Hi-Crush Partners LP
Form 10-Q
November 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2014
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File Number: 001-35630

Hi-Crush Partners LP
(Exact name of registrant as specified in its charter)

Delaware	90-0840530
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Three Riverway, Suite 1550 Houston, Texas	77056
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (713) 960-4777

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
There were 23,312,075 common units and 13,640,351 subordinated units outstanding on October 31, 2014.

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PART I—FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS.

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HI-CRUSH PARTNERS LP
Condensed Consolidated Balance Sheets
(In thousands, except unit amounts)
(Unaudited)

	September 30, 2014	December 31, 2013[a]
Assets		
Current assets:		
Cash	$20,625	$20,608
Restricted cash	690	690
Accounts receivable	58,949	37,442
Inventories	22,385	22,418
Prepaid expenses and other current assets	2,600	1,625
Total current assets	105,249	82,783
Property, plant and equipment, net	217,324	195,834
Goodwill and intangible assets, net	67,551	71,936
Other assets	12,596	3,808
Total assets	$402,720	$354,361
Liabilities, Equity and Partners’ Capital		
Current liabilities:		
Accounts payable	$15,850	$10,108
Accrued and other current liabilities	14,800	7,669
Due to sponsor	6,712	10,352
Current portion of long-term debt	2,000	—
Total current liabilities	39,362	28,129
Long-term debt	195,118	138,250
Asset retirement obligation	4,812	4,628
Total liabilities	239,292	171,007
Commitments and contingencies		
Equity and partners’ capital:		
General partner interest	—	—
Limited partner interests, 36,952,426 and 28,865,171 units outstanding, respectively	161,200	138,580
Class B units, zero and 3,750,000 units outstanding, respectively	—	9,543
Total partners’ capital	161,200	148,123
Non-controlling interest	2,228	35,231
Total equity and partners' capital	163,428	183,354
Total liabilities, equity and partners’ capital	$402,720	$354,361

[a] Financial information has been recast to include the financial position and results attributable to Hi-Crush Augusta LLC. See Note 8.
See Notes to Unaudited Condensed Consolidated Financial Statements.

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HI-CRUSH PARTNERS LP
Condensed Consolidated Statement of Operations
(In thousands, except unit and per unit amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013[(a)]	2014[(a)]	2013[(a)]
Revenues	$102,316	$53,158	$255,618	$114,995
Cost of goods sold (including depreciation, depletion and amortization)	55,640	31,868	143,665	58,613
Gross profit	46,676	21,290	111,953	56,382
Operating costs and expenses:				
General and administrative expenses	6,183	5,543	19,287	13,322
Exploration expense	—	—	—	56
Accretion of asset retirement obligation	61	57	184	172
Income from operations	40,432	15,690	92,482	42,832
Other income (expense):				
Interest expense	(3,111)	(1,273)	(6,836)	(2,301)
Net income	37,321	14,417	85,646	40,531
Income attributable to non-controlling interest	(292)	(62)	(704)	(150)
Net income attributable to Hi-Crush Partners LP	$37,029	$14,355	$84,942	$40,381
Earnings per unit:				
Common units - basic	$0.86	$0.52	$2.24	$1.45
Subordinated units - basic	$0.86	$0.52	$2.24	$1.45
Common units - diluted	$0.83	$0.52	$2.15	$1.45
Subordinated units - diluted	$0.83	$0.52	$2.15	$1.45

(a) Financial information has been recast to include the financial position and results attributable to Hi-Crush Augusta LLC. See Note 8.
See Notes to Unaudited Condensed Consolidated Financial Statements.

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HI-CRUSH PARTNERS LP
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2014[(a)]	Nine Months Ended September 30, 2013[(a)]
Operating activities:		
Net income	$85,646	$40,531
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and depletion	6,581	4,259
Amortization of intangible assets	4,385	2,025
Amortization of deferred charges into interest expense	853	325
Management fees paid by Member on behalf of Hi-Crush Augusta LLC	492	895
Accretion of asset retirement obligation	184	172
Loss on replacement of equipment	—	191
Unit based compensation to independent directors and employees	922	100
Changes in operating assets and liabilities:		
Accounts receivable	(21,507)	(389)
Prepaid expenses and other current assets	(807)	3
Inventories	(150)	(4,382)
Other assets	(2,427)	(1,238)
Accounts payable	175	(1,022)
Accrued and other current liabilities	7,131	3,545
Due to sponsor	(3,640)	8,979
Deferred revenue	—	(1,715)
Net cash provided by operating activities	77,838	52,279
Investing activities:		
Cash paid for acquisition of Hi-Crush Augusta LLC	(224,250)	—
Cash paid for acquisition of D & I Silica, LLC	—	(95,277)
Capital expenditures for property, plant and equipment	(22,321)	(8,886)
Net cash used in investing activities	(246,571)	(104,163)
Financing activities:		
Proceeds from equity issuance, net	170,693	—
Proceeds from issuance of long-term debt	198,000	138,250
Repayment of long-term debt	(139,250)	(33,250)
Affiliate financing, net	—	5,615
Loan origination costs	(7,096)	(805)
Redemption of common units	(19)	—
Distributions paid	(53,578)	(44,270)
Net cash provided by financing activities	168,750	65,540
Net increase in cash	17	13,656
Cash:		
Beginning of period	20,608	10,498
End of period	$20,625	$24,154
Non-cash investing and financing activities:		
Increase (decrease) in accounts payable and accrued and other current liabilities for additions to property, plant and equipment	$5,567	$(612)

Due to affiliate balance converted into non-controlling interest	—	47,715
Transferred basis of preferred interest in Hi-Crush Augusta LLC	—	9,543
Unit based cost for acquisition of D & I Silica, LLC	—	37,358
Cash paid for interest, net of amount capitalized	5,984	1,854

(a) Financial information has been recast to include the financial position and results attributable to Hi-Crush Augusta LLC. See Note 8.
See Notes to Unaudited Condensed Consolidated Financial Statements.

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HI-CRUSH PARTNERS LP
Condensed Consolidated Statement of Partners' Capital
(In thousands, except unit amounts)
(Unaudited)

	Limited Partners								
	General Partner Capital	Sponsor Class B Units	Public Common Unit Capital	Sponsor Common Unit Capital	Sponsor Subordinated Unit Capital	Total Limited Partner Capital	Total Partner Capital	Non-Controlling Interest	Total Equity and Partners' Capital
Balance at January 1, 2014[(a)]	$—	$9,543	$88,321	$ —	$ 50,259	$138,580	$148,123	$ 35,231	$183,354
Issuance of limited partner units to independent directors and employees	—	—	458	—	—	458	458	—	458
Unit based compensation expense	—	—	632	—	—	632	632	—	632
Management fees paid by sponsor on behalf of the Partnership[(a)]	—	—	—	—	—	—	—	492	492
Issuance of 4,325,000 common units	—	—	170,693	—	—	170,693	170,693	—	170,693
Acquisition of 390,000 common units of Hi-Crush Augusta LLC	—	—	(111,794)	—	(78,257)	(190,051)	(190,051)	(34,199)	(224,250)
Redemption of common units	—	—	(19)	—	—	(19)	(19)	—	(19)
Conversion of Class B units into 3,750,000 common units	—	(9,543)	—	9,543	—	9,543	—	—	—
Cash distributions	(168)	—	(29,293)	(2,156)	(21,961)	(53,410)	(53,578)	—	(53,578)
Net income[(a)]	168	—	48,789	—	35,985	84,774	84,942	704	85,646
Secondary offering of common units by sponsor	—	—	7,387	(7,387)	—	—	—	—	—
Balance at September 30, 2014	$—	$—	$175,174	$ —	$ (13,974)	$161,200	$161,200	$ 2,228	$163,428

[a] Financial information has been recast to include the financial position and results attributable to Hi-Crush Augusta LLC. See Note 8.

See Notes to Unaudited Condensed Consolidated Financial Statements.

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HI-CRUSH PARTNERS LP
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in thousands, except per ton and per unit amounts, or where otherwise noted)

1. Business and Organization

Hi-Crush Partners LP (together with its subsidiaries, the “Partnership”, “we”, “us” or “our”) is a Delaware limited partnership formed on May 8, 2012 to acquire selected sand reserves and related processing and transportation facilities of Hi-Crush Proppants LLC. In connection with its formation, the Partnership issued a non-economic general partner interest to Hi-Crush GP LLC, our general partner (the “General Partner” or “Hi-Crush GP”), and a 100.0% limited partner interest to Hi-Crush Proppants LLC (the “sponsor”), its organizational limited partner.

On January 31, 2013, the Partnership entered into an agreement with the sponsor to acquire a preferred interest in Hi-Crush Augusta LLC (“Augusta”), the entity that owned the sponsor’s Augusta facility, which is located in Eau Claire County, Wisconsin, for $37,500 in cash and 3,750,000 newly issued convertible Class B units in the Partnership. The sponsor did not receive distributions on the Class B units until certain thresholds were met and they converted into common units. The conditions precedent to conversion of the Class B units were satisfied upon payment of our distribution on August 15, 2014 and, upon such payment, the sponsor, who was the sole owner of our Class B units, elected to convert all of the 3,750,000 Class B units into common units on a one-for-one basis. The sponsor received a per unit distribution on the converted common units for the second quarter of 2014 in an amount equal to the per unit distribution that was paid to all the common and subordinated units for the same period.

On June 10, 2013, the Partnership acquired an independent frac sand supplier, D & I Silica, LLC (“D&I”), transforming the Partnership into an integrated Northern White frac sand producer, transporter, marketer and distributor. The Partnership acquired D&I for $95,159 in cash and 1,578,947 common units (See Note 4 – Business Combination – Accounting for Acquisition of D&I). Founded in 2006, D&I was the largest independent frac sand supplier to the oil and gas industry drilling in the Marcellus and Utica shales. We operate through an extensive logistics network of rail-served origin and destination terminals located in the Midwest near supply sources and strategically throughout Pennsylvania, Ohio, New York and Texas.

On April 8, 2014, the Partnership entered into a contribution agreement with the sponsor to acquire substantially all of the remaining equity interests in the sponsor’s Augusta facility for cash consideration of $224,250 (the “Augusta Contribution”, See Note 8 - Acquisition of Hi-Crush Augusta LLC) . To finance the Augusta Contribution and refinance the Partnership’s revolving credit facility, (i) on April 8, 2014, the Partnership commenced a primary public offering of 4,250,000 common units representing limited partnership interests in the Partnership and (ii) on April 28, 2014, the Partnership entered into a $200,000 senior secured term loan facility with certain lenders. The Partnership’s primary public offering closed on April 15, 2014. On May 9, 2014, the Partnership issued an additional 75,000 common units pursuant to the partial exercise of the underwriters' over-allotment option in connection with the April 2014 primary public offering. Net proceeds to the Partnership from the primary offering and the exercise of the over-allotment option totaled $170,693. Upon receipt of the proceeds from the public offering on April 15, 2014, the Partnership paid off the outstanding balance of $124,750 under its revolving credit facility. The Augusta Contribution closed on April 28, 2014, and at closing, the Partnership’s preferred equity interest in Augusta was converted into common equity interests of Augusta. Following the Augusta Contribution, the Partnership owns 98.0% of Augusta’s common equity interests. In addition, on April 28, 2014, the Partnership entered into a $150,000 senior secured revolving credit facility with various financial institutions by amending and restating its prior $200,000 revolving credit facility (See Note 9 - Long-Term Debt).

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2. Basis of Presentation and Use of Estimates

The accompanying unaudited interim Condensed Consolidated Financial Statements (“interim statements”) of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. These interim statements should be read in conjunction with the Partnership’s Consolidated Financial Statements for the year ended December 31, 2013, which are included in the Partnership’s Annual Report on Form 10-K filed with the SEC on February 28, 2014. The year-end balance sheet data was derived from the audited financial statements, as recasted, but does not include all disclosures required by GAAP.

The Augusta Contribution was accounted for as a transaction between entities under common control whereby Augusta's net assets were recorded at their historical cost. Therefore, the Partnership's historical financial information was recast to combine Augusta and the Partnership as if the combination had been in effect since inception of common control. Refer to Note 8 for additional disclosure regarding the Augusta Contribution.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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3. Significant Accounting Policies

In addition to the significant accounting policies listed below, a comprehensive discussion of our critical accounting policies and estimates is included in our Annual Report on Form 10-K filed with the SEC on February 28, 2014.

Restricted Cash

The Partnership must pledge cash escrow accounts for the benefit of the Pennsylvania Department of Transportation, Bureau of Rail Freight, Ports and Waterways (“PennDot”) to guarantee performance on rail improvement projects partially funded by PennDot. The funds are released when the project is completed.

Revenue Recognition

Frac sand sales revenues are recognized when legal title passes to the customer, which may occur at the production facility, rail origin or at the destination terminal. At that point, delivery has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured. Amounts received from customers in advance of sand deliveries are recorded as deferred revenue. Revenue from make-whole provisions in our customer contracts is recognized at the end of the defined cure period.

