awards granted in 2012 in accordance with FASB ASC Topic 718 and as reported in *Note M* of the audited financial statements contained in this Annual Report on Form 10-K, but assuming no forfeitures.

(2) Mr. Bernard joined the Board of Directors on May 1, 2012.

(3) Mr. Kacal joined the Board of Directors on January 31, 2012.

(4) Options to purchase 10,000 shares of our common stock were outstanding as of December 31, 2012.

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

The following table sets forth information as of February 22, 2013 regarding the beneficial ownership of our common stock:

each person or group who is known by us to own beneficially more than 5% of our outstanding common stock;

each of our named executive officers;

each of our directors; and

all of our executive officers and directors as a group.

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Beneficial ownership for the purposes of the following table is determined in accordance with the rules and regulations of the SEC. These rules generally provide that a person is the beneficial owner of securities if such person has or shares the power to vote or direct the voting thereof, or to dispose or direct the disposition thereof or has the right to acquire such powers within 60 days. Common stock subject to options that are currently exercisable or exercisable within 60 days of February 22, 2013 are deemed to be outstanding and beneficially owned by the person holding the options. These shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on 52,936,821 shares of common stock outstanding. Except as disclosed in the footnotes to the following table and subject to applicable community property laws, we believe that each shareholder identified in the table possesses sole voting and investment power over all shares of common stock shown as beneficially owned by the stockholder. Unless otherwise indicated in the following table or footnotes, the address for each beneficial owner is c/o U.S. Silica Holdings, Inc., 8490 Progress Drive, Suite 300, Frederick, Maryland 21701.

Name	Shares Beneficially Owned (#)[3]	Percent Stock Outstanding (%)
5% Stockholders:		
GGC USS Holdings, LLC[1]	41,176,471	77.8
Named Executive Officers and Directors:		
Rajeev Amara[1]	*	*
Prescott H. Ashe[1]	*	*
Peter Bernard	2,500	*
William J. Kacal	32,167	*
Donald A. Merril		
Charles Shaver[1]	*	*
Bryan A. Shinn[1]	19,000	*
Brian Slobodow	269,645	*
Don Weinheimer		
All Current Directors and Executive Officers as a Group (15 persons)[2]	484,586	*

(1) Interests in GGC Holdings are held directly or indirectly by a private investor group, including funds managed by Golden Gate Capital, and Messrs. Shaver and Shinn. Although Messrs. Shaver and Shinn do not have voting or dispositive power over securities owned by GGC Holdings, each owns interests of GGC Holdings with varying rights to participate in distributions by GGC Holdings. The following table sets forth information as of February 22, 2013 regarding the beneficial ownership of our common stock if GGC Holdings were to distribute our common stock to its members. The percentages below are calculated using the closing price of our common stock on February 22, 2013.

Name	Percent Stock Outstanding (%)
Funds managed by Golden Gate Capital (a)	72.6
Charles Shaver	*
Bryan A. Shinn	*
Others	4.2

(a) Each of Messrs. Amara and Ashe is a managing director of Golden Gate Capital, and each may be deemed to be the beneficial owner of shares indirectly beneficially owned by the funds managed by Golden Gate Capital. Each of the above persons and entities, other than GGC Holdings, disclaims membership in any group and disclaims beneficial ownership of these securities, except to the extent of his or its pecuniary interest therein. The principal office address of GGC Holdings is c/o Golden Gate Private Equity, Inc., One Embarcadero Center, 39th Floor, San Francisco, California 94111.

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(2) Does not include any shares of common stock Messrs. Amara, Ashe, Shaver and Shinn may be deemed to indirectly beneficially own through interests held by funds managed by Golden Gate Capital in GGC Holdings. See note 1 above.

(3) Includes the following shares that may be acquired upon exercise of stock options that are exercisable on or within 60 days after February 22, 2013: Mr. Bernard, 2,500 shares; Mr. Kacal, 4,167 shares; Mr. Merril, 0 shares; Mr. Shaver, 0 shares; Mr. Shinn, 0 shares; Mr. Slobodow, 269,645 shares; Mr. Weinheimer, 0 shares; and all current directors and executive officers as a group, 381,586 shares.

