Hi-Crush Partners LP
Form 10-Q
August 05, 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 June 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 19,562,374 common units, 13,640,351 subordinated units and 3,750,000 convertible Class B units outstanding on July 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)

	June 30, 2014	December 31, 2013[(a)]
Assets		
Current assets:		
Cash	$31,128	$20,608
Restricted cash	690	690
Accounts receivable	46,931	37,442
Inventories	18,860	22,418
Prepaid expenses and other current assets	1,662	1,625
Total current assets	99,271	82,783
Property, plant and equipment, net	201,995	195,834
Goodwill and intangible assets, net	68,332	71,936
Other assets	10,298	3,808
Total assets	$379,896	$354,361
Liabilities, Equity and Partners’ Capital		
Current liabilities:		
Accounts payable	$13,075	$10,108
Accrued and other current liabilities	10,860	7,669
Due to Sponsor	6,419	10,352
Current portion of long-term debt	2,000	—
Total current liabilities	32,354	28,129
Long-term debt	195,547	138,250
Asset retirement obligation	4,751	4,628
Total liabilities	232,652	171,007
Commitments and contingencies	—	—
Equity and Partners’ capital:		
General partner interest	—	—
Limited partner interests, 33,202,725 and 28,865,171 units outstanding, respectively	135,765	138,580
Class B units, 3,750,000 units outstanding	9,543	9,543
Total partners’ capital	145,308	148,123
Non-controlling interest	1,936	35,231
Total equity and partners' capital	147,244	183,354
Total liabilities, equity and partners’ capital	$379,896	$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 June 30,		Six Months Ended June 30,	
	2014	2013[(a)]	2014[(a)]	2013[(a)]
Revenues	$82,724	$37,560	$153,302	$61,837
Cost of goods sold (including depreciation, depletion and amortization)	43,859	17,824	88,025	26,744
Gross profit	38,865	19,736	65,277	35,093
Operating costs and expenses:				
General and administrative expenses	6,679	4,472	13,104	7,780
Exploration expense	—	55	—	56
Accretion of asset retirement obligation	66	58	123	115
Income from operations	32,120	15,151	52,050	27,142
Other income (expense):				
Interest expense	(2,315)	(714)	(3,725)	(1,028)
Net income	29,805	14,437	48,325	26,114
Income attributable to non-controlling interest	(264)	(70)	(412)	(88)
Net income attributable to Hi-Crush Partners LP	$29,541	$14,367	$47,913	$26,026
Earnings per unit:				
Common units - basic	$0.77	$0.53	$1.32	$0.93
Subordinated units - basic	$0.77	$0.53	$1.32	$0.93
Common units - diluted	$0.75	$0.53	$1.25	$0.93
Subordinated units - diluted	$0.75	$0.53	$1.25	$0.93

[(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)

	Six Months Ended June 30, 2014[(a)]	Six Months Ended June 30, 2013[(a)]
Operating activities:		
Net income	$48,325	$26,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and depletion	3,904	2,070
Amortization of intangible assets	3,604	363
Amortization of deferred charges into interest expense	444	190
Management fees paid by Member on behalf of Hi-Crush Augusta LLC	492	604
Accretion of asset retirement obligation	123	115
Loss on replacement of equipment	—	191
Unit based compensation to independent directors and employees	353	100
Changes in operating assets and liabilities:		
Accounts receivable	(9,489)	(5,629)
Prepaid expenses and other current assets	223	385
Inventories	3,285	775
Other assets	(79)	—
Accounts payable	3,236	(575)
Accrued and other current liabilities	3,191	2,168
Due to Sponsor	(3,933)	8,782
Deferred revenue	—	(1,715)
Net cash provided by operating activities	53,679	33,938
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	(10,061)	(6,472)
Net cash used in investing activities	(234,311)	(101,749)
Financing activities:		
Proceeds from equity issuance, net	170,828	—
Proceeds from issuance of long-term debt	198,000	138,250
Repayment of long-term debt	(138,750)	(33,250)
Affiliate financing, net	—	5,615
Loan origination costs	(6,808)	(791)
Distributions paid	(32,118)	(30,559)
Net cash provided by financing activities	191,152	79,265
Net increase in cash	10,520	11,454
Cash:		
Beginning of period	20,608	10,498
End of period	$31,128	$21,952
Non-cash investing and financing activities:		
Decrease in accounts payable and accrued and other current liabilities for additions to property, plant and equipment	$(269)	$(3,436)
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	3,282	676