A substantial portion of our frac sand is sold under long-term supply agreements, the current terms of which expire between 2016 and 2019. The agreements define, among other commitments, the volume of product that the Partnership must provide, the price that will be charged to the customer, and the volume that the customer must purchase at the end of the defined cure period, which can range from three months to the end of a contract year.

Transportation services revenues are recognized as the services have been completed, meaning the related services have been rendered. At that point, delivery of service has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured. Amounts received from customers in advance of transportation services being rendered are recorded as deferred revenue.

Revenue attributable to silo storage leases is recorded on a straight-line basis over the term of the lease.

Fair Value of Financial Instruments

The amounts reported in the balance sheet as current assets or liabilities, including cash, accounts receivable, accounts payable, accrued and other current liabilities approximate fair value due to the short-term maturities of these instruments. The fair value of the senior secured term loan approximated $197,508 as of September 30, 2014, based on the market price quoted from external sources, compared with a carrying value of $199,000. If the senior secured term loan was measured at fair value in the financial statements, it would be classified as Level 2 in the fair value hierarchy.

Net Income per Limited Partner Unit

We have identified the sponsor’s incentive distribution rights as participating securities and compute income per unit using the two-class method under which any excess of distributions declared over net income shall be allocated to the partners based on their respective sharing of income specified in the partnership agreement. Net income per unit applicable to limited partners (including subordinated unitholders) is computed by dividing limited partners’ interest in net income, after deducting any sponsor incentive distributions, by the weighted-average number of outstanding common and subordinated units. Through March 31, 2014, basic and diluted net income per unit are the same as there were no potentially dilutive common or subordinated units outstanding.

Through August 15, 2014, the 3,750,000 Class B units outstanding did not have voting rights or rights to share in the Partnership’s periodic earnings, either through participation in its distributions or through an allocation of its undistributed earnings or losses, and so were not deemed to be participating securities in their form as Class B units. In addition, the conversion of the Class B units into common units was fully contingent upon the satisfaction of defined criteria pertaining to the cumulative payment of distributions and earnings per unit of the Partnership as described in Note 10. As such, until all of the defined payment and earnings criteria were satisfied, the Class B units were not included in our calculation of either basic or diluted earnings per unit. On August 15, 2014, the Class B units converted into common units, at which time income allocations commenced on such units and the common units were included in our calculation of basic and diluted earnings per unit.

As described in Note 2, the Partnership's historical financial information has been recast to consolidate Augusta for all periods presented. The amounts of incremental income or losses recasted to periods prior to the Augusta Contribution are excluded from the calculation of net income per limited partner unit.

Income Taxes

The Partnership and the sponsor are pass-through entities and are not considered taxing entities for federal tax purposes. Therefore, there is not a provision for income taxes in the accompanying condensed consolidated financial statements. The Partnership's net

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income or loss is allocated to its partners in accordance with the partnership agreement. The partners are taxed individually on their share of the Partnership's earnings. At September 30, 2014 and December 31, 2013, the Partnership did not have any liabilities for uncertain tax positions or gross unrecognized tax benefit.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board issued ASU 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern." The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Partnership is currently evaluating the future disclosure requirements under this guidance.

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4. Business Combination – Accounting for Acquisition of D&I

On June 10, 2013, the Partnership acquired D&I, an independent frac sand supplier, transforming the Partnership into an integrated Northern White frac sand producer, transporter, marketer and distributor. The Partnership acquired D&I for $95,159 in cash and 1,578,947 common units, valued at $37,358 as of June 10, 2013.

The acquisition was accounted for under the acquisition method of accounting whereby management assessed the net assets acquired and recognized amounts for the identified assets acquired and liabilities assumed. The total purchase price of $132,517 was allocated to the net assets acquired as follows:

Assets acquired:	
Cash	$204
Restricted cash	688
Accounts receivable	17,908
Inventories	10,372
Prepaid expenses and other current assets	809
Property, plant and equipment	39,242
Intangible assets	41,878
Goodwill	33,745
Other assets	113
Total assets acquired	144,959
Liabilities assumed:	
Accounts payable	11,646
Accrued liabilities and other current liabilities	796
Total liabilities assumed	12,442
Fair value of net assets acquired	$132,517

The operations of D&I have been included in the financial statements prospectively from June 11, 2013.

The following table summarizes the supplemental condensed consolidated statements of operations information for the nine months ended September 30, 2013 on an unaudited pro forma basis as if the acquisition had occurred prior to January 1, 2013. The table includes adjustments that were directly attributable to the acquisition or are not expected to have a future impact on the Partnership. The pro forma results are for illustrative purposes only and are not intended to be indicative of the actual results that would have occurred should the transaction have been consummated at the beginning of the period, nor are they indicative of future results of operations.

	Nine Months Ended September 30, 2013 Pro Forma
Revenues	$170,047
Net income attributable to Hi-Crush Partners LP	$50,232
Net income per limited partner unit:	
Common units – basic and diluted	$1.74
Subordinated units – basic and diluted	$1.74

The pro forma financial information includes the impact of the following pro forma adjustments:

Pro Forma Debit / (Credit) Adjustments	Nine Months Ended September 30, 2013	
Acquisition related expenses	$(4,775	)
Other general and administrative expenses	(117	)
Interest expense on debt issued to fund acquisition	1,226	
Depreciation and amortization	(8	)

Increase in weighted average common units outstanding	931,174

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5. Goodwill and Intangible Assets

Changes in goodwill and intangible assets consisted of the following during the nine months ended September 30, 2014:

	Goodwill	Intangible Assets
Balance at December 31, 2013	$33,745	$38,191
Amortization expense	—	(4,385)
Balance at September 30, 2014	$33,745	$33,806

Goodwill

As of September 30, 2014, the Partnership had goodwill of $33,745 based on the allocation of the purchase price of its acquisition of D&I.

Intangible Assets

Intangible assets arising from the acquisition of D&I consisted of the following:

	Useful life	September 30, 2014
Supplier agreements	1-20 Years	$21,997
Customer contracts and relationships	1-10 Years	18,132
Other intangible assets	1-3 Years	1,749
Intangible assets		41,878
Less: Accumulated amortization		(8,072)
Intangible assets, net		$33,806

Amortization expense was $4,385 and $2,025 for the nine months ended September 30, 2014 and 2013, respectively. Amortization expense was $781 and $1,662 for the three months ended September 30, 2014 and 2013, respectively. The weighted average remaining life of intangible assets was 12 years as of September 30, 2014. As of September 30, 2014, future amortization is as follows:

Fiscal Year	Amortization
2014 (Three Months)	$742
2015	2,967
2016	2,938
2017	2,850
2018	2,850
Thereafter	21,459
	$33,806

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6. Inventories

Inventories consisted of the following:

	September 30, 2014	December 31, 2013 Recasted
Raw material	$157	$706
Work-in-process	10,297	9,075
Finished goods	10,430	11,585
Spare parts	1,501	1,052
	$22,385	$22,418

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7. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2014	December 31, 2013 Recasted
Buildings	$3,930	$3,814
Mining property and mine development	40,291	39,690
Plant and equipment	114,384	108,627
Rail and rail equipment	22,627	20,421
Transload facilities and equipment	30,910	30,265
Construction-in-progress	21,058	2,684
Property, plant and equipment	233,200	205,501
Less: Accumulated depreciation and depletion	(15,876)	(9,667)
Property, plant and equipment, net	$217,324	$195,834

Depreciation and depletion expense was $2,677 and $2,189 during the three months ended September 30, 2014 and 2013, respectively. Depreciation and depletion expense was $6,581 and $4,259 for the nine months ended September 30, 2014 and 2013, respectively. The Partnership recognized a loss on the replacement of equipment of $191 during the nine months ended September 30, 2013.

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8. Acquisition of Hi-Crush Augusta LLC

On January 31, 2013, the Partnership entered into an agreement with our sponsor to acquire 100,000 preferred units in Augusta, the entity that owned our sponsor's Augusta facility, for $37,500 in cash and 3,750,000 newly issued convertible Class B units in the Partnership. In connection with this acquisition, the Partnership incurred $451 of acquisition-related costs during the nine months ended September 30, 2013. Such expenses are included in general and administrative expenses in the Partnership's condensed consolidated statement of operations.

On April 28, 2014, the Partnership acquired 390,000 common units in Augusta for cash consideration of $224,250. In connection with this acquisition, the Partnership's preferred equity interest in Augusta was converted into 100,000 common units of Augusta. Following this transaction, the Partnership maintained a 98.0% controlling interest in Augusta's common units, with the sponsor owning the remaining 2.0% of common units. In connection with the Augusta Contribution, the Partnership incurred $768 of acquisition-related costs during the nine months ended September 30, 2014. Such expenses are included in general and administrative expenses in the Partnership's condensed consolidated statement of operations.

The Augusta Contribution was accounted for as a transaction between entities under common control whereby Augusta's net assets were recorded at their historical cost. The difference between the consideration paid and the recasted historical cost of the net assets acquired was allocated in accordance with the partnership agreement to the common and subordinated unitholders based on their respective number of units outstanding as of April 28, 2014. However, this deemed distribution did not affect the tax basis capital accounts of the common and subordinated unitholders.

The Partnership's historical financial information was recast to combine the Condensed Consolidated Statements of Operations and the Condensed Consolidated Balance Sheets of the Partnership with those of Augusta as if the combination had been in effect since inception of common control. Any material transactions between the Partnership and Augusta have been eliminated. The balance of non-controlling interest as of December 31, 2013 represents the sponsor's interest in Augusta prior to the combination. Except for the combination of Condensed Consolidated Statements of Operations and the respective allocation of recasted net income between the controlling and non-controlling interest, capital transactions between the sponsor and Augusta prior to April 28, 2014 have not been allocated on a recasted basis to the common and subordinated unitholders. Such transactions are presented within the non-controlling interest column in the Condensed Consolidated Statement of Partners' Capital as the Partnership and its unitholders would not have participated in these transactions.

The following table summarizes the carrying value of Augusta's assets as of April 28, 2014, and the allocation of the cash consideration paid:

Net assets of Hi-Crush Augusta LLC as of April 28, 2014:		
Cash	$1,035	
Accounts receivable	9,816	
Inventories	4,012	
Prepaid expenses and other current assets	114	
Due from Hi-Crush Partners LP	1,756	
Property, plant and equipment	84,900	
Accounts payable	(3,379	)
Accrued liabilities and other current liabilities	(2,926	)
Due to sponsor	(4,721	)
Asset retirement obligation	(2,993	)
Total carrying value of Augusta's net assets	$87,614	
Allocation of purchase price		
Carrying value of sponsor's non-controlling interest prior to Augusta Contribution	$35,951	
Less: Carrying value of 2% of non-controlling interest retained by sponsor	(1,752	)
Purchase price allocated to non-controlling interest acquired	34,199	
Excess purchase price over the historical cost of the acquired non-controlling interest[a]	190,051	

Cost of Augusta acquisition	$224,250

(a) The deemed distribution attributable to the excess purchase price was allocated to the common and subordinated unitholders based on the respective number of units outstanding as of April 28, 2014.

The following tables present our recasted revenues, net income and net income attributable to Hi-Crush Partners LP per limited partner unit giving effect to the Augusta Contribution, as reconciled to the revenues, net income and net income attributable to

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Hi-Crush Partners LP per limited partnership unit of the Partnership. The amounts presented as "Partnership Consolidated" include the revenues and net income of Hi-Crush Augusta LLC from April 28, 2014 forward.

	Three Months Ended September 30, 2013			
	Partnership Historical	Augusta Historical	Eliminations	Partnership Recasted
Revenues	$43,515	$10,761	$(1,118)	$53,158
Net income	$15,040	$3,127	$(3,750)	$14,417
Net income attributable to Hi-Crush Partners LP per limited partner unit - basic	$0.52			$0.50

	Nine Months Ended September 30, 2014			
	Partnership Consolidated	Augusta Through April 28, 2014	Eliminations	Partnership Recasted
Revenues	$234,418	$25,356	$(4,156)	$255,618
Net income	$82,105	$11,398	$(7,857)	$85,646
Net income attributable to Hi-Crush Partners LP per limited partner unit - basic	$2.24			$2.64

	Nine Months Ended September 30, 2013			
	Partnership Historical	Augusta Historical	Eliminations	Partnership Recasted
Revenues	$90,244	$26,833	$(2,082)	$114,995
Net income	$40,504	$7,527	$(7,500)	$40,531
Net income attributable to Hi-Crush Partners LP per limited partner unit - basic	$1.45			$1.45

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9. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2014	December 31, 2013
Term loan credit facility	$197,118	$—
Partnership credit facility	—	138,250
Less: current portion of long-term debt	(2,000)	—
	$195,118	$138,250

Revolving Credit Facility

On August 21, 2012, the Partnership entered into a credit agreement (the “Prior Credit Agreement”) providing for a $100,000 senior secured revolving credit facility (the “Prior Credit Facility”) with a term of four years. In connection with our acquisition of a preferred interest in Augusta, on January 31, 2013, the Partnership entered into a consent and first amendment to the Prior Credit Agreement whereby the lending banks, among other things, (i) consented to the amendment and restatement of the partnership agreement of the Partnership and (ii) agreed to amend the Prior Credit Agreement to permit the acquisition by the Partnership of a preferred equity interest in Hi-Crush Augusta LLC. On May 9, 2013, in connection with our acquisition of D&I, the Partnership entered into a commitment increase agreement and second amendment to the Prior Credit Agreement whereby the lending banks, among other things, consented to the increase of the aggregate commitments by $100,000 to a total of $200,000 and addition of lenders to the lending bank group. The outstanding balance under the Prior Credit Facility was paid in full on April 15, 2014.