* Represents beneficial ownership of less than one percent (1%) of our common stock.

The information required by Item 201(d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans is furnished as a separate item captioned Securities Authorized for Issuance Under Equity Compensation Plans included in Part II, Item 5 of this Annual Report on Form 10-K.

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

Transactions with Golden Gate Capital

As disclosed in Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, an affiliate of Golden Gate Capital beneficially owns more than five percent of our voting securities.

Advisory Agreement

On November 25, 2008, Golden Gate Capital acquired U.S. Silica Company from Harbinger Capital pursuant to an Acquisition Agreement, dated June 27, 2008 (the Golden Gate Capital Acquisition). In connection with the Golden Gate Capital Acquisition, we entered into an Advisory Agreement with Golden Gate Capital (the Advisory Agreement) whereby Golden Gate Capital agreed to provide business and organizational strategy and financial and advisory services. Such services have included support and assistance to management with respect to negotiating and analyzing acquisitions and divestitures, negotiating and analyzing financing alternatives, preparing financial projections, monitoring compliance with financing agreements, marketing functions and searching for and hiring management personnel.

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

Advisory fees paid to Golden Gate Capital under the Advisory Agreement in 2012, 2011 and 2010 were $0, $1.3 million and $1.3 million, respectively. On February 6, 2012, we paid $8.0 million to terminate the Advisory Agreement.

Director Designation Agreement

On January 31, 2012, we entered into a director designation agreement with GGC Holdings that provides for the rights of GGC Holdings to nominate designees to our board of directors. The director designation agreement provides that, for so long as GGC Holdings has nomination rights under the agreement, we may not take any action, including making or recommending any amendment to our certificate of incorporation or bylaws, that (1) would decrease the size of our board of directors if such decrease would cause us to fail to satisfy the

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requirement under the NYSE corporate governance standards that a majority of our board of directors consist of independent directors without the resignation of a director nominated by GGC Holdings or (2) otherwise could reasonably be expected to adversely affect GGC Holdings rights under the director designation agreement, in each case without the consent of GGC Holdings.

GGC Holdings has the right to nominate individuals to our board of directors at each meeting of stockholders where directors are to be elected and, subject to limited exceptions, we will include in the slate of nominees recommended to our stockholders for election as directors the number of individuals designated by GGC Holdings as follows:

- prior to the earlier of (1) one year after GGC Holdings owns less than 50% of our outstanding common stock or (2) GGC Holdings owns less than 35% of our outstanding common stock, such number of individuals as are designated by GGC Holdings, so long as we are able to comply with the requirement under the NYSE corporate governance standards that a majority of our board of directors consist of independent directors at such time as GGC Holdings owns less than 50% of our outstanding common stock; and

- during such time as GGC Holdings no longer has the unfettered right to nominate individuals to our board of directors but while GGC Holdings still owns at least 10% of our outstanding common stock, such number of individuals designated by GGC Holdings in relative proportion to GGC Holdings then current ownership (rounded up), so long as we are able to comply with the requirement under the NYSE corporate governance standards that a majority of our board of directors consist of independent directors at such time as GGC Holdings owns less than 50% of our outstanding common stock.

The director designation agreement also provides that, in the event of a vacancy on our board of directors arising through the death, resignation or removal of a director nominated by GGC Holdings, such vacancy may be filled by our board of directors only with a director nominated by GGC Holdings. Our certificate of incorporation provides that any director nominated by GGC Holdings may, at its discretion, be removed at any time with or without cause.

Registration Rights Agreement

On January 31, 2012, GGC Holdings entered into a registration rights agreement with us. Pursuant to the registration rights agreement, GGC Holdings has the right to request a long-form registration on not more than four occasions and a short-form registration on an unlimited number of occasions. In addition, GGC Holdings has piggyback registration rights in connection with offerings initiated by us.