(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	—	—	155	—	—	155	155	—	155
Management fees paid by sponsor on behalf of the Partnership[(a)]	—	—	—	—	—	—	—	492	492
Issuance of 4,325,000 common units	—	—	170,828	—	—	170,828	170,828	—	170,828
Acquisition of 390,000 common units of Hi-Crush Augusta LLC	—	—	(111,794)	—	(78,257)	(190,051)	(190,051)	(34,199)	(224,250)
Cash distributions	—	—	(18,000)	—	(14,118)	(32,118)	(32,118)	—	(32,118)
Net income[(a)]	—	—	26,521	—	21,392	47,913	47,913	412	48,325
Balance at June 30, 2014	$—	$9,543	$156,489	$ —	$ (20,724)	$135,765	$145,308	$ 1,936	$147,244

[(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 does not receive distributions on the Class B units unless certain thresholds are met and until they convert into common units. The conditions precedent to conversion of the Class B units will be satisfied upon payment of our distribution on August 15, 2014 and, upon such payment, the sponsor, who is the sole owner of our Class B units, has elected to convert all of the 3,750,000 Class B units into common units on a one-for-one basis. The sponsor will be 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.
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"). 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 $170,828. 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 owned 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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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 $200,996 as of June 30, 2014, based on the market price quoted from external sources, compared with a carrying value of $199,500. 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.

As the 3,750,000 Class B units do 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, they are not deemed to be participating securities in their current form. In addition, the conversion of the Class B units into common units is 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 are satisfied, the Class B units are not included in our calculation of either basic or diluted earnings per unit. The Partnership expects the Class B units will convert to common units on August 15, 2014, at which time income allocations will commence on such units. The sponsor will be 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 second quarter of 2014. In addition, the Class B units were included in our calculation of diluted earnings per unit for the second quarter of 2014.

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.

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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 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 June 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 June 2014, the Financial Accounting Standards Board ("FASB") issued amended guidance on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amended guidance, which may be applied on a prospective or retrospective basis, will be effective for the Partnership beginning January 1, 2016. The Partnership anticipates that the adoption of this amended guidance will not materially affect its financial position, results of operations or cash flows.

In May 2014, the FASB issued an update that supersedes most current revenue recognition guidance, as well as some cost recognition guidance. The update requires that an entity recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires new qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, information about contract balances and performance obligations, and assets recognized from costs incurred to obtain or fulfill a contract. The authoritative guidance, which may be applied on a full retrospective or modified retrospective basis whereby the entity records a cumulative effect of initially applying this update at the date of initial application, will be effective for the Partnership beginning January 1, 2017. Early adoption is not permitted. The Partnership is currently evaluating the potential method and impact of this authoritative guidance on its consolidated financial statements.

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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 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.

	Three Months Ended June 30, 2013 Pro Forma	Six Months Ended June 30, 2013 Pro Forma
Revenues	$64,170	$116,889
Net income attributable to Hi-Crush Partners LP	$20,484	$35,877
Net income per limited partner unit:		
Common units – basic and diluted	$0.72	$1.22
Subordinated units – basic and diluted	$0.72	$1.22

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

Pro Forma Debit / (Credit) Adjustments	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Acquisition related expenses	$(4,775)	$(4,775)
Other general and administrative expenses	(36)	(117)
Interest expense on debt issued to fund acquisition	589	1,226
Depreciation and amortization	(206)	(8)
Increase in weighted average common units outstanding	1,231,926	1,405,362

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5. Goodwill and Intangible Assets

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

	Goodwill	Intangible Assets
Balance at December 31, 2013	$33,745	$38,191
Amortization expense	—	(3,604)
Balance at June 30, 2014	$33,745	$34,587

Goodwill

As of June 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	June 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		(7,291)
Intangible assets, net		$34,587

Amortization expense was $3,604 and $363 for the six months ended June 30, 2014 and 2013, respectively. Amortization expense was $1,067 and $363 for the three months ended June 30, 2014 and 2013, respectively. The weighted average remaining life of intangible assets was 12 years as of June 30, 2014. As of June 30, 2014, future amortization is as follows:

Fiscal Year	Amortization
2014 (Six Months)	$1,523
2015	2,967
2016	2,938
2017	2,850
2018	2,850
Thereafter	21,459
	$34,587

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6. Inventories

Inventories consisted of the following:

	June 30, 2014	December 31, 2013 Recasted
Raw material	$226	$706
Work-in-process	7,126	9,075
Finished goods	10,145	11,585
Spare parts	1,363	1,052
	$18,860	$22,418