On April 28, 2014, the Partnership replaced the Prior Credit Facility by entering into an amended and restated credit agreement (the "Revolving Credit Agreement"). The Revolving Credit Agreement is a senior secured revolving credit facility (the "Revolving Credit Facility") that permits aggregate borrowings of up to $150,000, including a $25,000 sublimit for letters of credit and a $10,000 sublimit for swing line loans. The Revolving Credit Facility matures on April 28, 2019.

The Revolving Credit Facility is secured by substantially all assets of the Partnership. In addition, the Partnership's subsidiaries have guaranteed the Partnership's obligations under the Revolving Credit Agreement and have granted to the revolving lenders security interests in substantially all of their respective assets.

Borrowings under the Revolving Credit Agreement bear interest at a rate equal to, at the Partnership's option, either (1) a base rate plus an applicable margin ranging between 1.25% per annum and 2.50% per annum, based upon the Partnership's leverage ratio, or (2) a Eurodollar rate plus an applicable margin ranging between 2.25% per annum and 3.50% per annum, based upon the Partnership's leverage ratio.

The Revolving Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including limits or restrictions on the Partnership’s ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and dispose of assets. The Revolving Credit Agreement also requires compliance with customary financial covenants, which are a leverage ratio and minimum interest coverage ratio. In addition, it contains customary events of default that entitle the lenders to cause any or all of the Partnership’s indebtedness under the Revolving Credit Agreement to become immediately due and payable. The events of default (some of which are subject to applicable grace or cure periods), include among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. As of September 30, 2014, we were in compliance with the covenants contained in the Revolving Credit Agreement.

As of September 30, 2014, we had no indebtedness and $143,813 of undrawn borrowing capacity ($150,000, net of $6,187 letter of credit commitments) under our Revolving Credit Facility.

Term Loan Credit Facility

On April 28, 2014, the Partnership entered into a credit agreement (the "Term Loan Credit Agreement") providing for a senior secured term loan credit facility (the “Term Loan Credit Facility”) that permits aggregate borrowings of up to $200,000, which was fully drawn on April 28, 2014. The Term Loan Credit Agreement permits the Partnership, at its option, to add one or more incremental term loan facilities in an aggregate amount not to exceed $100,000. Any incremental term loan facility would be on terms to be agreed among the Partnership, the administrative agent and the lenders who agree to participate in the incremental facility. The maturity date of the Term Loan Credit Facility is April 28, 2021.

The Term Loan Credit Agreement is secured by substantially all assets of the Partnership. In addition, the Partnership's subsidiaries have guaranteed the Partnership's obligations under the Term Loan Credit Agreement and have granted to the lenders security interests in substantially all of their respective assets.

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Borrowings under the Term Loan Credit Agreement bear interest at a rate equal to, at the Partnership's option, either (1) a base rate plus an applicable margin of 2.75% per annum or (2) a Eurodollar rate plus an applicable margin of 3.75% per annum, subject to a LIBOR floor of 1.00%.

The Term Loan Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including limits or restrictions on the Partnership's ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and dispose of assets. In addition, it contains customary events of default that entitle the lenders to cause any or all of the Partnership's indebtedness under the Term Loan Credit Agreement to become immediately due and payable. The events of default (some of which are subject to applicable grace or cure periods), include, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults.

As of September 30, 2014, we had $197,118 indebtedness ($199,000, net of $1,882 of discounts) under our Term Loan Credit Facility, which carried an interest rate of 4.75% as of September 30, 2014.

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10. Equity
As of September 30, 2014, our sponsor owned 13,640,351 subordinated units representing a 36.9% ownership interest in the limited partner units. In addition, our sponsor is the owner of our General Partner.
Class B Units
On January 31, 2013, the Partnership issued 3,750,000 subordinated Class B units and paid $37,500 in cash to our sponsor in return for 100,000 preferred equity units in our sponsor's Augusta facility. The Class B units did not have voting rights or rights to share in the Partnership's periodic earnings, either through participation in its distributions or through an allocation of its undistributed earnings or losses. The Class B units were eligible for conversion into common units once the Partnership had, for two consecutive quarters, (i) generated operating surplus equal to at least $2.31 per common unit, subordinated unit and Class B unit on an annualized basis and (ii) paid $2.10 per unit in annualized distributions on each common and subordinated unit, or 110% of the current minimum quarterly distribution for a period of two consecutive quarters, and our General Partner had determined, with the concurrence of the conflicts committee of the board of directors of our General Partner, that we were expected to maintain such performance for at least two succeeding quarters. The conditions precedent to conversion of the Class B units were satisfied upon payment of our distribution on August 15, 2014 and, upon such payment, the sponsor, who was the sole owner of our Class B units, elected to convert all of the 3,750,000 Class B units into common units on a one-for-one basis.
Allocations of Net Income
Our partnership agreement contains provisions for the allocation of net income and loss to the unitholders (excluding Class B unitholders) and our General Partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage ownership interest. Normal allocations according to percentage interests are made after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to our sponsor.
During the three and nine months ended September 30, 2014, no net income was allocated to our Class B units, and $168 was allocated to our holders of incentive distribution rights.
Incentive Distribution Rights
Incentive distribution rights represent the right to receive increasing percentages (ranging from 15.0% to 50.0%) of quarterly distributions from operating surplus after minimum quarterly distribution and target distribution levels exceed $0.54625 per unit per quarter. Our sponsor currently holds the incentive distribution rights, but it may transfer these rights at any time.
Distributions
Our partnership agreement sets forth the calculation to be used to determine the amount of cash distributions that our common and subordinated unitholders and our sponsor will receive.
Our recent distributions have been as follows:

Declaration Date	Amount Declared Per Unit (a)	Record Date	Date Paid	Amount Paid to Common and Subordinated Units	Amount Paid to Holders of Incentive Distribution Rights
January 17, 2013	$0.4750	February 1, 2013	February 15, 2013	$12,961	$—
April 16, 2013	$0.4750	May 1, 2013	May 15, 2013	$12,961	$—
July 17, 2013	$0.4750	August 1, 2013	August 15, 2013	$13,711	$—
October 17, 2013	$0.4900	November 1, 2013	November 15, 2013	$14,144	$—
January 15, 2014	$0.5100	January 31, 2014	February 14, 2014	$14,726	$—
April 16, 2014	$0.5250	May 1, 2014	May 15, 2014	$17,392	$—

July 16, 2014	$0.5750	August 1, 2014	August 15, 2014	$19,092	$168
October 15, 2014	$0.6250	October 31, 2014	November 14, 2014	$23,095	$695

(a) For all common and subordinated units.

Net Income per Limited Partner Unit

The following table outlines our basic and diluted, weighted average limited partner units outstanding during the relevant periods:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
Weighted average limited partner units outstanding:	2014	2013	2014	2013
Common units - basic	21,437,176	15,224,820	18,522,412	14,293,060
Subordinated units - basic	13,640,351	13,640,351	13,640,351	13,640,351
Common units - diluted	23,393,608	15,224,820	21,721,976	14,293,060
Subordinated units - diluted	13,640,351	13,640,351	13,640,351	13,640,351

For purposes of calculating the Partnership’s earnings per unit under the two-class method, common units are treated as participating preferred units, and subordinated units are treated as the residual equity interest, or common equity. Incentive distribution rights are treated as participating securities. As the Class B units did not have rights to share in the Partnership’s periodic earnings, whether through participation in its distributions or through an allocation of its undistributed earnings or losses, they were not participating securities. In addition, the conversion of the Class B units into common units was fully contingent upon the satisfaction of defined criteria pertaining to the cumulative payment of distributions and earnings per unit of the Partnership as described in this Note 10. As such, until all of the defined payment and earnings criteria were satisfied, the Class B units were not included in our calculation of either basic or diluted earnings per unit. The Class B units were converted into common units on August 15, 2014, at which time income allocations commenced on such units. The sponsor was entitled to receive a per unit distribution on the newly converted common units for the second quarter of 2014 in an amount equal to the per unit distribution to be paid to all the common and subordinated units for the same period. As a result, this distribution was deducted from the calculation of limited partners' interest in net income for the nine months ended September 30, 2014. In addition, the Class B units were included in our calculation of diluted earnings per unit through August 15, 2014. Diluted earnings per unit for the three and nine months ended September 30, 2014 also includes the dilutive effect of LTIP awards granted in June 2014 (see Note 11) at the assumed number of units which would have vested if the performance period had ended on September 30, 2014.

Distributions made in future periods based on the current period calculation of cash available for distribution are allocated to each class of equity that will receive such distributions. Any unpaid cumulative distributions are allocated to the appropriate class of equity.

Each period the Partnership determines the amount of cash available for distributions in accordance with the partnership agreement. The amount to be distributed to common unitholders, subordinated unitholders and incentive distribution rights holders is based on the distribution waterfall in the partnership agreement. Net earnings for the period are allocated to each class of partnership interest based on the distributions to be made. Additionally, if, during the subordination period, the Partnership does not have enough cash available to make the required minimum distribution to the common unit holders, the Partnership will allocate net earnings to the common unit holders based on the amount of distributions in arrears. When actual cash distributions are made based on distributions in arrears, those cash distributions will not be allocated to the common unitholders, as such earnings were allocated in previous periods.

The following table provides a reconciliation of net income and the assumed allocation of net income under the two-class method for purposes of computing net income per unit for the three months ended September 30, 2014 (in thousands, except per unit amounts):

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	General Partner and IDRs	Common Units	Subordinated Units	Class B Units	Total
Declared distribution	$695	$14,570	$8,525	$—	$23,790
Assumed allocation of undistributed net income attributable to the Partnership	6,164	3,868	3,207	—	13,239
Limited partners’ interest in net income	$6,859	$18,438	$11,732	$—	$37,029
Earnings per unit - basic		$0.86	$0.86		
Earnings per unit - diluted (1)		$0.83	$0.83		

(1) Diluted earnings per unit includes the impact of income allocations attributable to a conversion of the Class B units into common units through conversion to common units on August 15, 2014.

The following table provides a reconciliation of net income and the assumed allocation of net income under the two-class method for purposes of computing net income per unit for the nine months ended September 30, 2014 (in thousands, except per unit amounts):

	General Partner and IDRs	Common Units	Subordinated Units	Class B Units	Total
Declared distribution	$863	$36,049	$23,529	$2,156	$62,597
Assumed allocation of undistributed net income attributable to the Partnership	6,906	5,351	6,959	—	19,216
Limited partners’ interest in net income	$7,769	$41,400	$30,488	$2,156	$81,813
Recast adjustments to include the results of operations of Hi-Crush Augusta LLC and income attributable to non-controlling interest					3,129
Net income attributable to Hi-Crush Partners LP					$84,942
Earnings per unit - basic		$2.24	$2.24		
Earnings per unit - diluted (1)		$2.15	$2.15		

(1) Diluted earnings per unit includes the impact of income allocations attributable to a conversion of the Class B units into common units through conversion to common units on August 15, 2014.

Recasted Augusta Equity Transactions

During the nine months ended September 30, 2014, the sponsor provided $492 of management services and other expenses paid on behalf of Augusta. Such costs are recognized as non-cash capital contributions in the accompanying financial statements.

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11. Unit Based Compensation

Long-Term Incentive Plan

On August 21, 2012, Hi-Crush GP adopted the Hi-Crush Partners LP Long Term Incentive Plan (the “Plan”) for employees, consultants and directors of Hi-Crush GP and those of its affiliates, including our sponsor, who perform services for the Partnership. The Plan consists of restricted units, unit options, phantom units, unit payments, unit appreciation rights, other equity-based awards, distribution equivalent rights and performance awards. The Plan limits the number of common units that may be issued pursuant to awards under the Plan to 1,364,035 units. Common units withheld to satisfy exercise prices or tax withholding obligations are available for delivery pursuant to other awards. The Plan is administered by Hi-Crush GP’s Board of Directors or a committee thereof.

The cost of services received in exchange for an award of equity instruments is measured based on the grant-date fair value of the award and that cost is generally recognized over the vesting period of the award.

Performance Phantom Units - Equity Settled

The Partnership has awarded Performance Phantom Units ("PPUs") pursuant to the Plan to certain employees. The number of PPUs that will vest will range from 0% to 200% of the number of initially granted PPUs and is dependent on the Partnership's total unitholder return over a three-year performance period compared to the total unitholder return of a designated peer group. Each PPU represents the right to receive, upon vesting, one common unit representing limited partner interests in the Partnership. The PPUs are also entitled to forfeitable distribution equivalent rights ("DERs"), which accumulate during the performance period and are paid in cash on the date of settlement. The fair value of each PPU is estimated using a fair value approach and is amortized into compensation expense, reduced for an estimate of expected forfeitures, over the period of service corresponding with the vesting period. Expected volatility is based on the historical market performance of our peer group. The following table presents information relative to our PPUs.