The registration rights are subject to customary cutbacks and other limitations. We are able to postpone for a reasonable period of time, which may not exceed 120 days, the filing of a registration statement that Golden Gate Capital requests that we file pursuant to the registration rights agreement if our board of directors determines that the filing of the registration statement will have a material adverse effect on our plan to engage in certain business transactions.

We are required to pay all fees and expenses incurred in connection with the registrations, except that we are not required to pay for any underwriting discounts or commissions or transfer taxes relating to the transfer of securities by any persons other than us. We are also subject to customary cross-indemnification and contribution arrangements with respect to the registration of our common stock. GGC Holdings is required to comply with any lock-up restrictions that may be reasonably requested by the managing underwriters of an offering, regardless of whether its securities are included in a registration.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements provide the executive officers and directors with contractual rights to indemnification, expense advancement and reimbursement, to the fullest extent permitted under Delaware law. We have also entered into an indemnification priority agreement with Golden Gate Capital to clarify the priority of advancement of expenses and indemnification obligations among us, our subsidiaries and any of our directors appointed by Golden Gate Capital or its affiliates and other related matters.

There is no pending litigation or proceeding naming any of our directors or officers in which indemnification is being sought, and we are not aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

Policies for Approval of Related Person Transactions

We have adopted a written policy with respect to related party transactions. Under our related person transaction policy, a Related Person Transaction is any transaction, arrangement or relationship between us or any of our subsidiaries and a Related Person not including any transactions involving $120,000 or less when aggregated with all similar transactions. A Related Person is any of our executive officers, directors or director nominees, any stockholder beneficially owning in excess of 5% of our stock or securities exchangeable for our stock, any immediate family member of any of the foregoing persons, and any firm, corporation or other entity in which any of the foregoing persons is an executive officer, a partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest in such entity.

Pursuant to our Related Person Transaction policy, any Related Person Transaction must be approved or ratified by a majority of the disinterested directors on the board of directors or a designated committee thereof consisting solely of disinterested directors. In approving any Related Person Transaction, the board of directors or the committee must determine that the transaction is on terms no less favorable to us in the aggregate than those generally available to an unaffiliated third party under similar circumstances.

Transactions with Related Persons, though not classified as Related Person Transactions by our policy and thus not subject to its review and approval requirements, may still need to be disclosed if required by the applicable securities laws, rules and regulations.

Other than compensation agreements and other arrangements which are described under *Executive Compensation* and the transactions described above, since January 1, 2012, there has not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed $120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities or any member of the immediate family of the foregoing persons had or will have a direct or indirect material interest.

Director Independence

GGC Holdings continues to control a majority of the voting power of our outstanding common stock. As a result, we are a controlled company under the NYSE listing standards and a majority of our directors are not required to be independent. Nonetheless, the Board of Directors does assess the independence of its members under the NYSE listing standards. For a director to be considered independent, the Board of Directors must affirmatively determine that such director has no material relationship with us. When assessing the materiality of a director s relationship with us, the Board of Directors considers the issue from both the standpoint of the director and from that of persons and organizations with whom or with which the director has an affiliation. The Board of Directors reviews the standards adopted by the NYSE to assist it in determining if a director is independent. A director shall be deemed to have a material relationship with us and shall not be deemed to be an independent director if:

- the director is or has been our employee or an employee of any of our affiliated entities at any time since January 1, 2010, or an immediate family member of the director is or has been an executive officer of us or any of our affiliated entities at any time since January 1, 2010; provided that

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employment of a director as our interim chairman of the Board of Directors or chief executive officer or other executive officer shall not disqualify such director from being considered independent following termination of that employment;

the director or an immediate family member is a current partner of a firm that is our internal or external auditor;

the director is a current employee of a firm that is our internal or external auditor;

the director has an immediate family member who is a current employee of a firm that is our internal or external auditor and personally works on our audit;

the director or an immediate family member was at any time since January 1, 2010 (but is no longer) a partner or employee of a firm that is our internal or external auditor and personally worked on our audit within that time;

the director or an immediate family member, is, or has been at any time since January 1, 2010, employed as an executive officer of another company where any of our present executive officers at the same time serves or served on that company s compensation committee;