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7. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2014	December 31, 2013 Recasted
Buildings	$3,828	$3,814
Mining property and mine development	40,079	39,690
Plant and equipment	113,475	108,627
Rail and rail equipment	22,505	20,421
Transload facilities and equipment	30,807	30,265
Construction-in-progress	4,598	2,684
Property, plant and equipment	215,292	205,501
Less: Accumulated depreciation and depletion	(13,297)	(9,667)
Property, plant and equipment, net	$201,995	$195,834

Depreciation and depletion expense was $2,428 and $1,505 during the three months ended June 30, 2014 and 2013, respectively. Depreciation and depletion expense was $3,904 and $2,070 for the six months ended June 30, 2014 and 2013, respectively. The Partnership recognized a loss on the replacement of equipment of $191 during the six months ended June 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 three and six months ended June 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 three and six months ended June 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 June 30, 2014			
	Partnership Consolidated	Augusta Through April 28, 2014	Eliminations	Partnership Recasted
Revenues	$76,274	$7,773	$(1,323)	$82,724
Net income	$30,521	$3,512	$(4,228)	$29,805
Net income attributable to Hi-Crush Partners LP per limited partner unit	$0.77			$0.75

	Three Months Ended June 30, 2013			
	Partnership Historical	Augusta Historical	Eliminations	Partnership Recasted
Revenues	$27,101	$11,015	$(556)	$37,560
Net income	$14,681	$3,506	$(3,750)	$14,437
Net income attributable to Hi-Crush Partners LP per limited partner unit	$0.53			$0.52

	Six Months Ended June 30, 2014			
	Partnership Consolidated	Augusta Through April 28, 2014	Eliminations	Partnership Recasted
Revenues	$132,102	$25,356	$(4,156)	$153,302
Net income	$44,784	$11,398	$(7,857)	$48,325
Net income attributable to Hi-Crush Partners LP per limited partner unit	$1.32			$1.40

	Six Months Ended June 30, 2013			
	Partnership Historical	Augusta Historical	Eliminations	Partnership Recasted
Revenues	$46,729	$16,072	$(964)	$61,837
Net income	$25,464	$4,400	$(3,750)	$26,114
Net income attributable to Hi-Crush Partners LP per limited partner unit	$0.93			$0.95

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9. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2014	December 31, 2013
Term loan credit facility	$197,547	$—
Partnership credit facility	—	138,250
Less: current portion of long-term debt	(2,000)	—
	$195,547	$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 June 30, 2014, we were in compliance with the covenants contained in the Revolving Credit Agreement.

As of June 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 June 30, 2014, we had $197,547 indebtedness ($199,500, net of $1,953 of discounts) under our the Term Loan Credit Facility, which carried an interest rate of 4.75% as of June 30, 2014.

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10. Equity

As of June 30, 2014, our sponsor owned 13,640,351 subordinated units and 3,750,000 Class B units, representing a 41.1% ownership interest in the limited partner units and a 100% ownership interest in the Class B units of the Partnership. 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. Our sponsor does not receive distributions on the Class B units until converted into common units of the Partnership. The Class B units are eligible for conversion into common units once the Partnership has, 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 has determined, with the concurrence of the conflicts committee of the board of directors of our General Partner, that we are expected to maintain such performance for at least two succeeding quarters. Class B units do 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 conditions precedent to conversion of the Class B units will be satisfied upon payment of our distribution on August 15, 2014 and, upon such payment, the sponsor, who is the sole owner of our Class B units, has elected to convert all of the 3,750,000 Class B units into common units on a one-for-one basis. The sponsor will be 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.

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 six months ended June 30, 2014, no net income was allocated to our Class B units or the 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. On July 16, 2014, a distribution of $168 was declared for our holders of incentive distribution rights to be paid on August 15, 2014.

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
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	(b) $0.5750	August 1, 2014	August 15, 2014	$19,092

(a) For all common and subordinated units.

(b) A distribution of $168 was declared for our holders of incentive distribution rights. In addition, the holder of the common units upon conversion from Class B units will be entitled to receive the same per unit distribution declared for the second quarter to be paid on August 15, 2014.