	Units	Grant Date Weighted - Average Fair Value per Unit
Outstanding at January 1, 2014	—	
Granted	64,414	$65.57
Outstanding at September 30, 2014	64,414	$65.57

As of September 30, 2014, total compensation expense not yet recognized related to unvested PPUs was $3,678, with a weighted average remaining service period of 2.25 years.

Time-Based Phantom Units - Equity Settled

The Partnership has awarded Time-Based Phantom Units ("TPUs") pursuant to the Plan to certain employees which automatically vest if the employee remains employed at the end of a three-year vesting period. Each TPU represents the right to receive, upon vesting, one common unit representing limited partner interests in the Partnership. The TPUs are also entitled to forfeitable DERs, which accumulate during the vesting period and are paid in cash on the date of settlement. The fair value of each TPU is calculated based on the grant-date unit price and is amortized into compensation expense, reduced for an estimate of expected forfeitures, over the period of service corresponding with the vesting period. The following table presents information relative to our TPUs.

	Units	Grant Date Value per Unit
Outstanding at January 1, 2014	—	
Granted	17,018	$47.33
Outstanding at September 30, 2014	17,018	$47.33

As of September 30, 2014, total compensation expense not yet recognized related to unvested TPUs was $717, with a weighted average remaining service period of 2.75 years.

Board and Other Unit Grants

The Partnership issued 5,532 and 5,522 common units to its independent directors during the nine months ended September 30, 2014 and 2013, respectively. During the nine months ended September 30, 2014, the Partnership issued

7,022 common units to certain employees which vest approximately over a two year period.
Compensation Expense
The following table presents total compensation expense for unit-based compensation:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Performance Phantom Units	$409	$—	$545	$—
Time-based Phantom Units	69	—	88	—
Director and other unit grants	91	—	289	100
Total compensation expense	$569	$—	$922	$100

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12. Related Party Transactions

Effective August 16, 2012, our sponsor entered into a services agreement (the “Services Agreement”) with our General Partner, Hi-Crush Services LLC (“Hi-Crush Services”) and the Partnership, pursuant to which Hi-Crush Services provides certain management and administrative services to the Partnership to assist in operating the Partnership’s business. Under the Services Agreement, the Partnership reimburses Hi-Crush Services and its affiliates, on a monthly basis, for the allocable expenses it incurs in its performance under the Services Agreement. These expenses include, among other things, salary, bonus, incentive compensation, rent and other administrative expenses for individuals and entities that perform services for the Partnership. Hi-Crush Services and its affiliates will not be liable to the Partnership for its performance of services under the Services Agreement, except for liabilities resulting from gross negligence. During the three months ended September 30, 2014 and 2013, the Partnership incurred $2,587 and $1,163, respectively, of management and administrative service expenses from Hi-Crush Services. During the nine months ended September 30, 2014 and 2013, the Partnership incurred $6,946 and $3,004, respectively, of management and administrative service expenses from Hi-Crush Services.

In the normal course of business, our sponsor and its affiliates, including Hi-Crush Services, and the Partnership may from time to time make payments on behalf of each other.

As of September 30, 2014, an outstanding balance of $6,712 payable to our sponsor is maintained as a current liability under the caption “Due to Sponsor.”

During the three and nine months ended September 30, 2014, the Partnership purchased $3,011 of sand from Hi-Crush Whitehall LLC, a subsidiary of our sponsor and the entity that owns the sponsor's Whitehall facility, at a purchase price in excess of our production cost per ton.

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13. Segment Reporting

The Partnership manages, operates and owns assets utilized to supply frac sand to its customers. It conducts operations through its one operating segment titled "Frac Sand Sales". This reporting segment of the Partnership is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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14. Commitments and Contingencies

The Partnership enters into sales contracts with customers. These contracts establish minimum annual sand volumes that the Partnership is required to make available to such customers under initial terms ranging from three to six years. Through September 30, 2014, no payments for non-delivery of minimum annual sand volumes have been made by the Partnership to these customers under these contracts.

D&I has entered into a long-term supply agreement with a supplier which includes a requirement to purchase certain volumes and grades of sands at specified prices. The quantities set forth in such agreements are not in excess of our current requirements.

The Partnership has entered into royalty agreements under which it is committed to pay royalties on sand sold from the Wyeville and Augusta facilities for which the Partnership has received payment by the customer. Royalty expense is recorded as the sand is sold and is included in costs of goods sold. Royalty expense was $4,011 and $2,179 for the three months ended September 30, 2014 and 2013, respectively, and $10,743 and $5,618 for the nine months ended September 30, 2014 and 2013, respectively.

The Partnership has long-term leases for rail access, railcars and equipment at its terminal sites, which are also under long-term lease agreements with various railroads. As of September 30, 2014, future minimum operating lease payments are as follows:

Fiscal Year	Amount
2014 (Three Months)	$2,704
2015	10,724
2016	9,830
2017	9,545
2018	8,715
Thereafter	10,092
	$51,610

From time to time the Partnership may be subject to various claims and legal proceedings which arise in the normal course of business. Management is not aware of any legal matters that are likely to have a material adverse effect on the Partnership’s financial position, results of operations or cash flows.

In May 2012, Hi-Crush Operating LLC, a subsidiary of the Partnership, entered into a supply agreement for frac sand with Baker Hughes Oilfield Operations, Inc. (“Baker Hughes”). On September 19, 2012, Baker Hughes provided notice that it was terminating the contract and on November 12, 2012, Hi-Crush Operating LLC formally terminated the supply agreement and filed suit in the State District Court of Harris County, Texas. On October 8, 2013, Hi-Crush Operating LLC entered into a settlement agreement with Baker Hughes pursuant to which Hi-Crush Operating LLC and Baker Hughes agreed to jointly dismiss the lawsuit between the parties and, in connection with the settlement, the parties entered into a six-year supply agreement that requires Baker Hughes to purchase minimum volumes of frac sand each month.

Following the Partnership’s November 2012 announcement that Hi-Crush Operating LLC had formally terminated its supply agreement with Baker Hughes in response to the repudiation of the agreement by Baker Hughes, the Partnership, our General Partner, certain of its officers and directors and its underwriters were named as defendants in purported securities class action lawsuits brought by the Partnership’s unitholders in the United States District Court for the Southern District of New York. On February 11, 2013, the lawsuits were consolidated into one lawsuit, styled In re: Hi-Crush Partners L.P. Securities Litigation, No. 12-Civ-8557 (CM). A consolidated amended complaint was filed on February 15, 2013. That complaint asserted claims under sections 11, 12(a)(2), and 15 of the Securities Act of 1933, as amended, or the Securities Act, and sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, in connection with the Partnership’s Registration Statement and a subsequent presentation. Among other things, the consolidated amended complaint alleges that defendants failed to disclose to the market certain alleged information relating to Baker Hughes’ repudiation of the supply agreement. On March 22, 2013, the Partnership filed a motion to dismiss the complaint. On December 2, 2013, the court issued an order dismissing the claims relating to the Partnership’s Registration Statement, but did not dismiss the claims relating to alleged misrepresentations concerning the Partnership’s relationship with Baker Hughes after the Partnership’s initial public offering. The Partnership and the remaining defendants in the lawsuit have filed answers to the complaint. The Partnership believes the case is without merit and intends to vigorously defend itself. It is not possible to predict the outcome of this claim. However, in our opinion, the likelihood that the ultimate disposition of this claim will have a material adverse effect on our consolidated financial statements is remote.

On December 20, 2013, Stephen Bushansky, a purported unitholder of the Partnership, filed a lawsuit, derivatively on behalf of the Partnership, against our General Partner and certain of its officers and directors, in an action styled Bushansky v. Hi-Crush GP LLC, Cause No. 2013-76463, in the 215th Judicial District Court, Harris County, Texas. The lawsuit alleged that by failing to disclose Baker Hughes' attempted repudiation of its supply agreement with Hi-Crush Operating LLC prior to the Partnership's November 2012 announcement terminating the agreement, defendants failed to design and implement an effective system of

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internal controls to prevent the Partnership from violating federal securities laws. Plaintiff asserted a claim for breach of fiduciary duties of good faith, care, loyalty, reasonable inquiry, oversight and supervision. Plaintiff also asserted that the defendants aided and abetted in one another's breaches of fiduciary duties and sought relief from defendants on the theory of indemnity for all damages that occurred as a result of defendants' alleged violations. On January 29, 2014, defendants filed a motion to dismiss, plea to the jurisdiction, or in the alternative, motion to stay based on the mandatory contractual forum selection clause in our partnership agreement. On March 7, 2014, the court granted defendants' motion to dismiss without prejudice.

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15. Asset Retirement Obligation

Although the ultimate amount of reclamation and closure costs to be incurred is uncertain, the Partnership maintains a post-closure reclamation and site restoration obligations as follows:

Balance at December 31, 2013 (Recasted)	$4,628
Additions to liabilities	—
Accretion expense	184
Balance at September 30, 2014	$4,812

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16. Supplemental Condensed Consolidating Financial Information

The Partnership has filed a registration statement on Form S-3 to register, among other securities, debt securities. Each of the subsidiaries of the Partnership as of March 31, 2014 (other than Hi-Crush Finance Corp., whose sole purpose is to act as a co-issuer of any debt securities) was a 100% directly or indirectly owned subsidiary of the Partnership (the “guarantors”), will issue guarantees of the debt securities, if any of them issue guarantees, and such guarantees will be full and unconditional and will constitute the joint and several obligations of such guarantors. As of September 30, 2014, the guarantors were our sole subsidiaries, other than Hi-Crush Finance Corp. and Hi-Crush Augusta Acquisition Co. LLC, which are our 100% owned subsidiaries, and Augusta, of which we own 98.0% of the common equity interests.

As of September 30, 2014, the Partnership had no assets or operations independent of its subsidiaries, and there were no significant restrictions upon the ability of the Partnership or any of its subsidiaries to obtain funds from its respective subsidiaries by dividend or loan. As of September 30, 2014, none of the assets of our subsidiaries represented restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act.

For the purpose of the following financial information, the Partnership's investments in its subsidiaries are presented in accordance with the equity method of accounting. The operations, cash flows and financial position of the co-issuer are not material and therefore have been included with the parent's financial information.

Condensed consolidating financial information for the Partnership and its combined guarantor and combined non-guarantor subsidiaries is as follows for the dates and periods indicated.

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Condensed Consolidating Balance Sheet
As of September 30, 2014

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets:					
Cash	$15,339	$3,394	$1,892	$—	$20,625
Restricted cash	—	690	—	—	690
Accounts receivable	—	50,875	8,074	—	58,949
Intercompany receivables	103,721	107,635	—	(211,356)	—
Inventories	—	17,651	6,740	(2,006)	22,385
Prepaid expenses and other current assets	339	2,226	35	—	2,600
Total current assets	119,399	182,471	16,741	(213,362)	105,249
Property, plant and equipment, net	5	119,753	97,566	—	217,324
Goodwill and intangible assets, net	—	67,551	—	—	67,551
Investment in consolidated affiliates	232,404	—	224,250	(456,654)	—
Other assets	7,802	4,794	—	—	12,596
Total assets	$359,610	$374,569	$338,557	$(670,016)	$402,720
Liabilities, Equity and Non-Controlling Interest					
Current liabilities:					
Accounts payable	$6	$11,617	$4,227	$—	$15,850
Accrued and other current liabilities	444	6,258	8,098	—	14,800
Intercompany payables	—	—	211,356	(211,356)	—
Due to sponsor	842	5,436	434	—	6,712
Current portion of long-term debt	2,000	—	—	—	2,000
Total current liabilities	3,292	23,311	224,115	(211,356)	39,362
Long-term debt	195,118	—	—	—	195,118
Asset retirement obligation	—	1,767	3,045	—	4,812
Total liabilities	198,410	25,078	227,160	(211,356)	239,292
Commitments and contingencies	—	—	—	—	—
Equity and Non-Controlling Interest:					
Equity	161,200	349,491	109,169	(458,660)	161,200
Non-controlling interest	—	—	2,228	—	2,228
Total equity and non-controlling interest	161,200	349,491	111,397	(458,660)	163,428
Total liabilities, equity and non-controlling interest	$359,610	$374,569	$338,557	$(670,016)	$402,720