the director is a current executive officer or employee, or an immediate family member is a current executive officer, of another company that has made payments to, or received payments from (other than contributions to tax exempt organizations), us for property or services in an amount which, in any of the other company s last three fiscal years, exceeds the greater of $1.0 million or 2% of such other company s consolidated gross revenues; or

the director has received, or has an immediate family member who has received, during any twelve-month period since January 1, 2010, more than $120,000 in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service); provided, however, that (i) compensation received by a director for former service as an interim chairman or chief executive officer or other executive officer need not be considered and (ii) compensation received by an immediate family member for service as our employee (other than an executive officer) need not be considered.

The Board of Directors has determined that each of Messrs. Bernard, Kacal and Shaver has no material relationship with us and is independent under NYSE listing standards. The Board of Directors has determined that Messrs. Amara and Ashe, who are managing directors of Golden Gate Capital, Mr. Shinn, who is our President and Chief Executive Officer, and Mr. Slobodow, who was an executive officer of U.S. Silica from March 2011 to October 2012, have material relationships with us. We have entered into a number of material transactions with Golden Gate Capital and affiliates as described above.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Management is responsible for our internal controls and the financial reporting process. The independent registered public accounting firm, Grant Thornton LLP, is responsible for performing independent audits of the our Consolidated Financial Statements and issuing an opinion on the conformity of those audited financial statements with United States generally accepted accounting principles. The Audit Committee monitors our financial reporting process and reports to the Board of Directors on its findings.

Prior to us becoming a public company, the Board of Directors pre-approved services to be performed by Grant Thornton LLP. In connection with our initial public offering and the formation of our Audit Committee, we adopted a policy for pre-approving the services and associated fees of our independent registered public accounting firm. Under this policy, the Audit Committee must pre-approve all services and associated fees provided to us by our independent registered public accounting firm, with certain exceptions described in the policy. All Grant Thornton LLP services and fees in fiscal 2011 were pre-approved by the Board of Directors and all such services and fees in fiscal 2012 were pre-approved by the Audit Committee.

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The following table presents fees billed for professional audit services and other services rendered to us by Grant Thornton LLP for the years ended December 31, 2012 and 2011.

	2012	2011
Audit Fees	$ 445,945	$ 198,476
Audit-Related Fees[1]	104,775	682,669
Tax Fees[2]		4,881
All Other Fees		
Total	$ 550,720	$ 886,026

(1) Represents fees related to our initial public offering.
(2) Represents fees related to tax compliance consultation.

The Audit Committee has established procedures for engagement of Grant Thornton LLP to perform services other than audit, review and attest services. In order to safeguard the independence of Grant Thornton LLP, for each engagement to perform such non-audit service, (a) management and Grant Thornton LLP affirm to the Audit Committee that the proposed non-audit service is not prohibited by applicable laws, rules or regulations; (b) management describes the reasons for hiring Grant Thornton LLP to perform the services; and (c) Grant Thornton LLP affirms to the Audit Committee that it is qualified to perform the services. The Audit Committee has delegated to its Chair its authority to pre-approve such services in limited circumstances, and any such pre-approvals are reported to the Audit Committee at its next regular meeting. All services provided by Grant Thornton LLP in 2012 were audit or audit-related and are permissible under applicable laws, rules and regulations and were pre-approved by the Audit Committee in accordance with its procedures. In 2012, the Audit Committee considered the amount of non-audit services provided by Grant Thornton LLP in assessing its independence.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this report:

a) Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of Grant Thornton LLP, dated February 26, 2013, are included as part of Item 8, Financial Statements and Supplementary Data.

b) Consolidated Financial Statement Schedule

All financial statement schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or the notes thereto and included in this Annual Report on Form 10-K.

c) Exhibits required to be filed by Item 601 of Regulation S-K

The information called for by this Item is incorporated herein by reference from the Exhibit Index included in this Annual Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 26th day of February, 2013.

U.S. Silica Holdings, Inc.

