

Emerge Energy Services LP
Form 10-Q
November 07, 2014
Table of Contents

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

Form 10-Q

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 No. 001-35912

EMERGE ENERGY SERVICES LP
(Exact name of registrant as specified in its charter)

Delaware	90-0832937
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

180 State Street, Suite 225, Southlake, Texas 76092	(817) 865-5830
(Address of principal executive offices)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Units Representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 o 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 (§

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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). ☒ 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 the 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 ☐

Non-Accelerated Filer ☒

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 ☒ No

As of October 31, 2014, 23,718,961 common units were outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Forward-Looking Statements</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statement of Partners' Equity for the Nine Months Ended September 30, 2014</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	<u>7</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>32</u>
<u>Item 4. Controls and Procedures</u>	<u>32</u>
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>32</u>
<u>Item 1A. Risk Factors</u>	<u>32</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>33</u>
<u>Item 6. Exhibits</u>	<u>33</u>

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q may constitute “forward-looking statements.” The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could” or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- failure to secure or maintain contracts with our largest customers, or non-performance of any of those customers under the applicable contract;
- competitive conditions in our industry;
- 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 sell;
- the price at which we are able to sell frac sand;
- changes in the long-term supply of and demand for oil and natural gas;
- volatility of fuel prices;
- unanticipated ground, grade or water conditions at our sand mines;
- actions taken by our customers, competitors and third-party operators;
- our ability to complete growth projects on time and on budget;
- inclement or hazardous weather conditions, including flooding, and the physical impacts of climate change;
- environmental hazards;
- 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;
- 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 of our products;
- changes in the price and availability of transportation;
- fires, explosions or other accidents;
- pit wall failures or rock falls;
- the effects of future litigation; and
- other factors discussed in this Quarterly Report on Form 10-Q and the detailed factors discussed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

When considering forward-looking statements, you should keep in mind the known material risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2013 in “Risk Factors” and in this Form 10-Q in “Management’s Discussion and Analysis of Financial Condition and Results of

Operations.” Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether because of new information, future events or otherwise.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EMERGE ENERGY SERVICES LP

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except unit data)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,361	\$2,167
Restricted cash and equivalents	—	6,188
Trade and other receivables, net	86,083	49,645
Inventories	32,944	41,320
Direct financing lease receivable	—	555
Prepaid expenses and other current assets	7,295	4,515
Total current assets	129,683	104,390
Property, plant and equipment, net	222,982	146,131
Intangible assets, net	33,209	39,415
Goodwill	29,264	29,264
Other assets, net	11,828	3,816
Total assets	\$426,966	\$323,016
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities:		
Accounts payable	\$38,490	\$36,096
Accrued liabilities	21,380	17,274
Current portion of long-term debt	65	233
Current portion of capital lease liability	2,746	3,469
Total current liabilities	62,681	57,072
Long-term debt, net of current portion	188,964	93,809
Business acquisition obligation, net of current portion	10,023	—
Capital lease liability, net of current portion	1,216	—
Asset retirement obligations	2,078	1,414
Total liabilities	264,962	152,295
Commitments and contingencies		
Partners' equity:		
General partner	—	—
Limited partner common units (issued and outstanding 23,718,961 units and 23,219,608 units as of September 30, 2014 and December 31, 2013, respectively)	162,004	170,721
Total partners' equity	162,004	170,721
Total liabilities and partners' equity	\$426,966	\$323,016

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

EMERGE ENERGY SERVICES LP

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in thousands, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues*	\$296,338	\$270,241	\$868,692	\$627,225
Operating expenses:				
Cost of goods sold (excluding depreciation, depletion and amortization)*	251,766	238,736	752,957	552,984
Depreciation, depletion and amortization	6,421	6,390	17,902	14,466
Selling, general and administrative expenses	9,559	7,969	27,028	17,396
IPO transaction-related costs	—	44	—	10,966
Total operating expenses	267,746	253,139	797,887	595,812
Operating income	28,592	17,102	70,805	31,413
Other expense (income):				
Interest expense, net	1,479	1,645	5,006	9,308
Loss on extinguishment of debt	—	—	—	907
Other	775	(118)	624	(277)
Total other expense (income)	2,254	1,527	5,630	9,938
Income before provision for income taxes	26,338	15,575	65,175	21,475
Provision for income taxes	255	171	514	296
Net income	26,083	15,404	64,661	21,179
Less Predecessor net income before May 14, 2013	—	—	—	13,124
Post-IPO net income	\$26,083	\$15,404	\$64,661	\$8,055
Earnings per common unit (basic)	\$1.08	\$0.64	\$2.69	\$0.34
Earnings per common unit (diluted)	\$1.08	\$0.64	\$2.69	\$0.34
Weighted average number of common units outstanding including participating securities (basic)	24,115,926	24,015,562	24,054,747	24,015,562
Weighted average number of common units outstanding (diluted)	24,116,386	24,021,189	24,057,607	24,020,600
* Fuel revenues and cost of goods sold include excise taxes and similar taxes:	\$13,688	\$12,610	\$38,885	\$36,259