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Condensed Consolidating Balance Sheet
As of December 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets:					
Cash	$12,056	$3,991	$4,561	$—	$20,608
Restricted cash	—	690	—	—	690
Accounts receivable	—	31,581	5,861	—	37,442
Intercompany receivables	—	54,468	1,311	(55,779)	—
Inventories	—	16,265	7,102	(949)	22,418
Prepaid expenses and other current assets	573	859	193	—	1,625
Total current assets	12,629	107,854	19,028	(56,728)	82,783
Property, plant and equipment, net	7	113,335	82,492	—	195,834
Goodwill and intangible assets, net	—	71,936	—	—	71,936
Investment in consolidated affiliates	329,604	—	—	(329,604)	—
Other assets	1,467	2,341	—	—	3,808
Total assets	$343,707	$295,466	$101,520	$(386,332)	$354,361
Liabilities, Equity and Non-Controlling Interest					
Current liabilities:					
Accounts payable	$219	$8,087	$1,802	$—	$10,108
Accrued and other current liabilities	459	3,917	3,293	—	7,669
Intercompany payables	55,779	—	—	(55,779)	—
Due to Sponsor	877	382	9,093	—	10,352
Total current liabilities	57,334	12,386	14,188	(55,779)	28,129
Long-term debt	138,250	—	—	—	138,250
Asset retirement obligation	—	1,673	2,955	—	4,628
Total liabilities	195,584	14,059	17,143	(55,779)	171,007
Commitments and contingencies	—	—	—	—	—
Equity and Non-Controlling Interest:					
Equity	148,123	281,407	49,146	(330,553)	148,123
Non-controlling interest	—	—	35,231	—	35,231
Total equity and non-controlling interest	148,123	281,407	84,377	(330,553)	183,354
Total liabilities, equity and non-controlling interest	$343,707	$295,466	$101,520	$(386,332)	$354,361

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Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$88,982	$24,964	$(11,630)	$102,316
Cost of goods sold (including depreciation, depletion and amortization)	—	57,849	9,960	(12,169)	55,640
Gross profit	—	31,133	15,004	539	46,676
Operating costs and expenses:					
General and administrative expenses	3,707	2,117	359	—	6,183
Exploration expense	—	—	—	—	—
Accretion of asset retirement obligation	—	31	30	—	61
Income from operations	(3,707)	28,985	14,615	539	40,432
Other income (expense):					
Earnings from consolidated affiliates	43,783	—	—	(43,783)	—
Interest expense	(3,047)	(28)	(36)	—	(3,111)
Net income	37,029	28,957	14,579	(43,244)	37,321
Income attributable to non-controlling interest	—	—	(292)	—	(292)
Net income attributable to Hi-Crush Partners LP	$37,029	$28,957	$14,287	$(43,244)	$37,029

	Nine Months Ended September 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$217,734	$65,742	$(27,858)	$255,618
Cost of goods sold (including depreciation, depletion and amortization)	—	142,502	28,824	(27,661)	143,665
Gross profit	—	75,232	36,918	(197)	111,953
Operating costs and expenses:					
General and administrative expenses	9,874	7,864	1,549	—	19,287
Exploration expense	—	—	—	—	—
Accretion of asset retirement obligation	—	94	90	—	184
Income from operations	(9,874)	67,274	35,279	(197)	92,482
Other income (expense):					
Earnings from consolidated affiliates	101,506	—	—	(101,506)	—
Interest expense	(6,690)	(48)	(98)	—	(6,836)
Net income	84,942	67,226	35,181	(101,703)	85,646
Income attributable to non-controlling interest	—	—	(704)	—	(704)
	$84,942	$67,226	$34,477	$(101,703)	$84,942

Net income attributable to Hi-Crush Partners LP

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Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$43,515	$10,761	$(1,118)	$53,158
Cost of goods sold (including depreciation, depletion and amortization)	—	25,958	7,028	(1,118)	31,868
Gross profit	—	17,557	3,733	—	21,290
Operating costs and expenses:					
General and administrative expenses	1,766	3,264	513	—	5,543
Exploration expense	—	—	—	—	—
Accretion of asset retirement obligation	—	29	28	—	57
Income from operations	(1,766)	14,264	3,192	—	15,690
Other income (expense):					
Earnings from consolidated affiliates	17,325	—	—	(17,325)	—
Interest expense	(1,204)	(4)	(65)	—	(1,273)
Net income	14,355	14,260	3,127	(17,325)	14,417
Income attributable to non-controlling interest	—	—	(62)	—	(62)
Net income attributable to Hi-Crush Partners LP	$14,355	$14,260	$3,065	$(17,325)	$14,355

	Nine Months Ended September 30, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$90,244	$26,833	$(2,082)	$114,995
Cost of goods sold (including depreciation, depletion and amortization)	—	43,325	17,370	(2,082)	58,613
Gross profit	—	46,919	9,463	—	56,382
Operating costs and expenses:					
General and administrative expenses	7,522	4,074	1,726	—	13,322
Exploration expense	—	46	10	—	56
Accretion of asset retirement obligation	—	88	84	—	172
Income from operations	(7,522)	42,711	7,643	—	42,832
Other income (expense):					
Earnings from consolidated affiliates	50,075	—	—	(50,075)	—
Interest expense	(2,172)	(13)	(116)	—	(2,301)
Net income	40,381	42,698	7,527	(50,075)	40,531
Income attributable to non-controlling interest	—	—	(150)	—	(150)
	$40,381	$42,698	$7,377	$(50,075)	$40,381

Net income attributable to Hi-Crush Partners LP

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Condensed Consolidating Statements of Cash Flows

	Nine Months Ended September 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by operating activities	$58,783	$63,666	$28,793	$(73,404)	$77,838
Investing activities:					
Cash paid for acquisition of Hi-Crush Augusta LLC	—	—	(224,250)	—	(224,250)
Capital expenditures for property, plant and equipment	—	(7,513)	(14,808)	—	(22,321)
Net cash used in investing activities	—	(7,513)	(239,058)	—	(246,571)
Financing activities:					
Proceeds from equity issuance	170,693	—	—	—	170,693
Proceeds from issuance of long-term debt	198,000	—	—	—	198,000
Repayment of long-term debt	(139,250)	—	—	—	(139,250)
Advances to parent, net	(224,250)	(56,750)	216,250	64,750	—
Loan origination costs	(7,096)	—	—	—	(7,096)
Redemption of common units	(19)	—	—	—	(19)
Distributions paid	(53,578)	—	(8,654)	8,654	(53,578)
Net cash provided by (used in) financing activities	(55,500)	(56,750)	207,596	73,404	168,750
Net increase (decrease) in cash	3,283	(597)	(2,669)	—	17
Cash:					
Beginning of period	12,056	3,991	4,561	—	20,608
End of period	$15,339	$3,394	$1,892	$—	$20,625

	Nine Months Ended September 30, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by operating activities	$46,186	$42,549	$16,051	$(52,507)	$52,279
Investing activities:					
Cash paid for acquisition of Hi-Crush Augusta LLC	(37,500)	—	—	37,500	—
Cash paid for acquisition of D&I Silica LLC	(95,277)	—	—	—	(95,277)
Capital expenditures for property, plant and equipment	—	(4,854)	(4,032)	—	(8,886)
Net cash (used in) provided by investing activities	(132,777)	(4,854)	(4,032)	37,500	(104,163)
Financing activities:					
Proceeds from issuance of long-term debt	138,250	—	—	—	138,250
Capital contribution	—	—	37,500	(37,500)	—
Repayment of long-term debt	—	—	(33,250)	—	(33,250)
Advances to parent, net	—	(45,007)	—	45,007	—
Affiliate financing, net	—	5,615	—	—	5,615
Loan origination costs	(805)	—	—	—	(805)

Distributions paid	(39,633)	—	(12,137)	7,500	(44,270)
Net cash provided by (used in) financing activities	97,812	(39,392)	(7,887)	15,007	65,540
Net increase in cash	11,221	(1,697)	4,132	—	13,656
Cash:					
Beginning of period	—	10,498	—	—	10,498
End of period	$11,221	$8,801	$4,132	$—	$24,154

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17. Subsequent Events
On October 15, 2014, we declared a cash distribution totaling $23,095, or $0.6250 per common and subordinated unit. This distribution will be paid on November 14, 2014 to unitholders of record on October 31, 2014. A distribution of $695 was declared for the holder of our incentive distribution rights.

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

You should read the following discussion of our historical performance, financial condition and future prospects in conjunction with our unaudited condensed financial statements and accompanying notes in “Item 1. Financial Statements” contained herein and our audited financial statements as of December 31, 2013, included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 28, 2014, as amended by the Partnership's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2014. The information provided below supplements, but does not form part of, our unaudited condensed financial statements. This discussion contains forward-looking statements that are based on the views and beliefs of our management, as well as assumptions and estimates made by our management. Actual results could differ materially from such forward-looking statements as a result of various risk factors, including those that may not be in the control of management. See “Forward-Looking Statements” in this Quarterly Report on Form 10-Q. All amounts are presented in thousands except tonnage, acreage or per unit data, or where otherwise noted.

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Overview

We are a pure play, low-cost, domestic producer and supplier of premium monocrystalline sand, a specialized mineral that is used as a proppant to enhance the recovery rates of hydrocarbons from oil and natural gas wells. Our reserves consist of "Northern White" sand, a resource existing predominately in Wisconsin and limited portions of the upper Midwest region of the United States, which is highly valued as a preferred proppant because it exceeds all American Petroleum Institute ("API") specifications. We own, operate and develop sand reserves and related excavation and processing facilities and will seek to acquire or develop additional facilities. Our 651-acre facility with integrated rail infrastructure, located near Wyeville, Wisconsin (the "Wyeville facility") enables us to process and cost-effectively deliver approximately 1,600,000 tons of frac sand per year. We also own a 98.0% interest in Hi-Crush Augusta LLC ("Augusta"), the entity that owns a 1,187-acre facility with integrated rail infrastructure, located in Eau Claire County, Wisconsin (the "Augusta facility"), which enables us to process and cost-effectively deliver a further 1,600,000 tons of frac sand per year. We are in the process of expanding the capacity of our Augusta facility by an additional 1,000,000 tons, which we expect to be completed during the fourth quarter of 2014.

A substantial portion of our frac sand production is sold to leading pressure pumping service providers under long-term contracts that require our customers to pay a specified price for a specified volume of frac sand each month. From October 2013 to October 2014, we entered into amendments of existing supply agreements and four new supply agreements, each requiring the customer to purchase minimum volumes of frac sand each month. As of November 1, 2014, we had contracted to sell 3.8 million tons in 2014 and 6.6 million tons in 2015 from our production facilities and destination terminals. The pricing of the sand varies for each mesh size and delivery point. Based on the terms of the agreements, we expect our customers to take 70 to 80 percent of the volumes under FOB plant pricing in 2014 and 65% to 75% percent in 2015. As of November 1, 2014, the contracts had an average remaining life of 4.4 years.

On June 10, 2013, we acquired D&I Silica, LLC ("D & I"), an independent frac sand supplier, transforming us into an integrated Northern White frac sand producer, transporter, marketer and distributor. The Partnership acquired D&I for $95,159 in cash and 1,578,947 common units. Founded in 2006, D&I was the largest independent frac sand supplier to the oil and gas industry drilling in the Marcellus and Utica shales. We operate through an extensive logistics network of rail-served origin and destination terminals located in the Midwest near supply sources and strategically throughout Pennsylvania, Ohio, New York and Texas.

On May 9, 2013, we entered into a commitment increase agreement and second amendment to our then-existing revolving credit facility whereby the lending banks, among other things, consented to the increase of the aggregate commitments by $100,000 to a total of $200,000 and addition of lenders to the lending bank group. On June 10, 2013, we drew $100,000 under the credit facility to fund the acquisition of D&I.

On January 31, 2013, we entered into an agreement with our sponsor to acquire a preferred interest in Augusta for $37,500 in cash and 3.75 million Class B units in the Partnership. Our sponsor did not receive distributions on the Class B units until they converted into common units. The conditions precedent to conversion of the Class B units were satisfied upon payment of our distribution on August 15, 2014 and, the sponsor, who is the sole owner of our Class B units, elected to convert all of the 3,750,000 Class B units into common units on a one-for-one basis. The preferred interest in Augusta entitled us to a preferred distribution of up to $3,750 per quarter, or $15,000 annually.

On April 8, 2014, the Partnership entered into a contribution agreement with the sponsor to acquire substantially all of the remaining equity interests in the sponsor's Augusta facility for cash consideration of $224,250 (the "Augusta Contribution"). To finance the Augusta Contribution and refinance the Partnership's revolving credit facility, (i) on April 8, 2014, the Partnership commenced a primary public offering of 4,250,000 common units representing limited partnership interests in the Partnership and (ii) on April 28, 2014, the Partnership entered into a $200,000 senior secured term loan facility with certain lenders. The Partnership's primary public offering closed on April 15, 2014. On May 9, 2014, the Partnership issued an additional 75,000 common units pursuant to the partial exercise of the underwriters' over-allotment option in connection with the April 2014 primary public offering. Net proceeds to the Partnership from the primary offering and the exercise of the over-allotment option totaled $170,693. Upon receipt of the proceeds from the public offering on April 15, 2014, the Partnership paid off the outstanding balance of $124,750 under its revolving credit facility. The Augusta Contribution closed on April 28, 2014, and at closing, the Partnership's preferred equity interest in Augusta was converted into common equity interests of Augusta. Following the Augusta

Contribution, the Partnership owns 98.0% of Augusta's common equity interests. In addition, on April 28, 2014, the Partnership entered into a $150,000 senior secured revolving credit facility with various financial institutions by amending and restating its prior $200,000 revolving credit facility.

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Basis of Presentation

The following discussion of our historical performance and financial condition is derived from the historical financial statements.