/s/ BRYAN A. SHINN
Name: Bryan A. Shinn
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ BRYAN A. SHINN	President, Chief Executive Officer and Director	February 26, 2013
Bryan A. Shinn	(Principal Executive Officer)	
/s/ DONALD A. MERRIL	Vice President, Chief Financial Officer	February 26, 2013
Donald A. Merril	(Principal Financial and Accounting Officer)	
/s/ CHARLES SHAVER	Chairman of the Board	February 26, 2013
Charles Shaver		
/s/ RAJEEV AMARA	Director	February 26, 2013
Rajeev Amara		
/s/ PRESCOTT H. ASHE	Director	February 26, 2013
Prescott H. Ashe		
/s/ PETER BERNARD	Director	February 26, 2013
Peter Bernard		
/s/ WILLIAM J. KACAL	Director	February 26, 2013
William J. Kacal		
/s/ BRIAN SLOBODOW	Director	February 26, 2013
Brian Slobodow		

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
3.1	Second Amended and Restated Certificate of Incorporation of U.S. Silica Holdings, Inc., effective January 31, 2012.	8-K	001-35416	3.1	February 6, 2012
3.2	Second Amended and Restated Bylaws of U.S. Silica Holdings, Inc., effective January 31, 2012.	8-K	001-35416	3.2	February 6, 2012
4.1	Specimen Common Stock Certificate.	S-1/A	333-175636	4.1	December 7, 2011
4.2	Registration Rights Agreement, dated January 31, 2012, by and among GGC USS Holdings, LLC and the members listed on the schedules thereto.	8-K	001-35416	4.2	February 6, 2012
10.1	ABL Loan and Security Agreement, dated as of August 9, 2007, by and among Wachovia Bank, National Association in its capacity as agent for the Lenders, the parties to the agreement as lenders, U.S. Silica Company, Hourglass Holdings, LLC, the subsidiaries of U.S. Silica Company from time to time party to the agreement as borrowers and certain subsidiaries of USS Holdings, Inc. from time to time party to the agreements as Guarantors.	S-1	333-175636	10.1	July 18, 2011
10.2	Amendment No. 1 and Consent to Loan and Security Agreement, dated as of November 25, 2008.	S-1	333-175636	10.2	July 18, 2011
10.3	Amendment No. 2 to Loan and Security Agreement, dated as of May 7, 2010.	S-1	333-175636	10.3	July 18, 2011
10.4	Amendment No. 3 to Loan and Security Agreement, dated as of June 8, 2011.	S-1	333-175636	10.4	July 18, 2011
10.5	Amendment No. 4 to Loan and Security Agreement, dated as of January 31, 2012.	10-K	0001-35416	10.5	March 20, 2012
10.6*	Amendment No. 5 to Loan and Security Agreement, dated March 30, 2012.				
10.7	Amendment No. 6 to Loan and Security Agreement, dated March 30, 2012.	8-K	0001-35416	10.1	January 4, 2013
10.8	Second Amended and Restated Credit Agreement, dated as of June 8, 2011, by and among USS Holdings, Inc. as Parent, U.S. Silica Company as Company, the Subsidiary Guarantors listed therein as Subsidiary Guarantors, the Lenders listed therein as Lenders and BNP Paribas as Sole Lead Arranger, Sole Book Runner and Administrative Agent.	S-1	333-175636	10.5	July 18, 2011