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Net Income per Limited Partner Unit

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Weighted average limited partner units outstanding:	2014	2013	2014	2013
Common units - basic	18,828,359	13,992,894	17,040,874	13,819,458
Subordinated units - basic	13,640,351	13,640,351	13,640,351	13,640,351
Common units - diluted	22,721,490	13,992,894	20,934,005	13,819,458
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 the 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 do 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 are not participating securities in their current form. In addition, the conversion of the Class B units into common units is 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 are satisfied, the Class B units were not included in our calculation of either basic or diluted earnings per unit. The Partnership expects the Class B units will convert to common units on August 15, 2014, at which time income allocations will commence on such units. The sponsor will be 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 second quarter of 2014. In addition, the Class B units were included in our calculation of diluted earnings per unit for the three and six months ended June 30, 2014 above. Diluted earnings per unit for the three and six months ended June 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 June 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 June 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	$168	$11,249	$7,843	$2,156	$21,416
Assumed allocation of undistributed net income attributable to the Partnership	3,310	3,183	2,612	—	9,105
Limited partners' interest in net income	$3,478	$14,432	$10,455	$2,156	$30,521
Recast adjustments to include the results of operations of Hi-Crush Augusta LLC and income attributable to non-controlling interest					(980)
Net income attributable to Hi-Crush Partners LP					$29,541
Earnings per unit - basic		$0.77	$0.77		
Earnings per unit - diluted (1)		$0.75	$0.75		

(1) Diluted earnings per unit includes the impact of income allocations attributable to a conversion of the Class B units into common units.

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 six months ended June 30, 2014 (in thousands, except per unit amounts):

	General Partner and IDRs	Common Units	Subordinated Units	Class B Units	Total
Declared distribution	$168	$21,479	$15,004	$2,156	$38,807
Assumed allocation of undistributed net income attributable to the Partnership	1,892	1,053	3,032	—	5,977
Limited partners' interest in net income	$2,060	$22,532	$18,036	$2,156	$44,784
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					$47,913
Earnings per unit - basic		$1.32	$1.32		
Earnings per unit - diluted (1)		$1.25	$1.25		

(1) Diluted earnings per unit includes the impact of income allocations attributable to a conversion of the Class B units into common units.

Recasted Augusta Equity Transactions

During the six months ended June 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 June 30, 2014	64,414	$65.57

As of June 30, 2014, total compensation expense not yet recognized related to unvested PPUs was $4,087, with a weighted average remaining service period of 2.5 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	14,303	$47.24
Outstanding at June 30, 2014	14,303	$47.24

As of June 30, 2014, total compensation expense not yet recognized related to unvested TPUs was $657, with a weighted average remaining service period of 3 years.

Board and Other Unit Grants

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

7,022 common units to certain employees which vest 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Performance Phantom Units	$136	$—	$136	$—
Time-based Phantom Units	19	—	19	—
Director and other unit grants	115	—	198	100
Total compensation expense	$270	$—	$353	$100

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12. Related Party Transactions

Effective August 16, 2012, our sponsor entered into a services agreement (the “Services Agreement”) by and among the 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 June 30, 2014 and 2013, the Partnership incurred $2,390 and $1,025, respectively, of management and administrative service expenses from Hi-Crush Services. During the six months ended June 30, 2014 and 2013, the Partnership incurred $4,359 and $1,841, 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 June 30, 2014, an outstanding balance of $6,419 payable to our sponsor is maintained as a current liability under the caption “Due to Sponsor.”

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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 June 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 $3,820 and $2,185 for the three months ended June 30, 2014 and 2013, respectively, and $6,732 and $3,439 for the six months ended June 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 June 30, 2014, future minimum operating lease payments are as follows:

Fiscal Year	Amount
2014 (Six Months)	$3,982
2015	7,666
2016	6,748
2017	6,535
2018	5,992
Thereafter	7,785
	$38,708

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. The Partnership cannot provide assurance, however, as to the outcome of this lawsuit.

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 internal controls to prevent the Partnership from violating federal securities laws. Plaintiff asserted a claim for breach of fiduciary

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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	123
Balance at June 30, 2014	$4,751

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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 (other than Hi-Crush Finance Corp., whose sole purpose is to act as a co-issuer of any debt securities) as of March 31, 2014 was a 100 percent 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 June 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 June 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 June 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 June 30, 2014