Factors Impacting Comparability of Our Financial Results

Our historical results of operations and cash flows are not indicative of results of operations and cash flows to be expected in the future principally for the following reasons:

- We completed our acquisition of D&I in June 2013. On June 10, 2013, we acquired D&I, an independent frac sand supplier, transforming us into an integrated Northern White frac sand producer, transporter, marketer and distributor. As a result of the acquisition, we now operate through an extensive logistics network of rail-served origin and destination terminals. Subsequent to June 10, 2013, we incur freight and logistics costs involved in the sourcing of sand to the destination terminals, as well as purchase sand from third parties.
- We constructed additional equipment and silo storage facilities to produce and ship 100 mesh product. During the third quarter of 2013, we began selling 100 mesh product to customers. During 2014, we completed construction of additional equipment and silo storage facilities to produce and store 100 mesh product at our facilities. Sales prices for 100 mesh are typically lower than prices of other grades of sand.
- We are incurring increased interest expense on our credit facility as a result of our acquisition of D&I and the Augusta Contribution. As of January 1, 2013, we did not have any indebtedness outstanding. In January 2013, in connection with our acquisition of a preferred interest in Augusta, we drew $38,250 under our credit facility. In June 2013, in connection with our acquisition of D&I, we drew $100,000 under our credit facility. In March 2014, we repaid $13,500 under our credit facility. The remaining outstanding balance of the credit facility was repaid in full on April 15, 2014 with the proceeds from a public offering of our common units. On April 28, 2014, the Partnership entered into a senior secured term loan credit facility that permits aggregate borrowings of up to $200,000, which was fully drawn down on April 28, 2014. The outstanding balance of $197,118 carries an interest rate of 4.75% as of September 30, 2014.

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Our Assets and Operations

We own and operate the Wyeville facility, which is located in Monroe County, Wisconsin and, as of December 31, 2013, contained 62.6 million tons of proven, recoverable saleable sand reserves. As of April 28, 2014, we own a 98.0% interest in the Augusta facility, which is located in Eau Claire County, Wisconsin and, as of December 31, 2013, contained 46.8 million tons of proven, recoverable sand reserves. According to John T. Boyd, a leading mining consulting firm focused on the mineral and natural gas industries ("John T. Boyd"), our proven reserves at these facilities consist of coarse grade Northern White sand exceeding API specifications. Analysis of our sand at these facilities by independent third-party testing companies indicates that it demonstrates characteristics exceeding API specifications with regard to crush strength, turbidity and roundness and sphericity.

During the third quarter of 2013, we began selling 100 mesh product to customers. During 2014, we completed construction of additional equipment and silo storage facilities to store 100 mesh product at our facilities. During the third quarter of 2014, our sponsor completed construction of the 1,277 acre facility with integrated rail infrastructure, located in Independence, Wisconsin (the "Whitehall facility"). As of December 31, 2013, this facility contained 84.1 million tons of proven, recoverable salable sand reserves and is capable of delivering approximately 2,600,000 tons of frac sand per year.

As of November 1, 2014, we had contracted to sell 3.8 million tons in 2014 and 6.6 million tons in 2015 from our production facilities and destination terminals. Based on reserve reports prepared by John T. Boyd, and assuming production at our rated capacity of 3,200,000 tons of 20/70 frac sand per year, our production facilities have an implied average 34-year reserve life as of December 31, 2013.

As of September 30, 2014, we operated 14 destination rail-based terminal locations throughout the Marcellus, Permian and Utica shale basins. Our destination terminals include 296,200 tons of rail storage capacity and we are currently in the process of expanding our silo storage capacity in the Marcellus and Utica shales by more than 70,000 tons, which will result in over 100,000 tons of silo storage capacity in this region. Our Minerva, Pittston, Smithfield and Wellsboro terminals are capable of accommodating unit trains.

We are continuously looking to increase the number of destination terminals we operate and expand our geographic footprint, allowing us to further enhance our customer service and putting us in a stronger position to take advantage of opportunistic short term pricing agreements. Our destination terminals are strategically located to provide access to Class I railroads, which enables us to cost effectively ship product from our production facilities in Wisconsin. We also have the ability to connect to short-line railroads as necessary to meet our customers' evolving in-basin product needs. As of September 30, 2014, we leased or owned 2,070 railcars used to transport our sand from origin to destination and manage a fleet of approximately 3,900 additional railcars dedicated to our facilities by our customers or the Class I railroads.

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How We Generate Revenue

We generate revenue by excavating, processing and delivering frac sand and providing related services. A substantial portion of our frac sand is sold to our customers under long-term contracts that require our customers to pay a specified price for a specified annual volume of sand, which contracts have current terms expiring between 2016 and 2019. Each contract defines the minimum volume of frac sand that the customer is required to purchase monthly and annually, the volume that we are required to make available, the technical specifications of the product, the price per ton and liquidated damages in the event either we or the customer fails to meet minimum requirements. Prices in our current contracts are fixed for the entire term of the contracts with certain volumes being subject to annual fixed price escalators. As a result, our revenue during the duration of these contracts may not follow broader industry pricing trends.

Delivery of sand to our customers may occur at the rail origin or at the destination terminal. We generate service revenues through performance of transportation services including railcar storage fees, transload services, silo storage and other miscellaneous services performed on behalf of our customers. In addition to our frac sand and service revenues, we lease silo space to customers under long-term lease agreements, which typically require monthly payments over the term of the lease.

Due to sustained freezing temperatures in our area of operation during winter months, it is industry practice to halt excavation activities and operation of the wet plant during those months. As a result, we excavate and wash sand in excess of current delivery requirements during the months when those facilities are operational. This excess sand is placed in stockpiles that feed the dry plant and fill customer orders throughout the year.

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Costs of Conducting Our Business

The principal expenses involved in production of raw frac sand are excavation costs, labor, utilities, maintenance and royalties. We have a contract with a third party to excavate raw frac sand, deliver the raw frac sand to our processing facility and move the sand from our wet plant to our dry plant. We pay a fixed price per ton excavated and delivered without regard to the amount of sand excavated that meets API specifications. Accordingly, we incur excavation costs with respect to the excavation of sand and other materials from which we ultimately do not derive revenue (rejected materials), and for sand which is still to be processed through the dry plant and not yet sold. However, the ratio of rejected materials to total amounts excavated has been, and we believe will continue to be, in line with our expectations, given the extensive core sampling and other testing we undertook at our facilities.

Labor costs associated with employees at our processing facilities represent the most significant cost of converting raw frac sand to finished product. We incur utility costs in connection with the operation of our processing facility, primarily electricity and natural gas, which are both susceptible to fluctuations. Our facilities require periodic scheduled maintenance to ensure efficient operation and to minimize downtime. Excavation, direct and indirect labor, utilities and maintenance costs are capitalized as a component of inventory and are reflected in cost of goods sold when inventory is sold.

We pay royalties to third parties at our facilities at various rates, as defined in the individual royalty agreements, at an aggregate rate of approximately $2.50 to $6.15 per ton of sand excavated, delivered at our on-site rail facilities and paid for by our customers.

The principal expenses involved in distribution of raw sand are the cost of purchased sand, freight charges, fuel surcharges, terminal switch fees, demurrage costs, storage fees, labor and rent.

We purchase sand through a long-term supply agreement with a third party at a specified price per ton, through the spot market and also from our Sponsor's Whitehall facility. We incur transportation costs including trucking, rail freight charges and fuel surcharges when transporting our sand from its origin to destination. We utilize a diverse base of railroads to transport our sand and transportation costs are typically negotiated through long-term working relationships.

In addition to our sand and transportation costs, we incur other costs, some of which are passed through to our customers. For example, we incur terminal switch fees payable to the railroads when they transport to certain of our locations along with demurrage and storage fees. We also pay demurrage and storage fees when we utilize system railcars as additional storage capacity at our terminals. Other key components involved in transporting and offloading our sand shipments include on-site labor and railcar rental fees.

We incur general and administrative costs related to our corporate operations. Under our partnership agreement and the services agreement with our sponsor and our General Partner, our sponsor has discretion to determine, in good faith, the proper allocation of costs and expenses to us for its services, including expenses incurred by our General Partner and its affiliates on our behalf. The allocation of such costs are based on management’s best estimate of time and effort spent on the respective operations and facilities. Under these agreements, we reimburse our sponsor for all direct and indirect costs incurred on our behalf.

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How We Evaluate Our Operations
We utilize various financial and operational measures to evaluate our operations. Management measures the performance of the Partnership through performance indicators, including gross profit, production costs, earnings before interest, taxes, depreciation and amortization ("EBITDA"), and distributable cash flow.
Gross Profit and Production Costs
Price per ton excavated is fixed, and royalties are generally fixed based on tons excavated, delivered and paid for. Considering this largely fixed cost base, our production costs will largely be affected by our ability to control other direct and indirect costs associated with processing frac sand. We use production costs, which we define as costs of goods sold at our production facilities excluding depreciation and depletion, to measure our financial performance. We believe production costs is a meaningful measure because it provides a measure of operating performance that is unaffected by historical cost basis.
Gross profit is further impacted by our ability to control other direct and indirect costs associated with the transportation and delivery of frac sand to our customers. We use gross profit, which we define as revenues less costs of goods sold, to measure our financial performance. We believe gross profit is a meaningful measure because it provides a measure of profitability and operating performance.
As a result, production volumes, costs of goods sold per ton, production costs per ton, sales volumes, sales price per ton sold and gross profit are key metrics used by management to evaluate our results of operations.
EBITDA and Distributable Cash Flow
We view EBITDA as an important indicator of performance. We define EBITDA as net income plus depreciation, depletion and amortization and interest expense, net of interest income. We use distributable cash flow to evaluate whether we are generating sufficient cash flow to support distributions to our unitholders. We define distributable cash flow as EBITDA less cash paid for interest expense, income attributable to non-controlling interests and maintenance and replacement capital expenditures, including accrual for reserve replacement, plus accretion of asset retirement obligations and non-cash unit based compensation. Distributable cash flow will not reflect changes in working capital balances. EBITDA is a supplemental measure utilized by our management and other users of our financial statements such as investors, commercial banks, research analysts and others, to assess the financial performance of our assets without regard to financing methods, capital structure or historical cost basis. Distributable cash flow is a supplemental measure used to measure the ability of our assets to generate cash sufficient to support our indebtedness and make cash distributions to our unitholders.
Note Regarding Non-GAAP Financial Measures
EBITDA and distributable cash flow are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial condition and results of operations. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA or distributable cash flow in isolation or as substitutes for analysis of our results as reported under GAAP. Because EBITDA and distributable cash flow may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.
The following table presents a reconciliation of EBITDA and distributable cash flow to the most directly comparable GAAP financial measure, as applicable, for each of the periods indicated:

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(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Reconciliation of distributable cash flow to net income:				
Net income	$37,321	$14,417	$85,646	$40,531
Depreciation and depletion expense	2,677	2,189	6,581	4,259
Amortization expense	781	1,662	4,385	2,025
Interest expense	3,111	1,273	6,836	2,301
EBITDA	$43,890	$19,541	$103,448	$49,116
Less: Cash interest paid	(2,702)	(1,178)	(5,984)	(1,854)
Less: Income attributable to non-controlling interest	(292)	(62)	(704)	(150)
Less: Maintenance and replacement capital expenditures, including accrual for reserve replacement (1)	(1,387)	(807)	(3,644)	(2,117)
Add: Accretion of asset retirement obligation	61	57	184	172
Add: Unit based compensation	569	—	922	—
Distributable cash flow	$40,139	$17,551	$94,222	$45,167
Adjusted for: Distributable cash flow attributable to Hi-Crush Augusta LLC, net of intercompany eliminations, prior to the Augusta Contribution (2)	—	50	(7,199)	2,511
Distributable cash flow attributable to Hi-Crush Partners LP	40,139	17,601	87,023	47,678
Less: Distributable cash flow attributable to holders of incentive distribution rights	(7,791)	—	(10,244)	—
Distributable cash flow attributable to common and subordinated unitholders	$32,348	$17,601	$76,779	$47,678

(1) Maintenance and replacement capital expenditures, including accrual for reserve replacement, were determined based on an estimated reserve replacement cost of $1.35 per ton produced and delivered during the period. Such expenditures include those associated with the replacement of equipment and sand reserves, to the extent that such expenditures are made to maintain our long-term operating capacity. The amount presented does not represent an actual reserve account or requirement to spend the capital.

(2) The Partnership's historical financial information has been recast to consolidate Augusta for all periods presented. For purposes of calculating distributable cash flow attributable to Hi-Crush Partners LP, the Partnership excludes the incremental amount of recasted distributable cash flow earned during the periods prior to the Augusta Contribution.

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Results of Operations

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

The following table presents consolidated revenues and expenses for the periods indicated.