10.9	Amendment No. 1 to Second Amendment and Restated Credit Agreement, dated as of January 27, 2012.	10-K	001-35416	10.7	March 20, 2012
10.10	ABL/Term Loan Intercreditor Agreement, dated as of November 25, 2008, by an among GGC USS Acquisition Sub, Inc., GGC USS Borrower Co., Inc., U.S. Silica Company, USS Holdings, Inc., BMAC Holdings, Inc., Better Minerals & Aggregates Company, BMAC Services Co., Inc., The Fulton Land and Timber Company, George F. Pettinos, LLC, Pennsylvania Glass Sand Corporation and Ottawa Silica Company as Grantors, Wachovia Bank, National Association as the ABL Agent and BNP Paribas as Term Loan Agent.	S-1	333-175636	10.6	July 18, 2011
10.11	Reaffirmation of ABL/Term Loan Intercreditor Agreement, dated as of June 8, 2011.	S-1	333-175636	10.7	July 18, 2011
10.12	Amendment No. 1 to Subordination Agreement, dated as of May 7, 2010.	S-1	333-175636	10.10	July 18, 2011
10.13+	Employment Agreement, dated as of March 22, 2012, by and among U.S. Silica Company and Bryan A. Shinn.	8-K	001-35416	10.11	March 22, 2012
10.14+	Consulting Agreement, dated as of April 1, 2011, by and among U.S. Silica Company and John A. Ulizio.	S-1	333-175636	10.12	July 18, 2011
10.15+	Separation and Transition Agreement, dated October 1, 2012, by and between U.S. Silica Holdings, Inc., U.S. Silica Company and Brian Slobodow	8-K	001-35416	10.2	October 1, 2012
10.16+	2011 Incentive Compensation Plan.	S-1/A	333-175636	10.14	August 29, 2011
10.17+	Form of Incentive Stock Option Agreement.	S-1/A	333-175636	10.15	August 29, 2011
10.18+	Form of Restricted Stock Agreement.	S-1/A	333-175636	10.16	August 29, 2011
10.19+	Form of Nonqualified Stock Option Agreement.	S-1/A	333-175636	10.17	August 29, 2011
10.20+	Form of Stock Appreciation Rights Agreement.	S-1/A	333-175636	10.18	August 29, 2011
10.21+	Form of Restricted Stock Unit Agreement.	S-1/A	333-175636	10.19	August 29, 2011
10.22	Form of Indemnification Agreement	S-1/A	333-175636	10.20	December 29, 2011
10.23	Form of Letter Agreement by and among Golden Gate Private Equity, Inc. and U.S. Silica Holdings, Inc.	S-1/A	333-175636	10.21	December 29, 2011
10.24	Form of Director Designation Agreement by and among U.S. Silica Holdings, Inc. and GGC USS Holdings, LLC.	8-K	001-35416	4.1	February 6, 2012

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10.25+	Consulting Agreement, effective as of January 1, 2013, by and between U.S. Silica Company and William A. White	8-K	001-35416	10.1	October 1, 2012
10.26+	Letter Agreement, dated as of December 27, 2011, by and between William J. Kacal and U.S. Silica Holdings, Inc.	S-1/A	333-175636	10.24	December 29, 2011
10.27+	Separation and General Release Agreement, dated April 16, 2012, by and between U.S. Silica Company and R. Dale Lynch	8-K/A	001-35416	10.1	April 20, 2012
10.28+	Letter Agreement, dated April 27, 2012, by and between with Peter Bernard and U.S. Silica Holdings, Inc.	8-K	001-35416	10.1	May 1, 2012
21.1*	List of subsidiaries of U.S. Silica Holdings, Inc.				
23.1*	Consent of Independent Registered Public Accounting Firm.				
31.1 *	Rule 13a-14(a)/15(d)-14(a) Certification by Bryan A. Shinn, Chief Executive Officer.				
31.2 *	Rule 13a-14(a)/15(d)-14(a) Certification by Donald A. Merril, Chief Financial Officer.				
32.1 *	Section 1350 Certification by Bryan A. Shinn, Chief Executive Officer.				
32.2 *	Section 1350 Certification by Donald A. Merril, Chief Financial Officer.				
95.1*	Mine Safety Disclosure				
99.1*	Consent of The Freedonia Group, Inc.				
101*	101.INS XBRL Instance				
	101.SCH XBRL Taxonomy Extension Schema				
	101.CAL XBRL Taxonomy Extension Calculation				
	101.LAB XBRL Taxonomy Extension Labels				
	101.PRE XBRL Taxonomy Extension Presentation				
	101.DEF XBRL Taxonomy Extension Definition				

\+ Management contract or compensatory plan/arrangement
* Filed herewith

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