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

EMERGE ENERGY SERVICES LP

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

(\$ in thousands)

	Limited Partner Common Units	General Partner (non-economic interest)	Total Partners' Equity
Balance at December 31, 2013	\$170,721	\$—	\$170,721
Net income	64,661	—	64,661
Equity-based compensation expense	6,878	—	6,878
Distributions paid	(79,384)	) —	(79,384)
Distribution equivalent rights accrued	(883)	) —	(883)
Other	11	—	11
Balance at September 30, 2014	\$162,004	\$—	\$162,004

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

EMERGE ENERGY SERVICES LP

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands)

	Nine Months Ended September 30, 2014	
	2014	2013
Cash flows from operating activities:		
Net income	\$64,661	\$21,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	17,902	14,466
Equity-based compensation expense	6,726	3,521
Interest paid in-kind	—	3,202
Loss on extinguishment of debt	—	907
Provision for doubtful accounts	101	200
Loss on disposal of assets	4	1
Amortization of debt discount/premium and deferred financing costs	698	731
Loss on termination of sand supply agreement	689	—
Unrealized loss on derivative instruments	387	—
Other non-cash	17	3
Changes in operating assets and liabilities, net of business acquired:		
Restricted cash and equivalents	6,188	—
Accounts receivable	(43,313)	(15,861)
Inventories	8,377	72
Prepaid expenses and other current assets	(2,780)	(1,381)
Accounts payable and accrued liabilities	7,997	13,790
Other assets	(6,368)	(1,338)
Net cash provided by operating activities	61,286	39,492
Cash flows from investing activities:		
Purchases of property, plant and equipment	(59,089)	(18,598)
Business acquisitions, net of cash acquired	(11,000)	(16,687)
Proceeds from disposals of assets	335	5
Other investing activities	374	9
Net cash used in investing activities	(69,380)	(35,271)
Cash flows from financing activities:		
Proceeds from IPO including over commitment	—	122,221
IPO offering costs	—	(6,001)
Proceeds from line of credit borrowings	266,357	134,180
Repayment of line of credit borrowings	(171,203)	(46,919)
Repayment of Direct Fuels' debt	—	(21,673)
Proceeds from other long-term debt	—	81
Repayment of other long-term debt	(168)	(118,640)
Distributions to unitholders	(79,711)	(8,886)
Distributions to Predecessor owners	—	(19,628)
Pre-IPO dividends paid (Direct Fuels)	—	(11,500)
Payment of financing costs	(2,342)	(3,709)
Payments on capital lease obligation	(3,656)	(2,664)

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Repayment of other debt	—	(190)	)
Redemption of general partner interest	—	(2)	)
Other financing activities	11	—	
Net cash provided by financing activities	9,288	16,670	
Cash and cash equivalents:			
Net increase	1,194	20,891	
Balance at beginning of period	2,167	1,467	
Balance at end of period	\$3,361	\$22,358	

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

EMERGE ENERGY SERVICES LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Emerge Energy Services LP (“Emerge”) is a Delaware limited partnership that completed its initial public offering (“IPO”) on May 14, 2013 to become a publicly traded partnership. The combined entities of Superior Silica Sands LLC (“SSS”), a Texas limited liability company, Allied Energy Company LLC (“AEC”), an Alabama limited liability company, and Emerge Energy Services Operating LLC (“Emerge Operating”), a Delaware limited liability company, represent the predecessor for accounting purposes (the “Predecessor”) of Emerge.

References to the “Partnership,” “we,” “our” or “us” when used for dates or periods ended prior to the IPO, refer collectively to the Predecessor. References to the “Partnership,” “we,” “our” or “us” when used for dates or periods ended on or after the IPO, refer collectively to Emerge and all of its subsidiaries, including Direct Fuels LLC (“Direct Fuels”), which was acquired in a business combination concurrent with our IPO.