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Revenues	$102,316	$53,158
Costs of goods sold:		
Production costs	14,274	11,411
Other cost of sales	38,328	18,047
Depreciation, depletion and amortization	3,038	2,410
Gross profit	46,676	21,290
Operating costs and expenses:		
General and administrative	6,183	5,543
Exploration expense	—	—
Accretion of asset retirement obligation	61	57
Income from operations	40,432	15,690
Other income (expense):		
Interest expense	(3,111)	(1,273)
Net income	37,321	14,417
Income attributable to non-controlling interest	(292)	(62)
Net income attributable to Hi-Crush Partners LP	$37,029	$14,355

Revenues

Revenues generated from the sale of frac sand were $83,420 for the three months ended September 30, 2014, during which we sold 1,180,602 tons of frac sand. Revenue was $48,505 for the three months ended September 30, 2013, during which we sold 709,488 tons of frac sand. Average sales price per ton was $71 for the three months ended September 30, 2014 and $68 for the three months ended September 30, 2013. The change in sales price between the two periods is due to the mix in pricing of FOB plant and FOB destination (68% and 69% of tons were sold FOB plant for the three months ended September 30, 2014 and 2013, respectively), the mix of product mesh sizes sold, and the impact of 5-10% price increases on spot sales at our distribution terminals.

Other revenue related to transload and terminaling, silo leases and other services was $18,896 and $4,653 for the three months ended September 30, 2014 and 2013, respectively. The increase in such revenues was driven by increased transloading services provided at our destination terminals.

Costs of goods sold – Production costs

We incurred production costs of $14,274, or $13.89 per ton produced and delivered, for the three months ended September 30, 2014, compared to $11,411, or $19.09 per ton produced and delivered for the three months ended September 30, 2013.

The principal components of production costs involved in operating our business are excavation costs, plant operating costs and royalties. Such costs, with the exception of royalties, are capitalized as a component of inventory and are reflected in costs of goods sold when inventory is sold. Royalties are charged to expense in the period in which they are incurred. The following table provides a comparison of the drivers impacting the level of production costs for the three months ended September 30, 2014 and 2013.

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	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Excavation costs	$3,211	3,272
Plant operating costs	7,052	5,960
Royalties	4,011	$2,179
Total production costs	$14,274	$11,411

The overall increase in production costs was attributable to higher tonnage produced and delivered from our production facilities during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, partially offset by reduced per ton costs due to operating efficiencies and reduced volumes of rejected material. Both factors are attributable, in part, to the increased production and sale of 100 mesh sand during the three months ended September 30, 2014 compared to the same period in the prior year.

Costs of goods sold – Other cost of sales

The other principal costs of goods sold are the cost of purchased sand, freight charges, fuel surcharges, terminal switch fees, demurrage costs, storage fees, labor and rent. The cost of purchased sand and transportation related charges are capitalized as a component of inventory and are reflected in cost of goods sold when inventory is sold. Other cost components, including demurrage costs, storage fees, labor and rent are charged to costs of goods sold in the period in which they are incurred.

We purchase sand through a long-term supply agreement with a third party at a specified price per ton, through the spot market and from our Sponsor's Whitehall facility. For the three months ended September 30, 2014 and 2013, we incurred $4,178 and $8,016 of purchased sand costs, respectively. In addition, during the three months ended September 30, 2013, we incurred $838 of non-cash costs associated with the sale of inventory previously held as of June 10, 2013 and marked up to fair value in connection with the D&I acquisition.

We incur transportation costs including freight charges and fuel surcharges when transporting our sand from its origin to destination. For the three months ended September 30, 2014 and 2013, we incurred $26,636 and $8,215 of transportation costs, respectively. Other costs of sales was $4,503 and $2,096 during the three months ended September 30, 2014 and 2013, respectively, and was primarily comprised of demurrage, storage fees and on-site labor. The increase in transportation and other costs of sales was driven by increased throughput of tonnage at our destination terminals.

Costs of goods sold – Depreciation, depletion and amortization of intangible assets

For the three months ended September 30, 2014 and 2013, we incurred $3,038 and $2,410, respectively, of depreciation, depletion and amortization expense.

Gross Profit

Gross profit was $46,676 and $21,290 for the three months ended September 30, 2014 and 2013, respectively. Gross profit was primarily impacted by additional tons sold and reduced production per ton produced and delivered.

Operating Costs and Expenses

For the three months ended September 30, 2014 and 2013, we incurred general and administrative of expenses of $6,183 and $5,543, respectively. The increase in such costs was attributable to unit based compensation of $569, and higher payroll and related costs from additional sponsor headcount.

Interest Expense

Interest expense was $3,111 and $1,273 for the three months ended September 30, 2014 and 2013, respectively. The increase in interest expense during the 2014 period was primarily attributable to interest on our new $200,000 senior secured term loan facility, which was fully drawn on April 28, 2014 to finance the Augusta Contribution.

Net Income Attributable to Hi-Crush Partners LP

Net income attributable to Hi-Crush Partners LP was $37,029 and $14,355 for the three months ended September 30, 2014 and 2013, respectively.

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Results of Operations
Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013
The following table presents consolidated revenues and expenses for the periods indicated.

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues	$255,618	$114,995
Costs of goods sold:		
Production costs	42,644	29,981
Other cost of sales	93,049	23,789
Depreciation, depletion and amortization	7,972	4,843
Gross profit	111,953	56,382
Operating costs and expenses:		
General and administrative	19,287	13,322
Exploration expense	—	56
Accretion of asset retirement obligation	184	172
Income from operations	92,482	42,832
Other income (expense):		
Interest expense	(6,836)	(2,301)
Net income	85,646	40,531
Income attributable to non-controlling interest	(704)	(150)
Net income attributable to Hi-Crush Partners LP	$84,942	$40,381

Revenues
Revenues generated from the sale of frac sand were $217,648 for the nine months ended September 30, 2014, during which we sold 3,102,897 tons of frac sand. Revenue was $109,345 for the nine months ended September 30, 2013, during which we sold 1,706,025 tons of frac sand. Average sales price per ton was $70 for the nine months ended September 30, 2014 and $64 for the nine months ended September 30, 2013. The change in sales price between the two periods is due to the mix in pricing of FOB plant and FOB destination (67% and 84% of tons were sold FOB plant for the nine months ended September 30, 2014 and 2013, respectively), the mix of product mesh sizes sold, and the impact of 5-10% price increases on spot sales at our distribution terminals.
Other revenue related to transload and terminaling, silo leases and other services was $37,970 and $5,650 for the nine months ended September 30, 2014 and 2013. The increase in such revenues was driven by increased transloading services provided at our destination terminals.
Costs of goods sold – Production costs
We incurred production costs of $42,644, or $15.80 per ton produced and delivered, for the nine months ended September 30, 2014, compared to $29,981, or $19.50 per ton produced and delivered for the nine months ended September 30, 2013.
The principal components of production costs involved in operating our business are excavation costs, plant operating costs and royalties. Such costs, with the exception of royalties, are capitalized as a component of inventory and are reflected in costs of goods sold when inventory is sold. Royalties are charged to expense in the period in which they are incurred. The following table provides a comparison of the drivers impacting the level of production costs for the nine months ended September 30, 2014 and 2013.

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	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Excavation costs	$12,721	$8,031
Plant operating costs	19,179	16,332
Royalties	10,744	5,618
Total production costs	$42,644	$29,981

The overall increase in production costs was attributable to higher tonnage produced and delivered from our production facilities during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, partially offset by reduced per ton costs due to operating efficiencies and reduced volumes of rejected material. Both factors are attributable, in part, to the increased production and sale of 100 mesh sand during the nine months ended September 30, 2014 compared to the same period in the prior year.

Costs of goods sold – Other cost of sales

The other principal costs of goods sold are the cost of purchased sand, freight charges, fuel surcharges, terminal switch fees, demurrage costs, storage fees, labor and rent. The cost of purchased sand and transportation related charges are capitalized as a component of inventory and are reflected in cost of goods sold when inventory is sold. Other cost components, including demurrage costs, storage fees, labor and rent are charged to costs of goods sold in the period in which they are incurred.

We purchase sand through a long-term supply agreement with a third party at a specified price per ton and through the spot market. For the nine months ended September 30, 2014 and 2013, we incurred $11,379 and $10,790 of purchased sand costs, respectively. In addition, during the nine months ended September 30, 2013, we incurred $1,171 of non-cash costs associated with the sale of inventory previously held as of June 10, 2013 and marked up to fair value in connection with the D&I acquisition.

We incur transportation costs including freight charges and fuel surcharges when transporting our sand from its origin to destination. For the nine months ended September 30, 2014 and 2013, we incurred $67,886 and $10,157 of transportation costs, respectively. The increase in transportation costs is primarily due to the timing of the June 10, 2013 acquisition of D&I and increased throughput of tonnage at our destination terminals.

Other costs of sales was $10,773 and $2,789 during the nine months ended September 30, 2014 and 2013, respectively, and was primarily comprised of demurrage, storage fees and on-site labor. Demurrage and storage fees were significantly lower in the nine months ended September 30, 2014 compared to the period subsequent to the June 10, 2013 acquisition of D&I due to reduced volumes held in inventory at the destination terminals.

Costs of goods sold – Depreciation, depletion and amortization of intangible assets

For the nine months ended September 30, 2014 and 2013, we incurred $7,972 and $4,843, respectively, of depreciation, depletion and amortization expense. The increase in such costs is attributable to increased deprecation and amortization resulting from the timing of the June 10, 2013 acquisition of D&I.

Gross Profit

Gross profit was $111,953 and $56,382 for the nine months ended September 30, 2014 and 2013, respectively. Gross profit was primarily impacted by additional tons sold and additional gross profit contributed from the D&I operations.

Operating Costs and Expenses

For the nine months ended September 30, 2014 and 2013, we incurred general and administrative expenses of $19,287 and $13,322, respectively. The increase in such costs was attributable to $768 of transaction costs associated with the Augusta Contribution, increased amortization of intangible assets of $1,554, unit based compensation of $822, and higher payroll and related costs from additional sponsor headcount.

Interest Expense

Interest expense was $6,836 and $2,301 for the nine months ended September 30, 2014 and 2013, respectively. The increase in interest expense during the 2014 period was primarily attributable to interest on our new $200,000 senior secured term loan facility, which was fully drawn on April 28, 2014 to finance the Augusta Contribution.

Net Income Attributable to Hi-Crush Partners LP

Net income attributable to Hi-Crush Partners LP was $84,942 and $40,381 for the nine months ended September 30, 2014 and 2013, respectively.

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Liquidity and Capital Resources

Overview

We expect our principal sources of liquidity will be cash generated by our operations, supplemented by borrowings under our amended and restated $150,000 five-year revolving credit facility, as necessary. We believe that cash from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements. As of October 31, 2014, our sources of liquidity consisted of $18,807 of available cash and $143,813 pursuant to available borrowings under our revolving credit facility ($150,000, net of $6,187 letter of credit commitments). In addition, our General Partner is authorized to issue an unlimited number of units without the approval of existing limited partner unitholders.

We expect that our future principal uses of cash will be for working capital, making distributions to our unitholders, capital expenditures and funding any debt service obligations. We are incurring construction costs to expand the annual capacity of the Augusta facility by 1.0 million tons. The expansion is expected to be completed in 2014 at an approximate cost of $25,000. On October 15, 2014, our General Partner's board of directors declared a cash distribution for the third quarter of 2014 of $0.6250 per common and subordinated unit, or $2.50 on an annualized basis, and a distribution of $695 was declared for our holders of incentive distribution rights. This represented the ninth distribution declared by us and corresponds to a 32% increase from our minimum quarterly distribution of $0.4750 per unit. This distribution will be paid on November 14, 2014 to unitholders of record on October 31, 2014. On a going-forward basis, we intend to pay a quarterly distribution of $0.6250 per common and subordinated unit per quarter, which equates to approximately $23,095 per quarter, or $92,380 per year, based on the number of common and subordinated units outstanding, to the extent we have sufficient operating surplus, as defined in our partnership agreement, and cash generated from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our General Partner and its affiliates. If such distribution is paid, we intend to pay a quarterly distribution to our holders of incentive distribution rights of $695 per quarter, or $2,780 per year. We do not have a legal or contractual obligation to pay this distribution.

Working Capital

Working capital is the amount by which current assets exceed current liabilities and is a measure of our ability to pay our liabilities as they become due. As of September 30, 2014, we had a positive working capital balance of $44,572 as compared to a balance of $33,356 at December 31, 2013.

	September 30, 2014	December 31, 2013
Current assets:		
Accounts receivable	$58,949	$37,442
Inventories	22,385	22,418
Prepaid and other current assets	2,600	1,625
Total current assets	83,934	61,485
Current liabilities:		
Accounts payable	15,850	10,108
Accrued and other current liabilities	14,800	7,669
Due to sponsor	6,712	10,352
Current portion of long-term debt	2,000	—
Total current liabilities	39,362	28,129
Working capital	$44,572	$33,356

Accounts receivable increased by $21,507 during the nine months ended September 30, 2014, which was driven by higher sales volumes in the month of September 2014 compared to December 2013.

Our inventory consists primarily of sand that has been excavated and processed through the wet plant, and finished goods in transit or in storage at our distribution terminals. The decrease in our inventory was primarily driven by decreased finished goods inventory of $1,155 during the period, offset by a $1,222 increase to our stockpile for processing through the dry plant for the upcoming winter season. Most of our finished goods inventory is either in transit to our customers or held at our terminals for future sale.