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets:					
Cash	$22,442	$6,012	$ 2,674	$—	$31,128
Restricted cash	—	690	—	—	690
Accounts receivable	—	39,408	7,523	—	46,931
Intercompany receivables	124,721	90,111	—	(214,832)	—
Inventories	—	16,236	5,168	(2,544)	18,860
Prepaid expenses and other current assets	446	1,142	74	—	1,662
Total current assets	147,609	153,599	15,439	(217,376)	99,271
Property, plant and equipment, net	6	114,553	87,436	—	201,995
Goodwill and intangible assets, net	—	68,332	—	—	68,332
Investment in consolidated affiliates	188,621	—	224,250	(412,871)	—
Other assets	7,879	2,419	—	—	10,298
Total assets	$344,115	$338,903	$ 327,125	$(630,247)	$379,896
Liabilities, Equity and Non-Controlling Interest					
Current liabilities:					
Accounts payable	$82	$10,161	$ 2,832	$—	$13,075
Accrued and other current liabilities	324	5,189	5,347	—	10,860
Intercompany payables	—	—	214,832	(214,832)	—
Due to Sponsor	854	1,283	4,282	—	6,419
Current portion of long-term debt	2,000	—	—	—	2,000
Total current liabilities	3,260	16,633	227,293	(214,832)	32,354
Long-term debt	195,547	—	—	—	195,547
Asset retirement obligation	—	1,736	3,015	—	4,751
Total liabilities	198,807	18,369	230,308	(214,832)	232,652
Commitments and contingencies	—	—	—	—	—
Equity and Non-Controlling Interest:					
Equity	145,308	320,534	94,881	(415,415)	145,308
Non-controlling interest	—	—	1,936	—	1,936
Total equity and non-controlling interest	145,308	320,534	96,817	(415,415)	147,244
Total liabilities, equity and non-controlling interest	$344,115	$338,903	$ 327,125	$(630,247)	$379,896

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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 June 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$70,518	$ 23,195	$ (10,989)	$82,724
Cost of goods sold (including depreciation, depletion and amortization)	—	43,375	9,574	(9,090)	43,859
Gross profit	—	27,143	13,621	(1,899)	38,865
Operating costs and expenses:					
General and administrative expenses	3,859	2,464	356	—	6,679
Exploration expense	—	—	—	—	—
Accretion of asset retirement obligation	—	34	32	—	66
Income from operations	(3,859)	24,645	13,233	(1,899)	32,120
Other income (expense):					
Earnings from consolidated affiliates	35,689	—	—	(35,689)	—
Interest expense	(2,289)	(1)	(25)	—	(2,315)
Net income	29,541	24,644	13,208	(37,588)	29,805
Income attributable to non-controlling interest	—	—	(264)	—	(264)
Net income attributable to Hi-Crush Partners LP	$29,541	$24,644	$ 12,944	$ (37,588)	$29,541

	Six Months Ended June 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$128,752	$ 40,778	$ (16,228)	$153,302
Cost of goods sold (including depreciation, depletion and amortization)	—	84,653	18,864	(15,492)	88,025
Gross profit	—	44,099	21,914	(736)	65,277
Operating costs and expenses:					
General and administrative expenses	6,167	5,747	1,190	—	13,104
Exploration expense	—	—	—	—	—
Accretion of asset retirement obligation	—	63	60	—	123
Income from operations	(6,167)	38,289	20,664	(736)	52,050
Other income (expense):					
Earnings from consolidated affiliates	57,723	—	—	(57,723)	—
Interest expense	(3,643)	(20)	(62)	—	(3,725)
Net income	47,913	38,269	20,602	(58,459)	48,325
Income attributable to non-controlling interest	—	—	(412)	—	(412)
Net income attributable to Hi-Crush Partners LP	$47,913	$38,269	$ 20,190	$ (58,459)	$47,913

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Condensed Consolidating Statements of Operations

	Three Months Ended June 30, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$27,101	$ 11,015	$ (556)	$37,560
Cost of goods sold (including depreciation, depletion and amortization)	—	11,585	6,795	(556)	17,824
Gross profit	—	15,516	4,220	—	19,736
Operating costs and expenses:					
General and administrative expenses	3,340	507	625	—	4,472
Exploration expense	—	45	10	—	55
Accretion of asset retirement obligation	—	30	28	—	58
Income from operations	(3,340)	14,934	3,557	—	15,151
Other income (expense):					
Earnings from consolidated affiliates	18,362	—	—	(18,362)	—
Interest expense	(655)	(8)	(51)	—	(714)
Net income	14,367	14,926	3,506	(18,362)	14,437
Income attributable to non-controlling interest	—	—	(70)	—	(70)
Net income attributable to Hi-Crush Partners LP	$14,367	$14,926	$ 3,436	$ (18,362)	$14,367