Accounts payable and accrued liabilities increased by $12,873 on a combined basis. The increase was primarily due to an increase in outstanding capital expenditures arising from the expansion project at our Augusta facility. The increase is also attributable to higher sales volumes and the wet plants not operating during the winter months, resulting in higher purchasing and other spending in the third quarter 2014 compared to the fourth quarter 2013.

Our accounts payable to our sponsor decreased during the nine months ended September 30, 2014, primarily as a result of the timing of payments made by Augusta to the Sponsor leading up to the Augusta Contribution.

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	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net cash provided by (used in):		
Operating activities	$77,838	$52,279
Investing activities	(246,571)	$(104,163)
Financing activities	168,750	$65,540

Cash Flows - Nine Months Ended September 30, 2014 and 2013

Operating Activities

Net cash provided by operating activities was $77,838 and $52,279 for the nine months ended September 30, 2014 and 2013, respectively. Operating cash flows include $85,646 and $40,531 of net income earned during the nine months ended September 30, 2014 and 2013, respectively, adjusted for non-cash operating expenses and changes in operating assets and liabilities described above. The increase in cash flows from operations was primarily attributable to additional cash flows generated from increased sales volumes.

Investing Activities

Net cash used in investing activities was $246,571 for the nine months ended September 30, 2014 and consisted of the $224,250 cost of the Augusta Contribution, capital expenditures primarily associated with the expansion of our Augusta facility, purchases of additional equipment and construction of facilities to produce and store 100 mesh product at our facilities, and construction costs for a new terminal facility in the Permian basin. Net cash used in investing activities was $104,163 for the nine months ended September 30, 2013 and consisted primarily of cash payments of $95,277 paid for D&I Silica, LLC and construction costs related to a new conveyor system installed over the rail line bisecting the Wyeville facility.

Financing Activities

Net cash provided by financing activities was $168,750 for the nine months ended September 30, 2014, and was comprised of $198,000 of cash proceeds from the term loan issuance and $170,693 from the issuance of 4,325,000 common units, offset by $53,578 of distributions to our unitholders, $7,096 of loan origination costs, a $138,250 repayment of our Prior Credit Facility and a $1,000 repayment of our term loan.

Net cash provided by financing activities was $65,540 for the nine months ended September 30, 2013, which included receipts of $138,250 of borrowings under our Prior Credit Facility and $5,615 of net repayments of affiliate financing from our sponsor. These inflows were offset by $44,270 of distributions, $805 of loan origination costs and a $33,250 repayment of long-term debt by Augusta.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are likely to have a material effect on our current or future financial condition, changes in financial condition, sales, expenses, results of operations, liquidity, capital expenditures or capital resources.

The Partnership has long-term operating leases for rail access, railcars and equipment at its terminal sites, which are also under long-term lease agreements with various railroads.

Capital Requirements

Our sponsor contributed the net assets of its Wyeville facility and operations to us in connection with our initial public offering. We do not have any significant anticipated capital requirements associated with the Wyeville facility and there are currently no significant required capital commitments related to our terminal facilities. We are incurring construction costs to expand the annual capacity of the Augusta facility by 1.0 million tons. The expansion is expected to be completed in 2014 at an approximate cost of $25,000.

Revolving Credit Facility and Senior Secured Term Loan Facility

As of October 31, 2014, we have a $150,000 senior secured revolving credit facility (our "revolving credit facility"), which matures in April 2019. This facility amended, restated and replaced our prior $200,000 four-year senior secured revolving credit facility. As of October 31, 2014, we had no indebtedness and $143,813 of undrawn borrowing capacity ($150,000, net of $6,187 letter of credit commitments) under our revolving credit facility. The revolving credit facility is available to fund working capital and for other general corporate purposes, including the making of certain restricted payments permitted therein. Borrowings under our revolving credit facility are secured by substantially all of our assets.

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As of October 31, 2014, we have a $200,000 senior secured term loan facility (our "senior secured term loan facility"), which matures in April 2021. As of October 31, 2014, the senior secured term loan facility was fully drawn. The senior secured term loan facility permits us to add one or more incremental term loan facilities in an aggregate amount not to exceed $100,000. Any incremental senior secured term loan facility would be on terms to be agreed among us, the administrative agent under the senior secured term loan facility and the lenders who agree to participate in the incremental facility. Borrowings under our senior secured term loan facility are secured by substantially all of our assets.

For additional information regarding our revolving credit facility and our senior secured term loan facility, see Note 9 of the Notes to Unaudited Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

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Forward-Looking Statements

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements. Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition, or forecasts of future events. Words such as “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “plan,” “estimate,” “anticipate,” “believe,” “project,” “budget,” “potential,” or “continue,” and similar expressions ar identify forward-looking statements. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2013. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- the amount of frac sand we are able to excavate and process, which could be adversely affected by, among other things, operating difficulties and unusual or unfavorable geologic conditions;
- the volume of frac sand we are able to buy and sell;
- the price at which we are able to buy and sell frac sand;
- changes in the price and availability of natural gas or electricity;
- changes in prevailing economic conditions;
- unanticipated ground, grade or water conditions;
- inclement or hazardous weather conditions, including flooding, and the physical impacts of climate change;
- environmental hazards;
- difficulties in obtaining or renewing environmental permits;
- industrial accidents;
- changes in laws and regulations (or the interpretation thereof) related to the mining and hydraulic fracturing industries, silica dust exposure or the environment;
- the outcome of litigation, claims or assessments, including unasserted claims;
- inability to acquire or maintain necessary permits or mining or water rights;
- facility shutdowns in response to environmental regulatory actions;
- inability to obtain necessary production equipment or replacement parts;
- reduction in the amount of water available for processing;
- technical difficulties or failures;
- labor disputes and disputes with our excavation contractor;
- late delivery of supplies;
- difficulty collecting receivables;
- inability of our customers to take delivery;
- fires, explosions or other accidents;
- cave-ins, pit wall failures or rock falls;
- our ability to borrow funds and access capital markets;
- changes in the political environment of the drilling basins in which we operate; and
- changes in the railroad infrastructure, price, capacity and availability, including the potential for rail line washouts.

All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.
(Dollars in thousands)
Quantitative and Qualitative Disclosure of Market Risks
Market risk is the risk of loss arising from adverse changes in market rates and prices. Historically, our risks have been predominantly related to potential changes in the fair value of our long-term debt due to fluctuations in applicable market interest rates and those risks that arise in the normal course of business, as we do not engage in speculative, non-operating transactions, nor do we utilize financial instruments or derivative instruments for trading purposes.
The market for frac sand is indirectly exposed to fluctuations in the prices of crude oil and natural gas to the extent such fluctuations impact drilling and completion activity levels and thus impact the activity levels of our customers in the pressure pumping industry. However, because we generate a substantial amount of our revenues under long-term supply contracts, we believe we have only limited exposure to short-term fluctuations in the prices of crude oil and natural gas. We do not intend to hedge our indirect exposure to commodity risk.
Interest Rate Risk
As of September 30, 2014, we had $199,000 of principal outstanding under our senior secured term loan facility, with an effective interest rate of 4.75%. Assuming no change in the amount outstanding, the impact on interest expense of a 10% increase or decrease in the average interest rate would be approximately $945 per year.
Credit Risk – Customer Concentration
More than 50% of our volumes are sold to three customers. Our customers are generally pressure pumping service providers. This concentration of counterparties operating in a single industry may increase our overall exposure to credit risk in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. If a customer defaults or if any of our contracts expires in accordance with its terms, and we are unable to renew or replace these contracts, our gross profit and cash flows, and our ability to make cash distributions to our unitholders may be adversely affected.
Recent Accounting Pronouncements
In August 2014, the Financial Accounting Standards Board issued ASU 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if “conditions or events raise substantial doubt about the entity’s ability to continue as a going concern.” The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Partnership is currently evaluating the future disclosure requirements under this guidance.
Critical Accounting Policies and Estimates
The discussion and analysis of our financial condition and results of operations is based on 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 we believe to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.
A discussion of our significant accounting policies is included in Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K, as filed with the SEC on February 28, 2014. Significant estimates include, but are not limited to, purchase accounting allocations and valuations, asset retirement obligations; depletion of mineral rights; inventory valuation, valuation of unit based compensation; and impairment of long-lived and intangible assets.

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ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Co-Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS.

Legal Proceedings

The information required by this Item is contained in Note 14 of the Notes to Unaudited Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

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ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on February 28, 2014. There have been no material changes to the risk factors previously disclosed under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, except as set forth below:

We have entered into a revolving credit facility and senior secured term loan facility which contain restrictions and financial covenants that may restrict our business and financing activities.

Our revolving credit facility and senior secured term loan facility place financial restrictions and operating restrictions on our business, which may limit our flexibility to respond to opportunities and may harm our business, financial condition and results of operations.

The operating and financial restrictions and covenants in our revolving credit facility and senior secured term loan facility restrict, and potentially any other future financing agreements that we may enter into could restrict, our ability to finance future operations or capital needs, to engage in, expand or pursue our business activities or to make distributions to our unitholders. For example, our revolving credit facility contains covenants requiring us to maintain a leverage ratio of not more than 3.50 to 1.00 and a minimum interest coverage ratio of not less than 2.50 to 1.00. Additionally, our revolving credit facility and senior secured term loan facility restrict our ability to, among other things:

- enter into a merger, consolidate or acquire capital in or assets of other entities;
- incur additional indebtedness;
- incur liens on property;
- make certain investments;
- enter into transactions with affiliates;
- pay cash dividends; and
- enter into sale lease back transactions.

Our compliance with these provisions may materially adversely affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, finance acquisitions, equipment purchases and development expenditures, or withstand a future downturn in our business.

Our ability to comply with any such restrictions and covenants is uncertain and will be affected by the levels of cash flow from our operations and events or circumstances beyond our control. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in the revolving credit facility or senior secured term loan facility, a significant portion of our indebtedness may become immediately due and payable and our lenders’ commitment to make further loans to us may terminate. We may not have, or be able to obtain, sufficient funds to make these accelerated payments. Even if we could obtain alternative financing, that financing may not be on terms that are favorable or acceptable to us. If we are unable to repay amounts borrowed, the holders of the debt could initiate a bankruptcy proceeding or liquidation proceeding against the collateral. In addition, our obligations under our revolving credit facility and senior secured term loan facility are secured by substantially all of our assets and if we are unable to repay our indebtedness as required under these facilities, the lenders could seek to foreclose on our assets.

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

The following table summarizes our repurchase activity during the three months ended September 30, 2014:

Period	Total Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans	Maximum Number of Units That May Yet be Purchased Under the Plans
Quarter ended September 30, 2014 (1)	299	$63.83	—	—

(1) Of the 1,113 restricted common units that vested in July 2014, 299 units were sold back to us by employees to cover related withholding tax requirements.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.
None.

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ITEM 4. MINE SAFETY DISCLOSURES.

We adhere to a strict occupational health program aimed at controlling exposure to silica dust, which includes dust sampling, a respiratory protection program, medical surveillance, training and other components. Our safety program is designed to ensure compliance with the standards of our Occupational Health and Safety Manual and U.S. Federal Mine Safety and Health Administration ("MSHA") regulations. For both health and safety issues, extensive training is provided to employees. We have safety committees at our plants made up of salaried and hourly employees. We perform annual internal health and safety audits and conduct semi-annual crisis management drills to test our abilities to respond to various situations. Health and safety programs are administered by our corporate health and safety department with the assistance of plant environmental, health and safety coordinators.

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. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Quarterly Report on Form 10-Q.

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ITEM 5. OTHER INFORMATION.
None.

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ITEM 6. EXHIBITS.
The exhibits to this report are listed in the Exhibit Index.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hi-Crush Partners LP
(Registrant)
By: Hi-Crush GP LLC, its general partner

Date: November 4, 2014 /s/ Laura C. Fulton
Laura C. Fulton, Chief Financial Officer

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HI-CRUSH PARTNERS LP
EXHIBIT INDEX

Exhibit Number	Description
3.1	Certificate of Limited Partnership of Hi-Crush Partners LP (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, Registration No. 333-182574, filed with the SEC on July 9, 2012).
3.2	Second Amended and Restated Agreement of Limited Partnership of Hi-Crush Partners LP, dated January 31, 2013 (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K, filed with the SEC on February 5, 2013).
10.1*	Second Amendment to Supply Agreement, dated August 8, 2014, by and between Weatherford U.S., L.P. and Hi-Crush Operating LLC.
23.1	Consent of John T. Boyd Company (incorporated by reference to Exhibit 23.2 to the Registrant’s Annual Report on Form 10-K, filed with the SEC on February 28, 2014).
31.1	Certification pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by the Principal Executive Officer, filed herewith.
31.2	Certification pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by the Principal Executive Officer, filed herewith.
31.3	Certification pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by the Principal Financial Officer, filed herewith.
32.1	Statement Required by 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Principal Executive Officer, filed herewith. (1)
32.2	Statement Required by 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Principal Executive Officer, filed herewith. (1)
32.3	Statement Required by 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Principal Financial Officer, filed herewith. (1)
95.1	Mine Safety Disclosure Exhibit
101	Interactive Data Files- XBRL

(1) This document is being furnished in accordance with SEC Release Nos. 33-8212 and 34-47551.
* Parts of this exhibit have been omitted pursuant to a request for confidential treatment.