	Six Months Ended June 30, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues	$—	$46,729	$ 16,072	$ (964)	$61,837
Cost of goods sold (including depreciation, depletion and amortization)	—	17,367	10,341	(964)	26,744
Gross profit	—	29,362	5,731	—	35,093
Operating costs and expenses:					
General and administrative expenses	5,755	811	1,214	—	7,780
Exploration expense	—	46	10	—	56
Accretion of asset retirement obligation	—	59	56	—	115
Income from operations	(5,755)	28,446	4,451	—	27,142
Other income (expense):					
Earnings from consolidated affiliates	32,749	—	—	(32,749)	—
Interest expense	(968)	(9)	(51)	—	(1,028)
Net income	26,026	28,437	4,400	(32,749)	26,114
Income attributable to non-controlling interest	—	—	(88)	—	(88)
Net income attributable to Hi-Crush Partners LP	$26,026	$28,437	$ 4,312	$ (32,749)	$26,026

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Condensed Consolidating Statements of Cash Flows

	Six Months Ended June 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by operating activities	$43,484	$45,524	$ 17,075	$ (52,404)	$53,679
Investing activities:					
Cash paid for acquisition of Hi-Crush Augusta LLC	—	—	(224,250)	—	(224,250)
Capital expenditures for property, plant and equipment	—	(3,753)	(6,308)	—	(10,061)
Net cash used in investing activities	—	(3,753)	(230,558)	—	(234,311)
Financing activities:					
Proceeds from equity issuance	170,828	—	—	—	170,828
Proceeds from issuance of long-term debt	198,000	—	—	—	198,000
Repayment of long-term debt	(138,750)	—	—	—	(138,750)
Advances to parent, net	(224,250)	(39,750)	220,250	43,750	—
Loan origination costs	(6,808)	—	—	—	(6,808)
Distributions paid	(32,118)	—	(8,654)	8,654	(32,118)
Net cash provided by (used in) financing activities	(33,098)	(39,750)	211,596	52,404	191,152
Net increase (decrease) in cash	10,386	2,021	(1,887)	—	10,520
Cash:					
Beginning of period	12,056	3,991	4,561	—	20,608
End of period	$22,442	$6,012	$ 2,674	$ —	$31,128

	Six Months Ended June 30, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by operating activities	$24,776	$27,786	$ 11,133	$ (29,757)	$33,938
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	—	(3,575)	(2,897)	—	(6,472)
Net cash (used in) provided by investing activities	(132,777)	(3,575)	(2,897)	37,500	(101,749)
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	—	(26,007)	—	26,007	—
Affiliate financing, net	—	5,615	—	—	5,615
Loan origination costs	(791)	—	—	—	(791)
Distributions paid	(25,922)	—	(8,387)	3,750	(30,559)
Net cash provided by (used in) financing activities	111,537	(20,392)	(4,137)	(7,743)	79,265
Net increase in cash	3,536	3,819	4,099	—	11,454
Cash:					
Beginning of period	—	10,498	—	—	10,498

End of period	$3,536	$14,317	$ 4,099	$—	$21,952

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17. Subsequent Events

On July 16, 2014, we declared a cash distribution totaling $19,092, or $0.5750 per common and subordinated unit. This distribution will be paid on August 15, 2014 to unitholders of record on August 1, 2014. A distribution of $168 was declared for the holder of our incentive distribution rights. In addition, the conditions precedent to conversion of the Class B units will be satisfied upon payment of our distribution on August 15, 2014 and, upon such payment, the sponsor, who is the sole owner of our Class B units, has elected to convert all of the 3,750,000 Class B units into common units on a one-for-one basis. The sponsor will be 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, totaling $2,156 to be paid on August 15, 2014.

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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. 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 third 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. In 2013, we entered into an amendment to a supply agreement with one of our customers covering the period from April 1, 2013 to December 31, 2013. The amendment involved a price reduction under the supply agreement in exchange for an increase in contracted frac sand volume at the Wyeville facility for that period. The volume increase was offset by a decrease in volumes sold to the customer from the Augusta facility. From October 2013 to July 2014, we entered into amendments of existing supply agreements and two new supply agreements, each requiring the customer to purchase minimum volumes of frac sand each month. As of August 1, 2014, we had contracted to sell 3.7 million tons in 2014 and 5.6 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. As of August 1, 2014, the contracts had an average remaining life of 4.5 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 does not receive distributions on the Class B units until they convert into common units. The conditions precedent to conversion of the Class B units will be satisfied upon payment of our distribution on August 15, 2014 and, upon such payment, the sponsor, who is the sole owner of our Class B units, has 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 $170,828. 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 purchased 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 ot