We are a growth-oriented energy services company engaged in: (i) the business of mining, producing, and distributing silica sand that is a key input for the hydraulic fracturing of oil and gas wells; and, (ii) the business of distributing refined motor fuels, refining transportation mixture (“transmix”) and biodiesel, operating bulk motor fuel storage terminals, and providing complementary services. We report silica sand activities through the Sand segment and motor fuel operations through the Fuel segment. We report items of income (if any) and expense that cannot be directly associated with the Sand and Fuel segments as “corporate.”

The Sand segment conducts mining and processing operations from facilities located in Wisconsin and Texas. In addition to mining and processing silica sand for the oil and gas industry, the Sand segment sells its product for use in building products and foundry operations. The Fuel segment operates transmix processing facilities located in the Dallas-Fort Worth area and in Birmingham, Alabama. The Fuel segment also offers third-party bulk motor fuel storage and terminal services, biodiesel refining, sale and distribution of wholesale motor fuels, reclamation services (which consists primarily of cleaning bulk storage tanks used by other petroleum terminal and others) and blending of renewable fuels.

Initial Public Offering of Emerge Energy Services LP

On May 8, 2013, the Partnership priced an initial public offering of 7,500,000 limited partner common units (“common units”) at a price of \$17.00 per common unit (\$15.85 per common unit, net of underwriting discounts and structuring fee). The IPO was conducted pursuant to a registration statement on Form S-1 originally filed on March 22, 2013, as amended (Registration No. 333-187487) that was declared effective by the U.S. Securities and Exchange Commission (“SEC”) on May 8, 2013. On May 20, 2013, the underwriters exercised their option to purchase an additional 209,906 common units. The net proceeds from the IPO of \$122.2 million (including net proceeds of \$3.3 million from the exercise of the underwriters’ over-allotment option), after deducting the underwriting discount and the structuring fee, were used to: (i) repay existing subsidiary debt, in the amount of \$87.6 million, (ii) pay offering expenses of \$10.6 million, (iii) pay and fund cash-based compensation awards to senior management of \$8.9 million, (iv) provide the Partnership with working capital of \$11.5 million, (v) provide a distribution to pre-IPO equity holders of \$3.3 million (\$2.6 million to predecessors’ owners and \$0.7 million to Direct Fuels’ owners as part of the original purchase price), and (vi) pay certain prepaid items of \$0.3 million.

Basis of Presentation and Consolidation

For periods prior to our IPO, the accompanying unaudited condensed consolidated financial statements and related notes present the historical accounts of the Predecessor. To the extent they relate to periods prior to the IPO, the results are not necessarily indicative of the actual results of operations that might have occurred if we had operated as a combined entity during that pre-IPO period.

These unaudited condensed consolidated financial statements 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 SEC. Accordingly, they do not include all of the

information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our Consolidated Financial Statements for the year ended December 31, 2013, which are included in our Annual Report on Form 10-K filed with the SEC.

In the opinion of management, all adjustments (which include only normal recurring adjustments) and disclosures necessary for a fair presentation of these interim statements have been included. All significant intercompany transactions and balances have been eliminated in consolidation. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year.

Table of Contents

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.

Emerging Growth Company

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012. As such, we have elected to delay adoption of new or revised accounting standards until such time that the standards would be otherwise apply to private companies, as allowed for emerging growth companies, for as long as we are an emerging growth company.

Acquisition of Direct Fuels

Concurrent with our IPO on May 14, 2013, we acquired Direct Fuels from Direct Fuels Partners, L.P. for \$98.3 million, in order to expand our operations, gain new customers, improve earnings, and increase our markets through a larger geographical presence. Direct Fuels operates a motor fuel terminal and transmix processing facilities in Texas. Direct Fuels’ identifiable assets acquired and liabilities assumed by us were recognized based upon the fair values determined on the date of acquisition.

We determined the fair values of Direct Fuels property, plant and equipment as well as its identifiable intangible assets with assistance from an independent third-party appraisal expert. Our assessment of the fair value of the assets acquired and liabilities assumed as of May 14, 2013 indicates that the consideration given exceeded the fair value of net identifiable assets acquired. Our assessment indicated that goodwill, the excess of consideration over the fair value of identifiable assets acquired, is \$29.3 million. The primary factor that gives rise to goodwill is the premium we were willing to pay to expand our operations into the geographical territories currently served by Direct Fuels. The ability to expand our operations encompasses gaining access to new customers combined with the improved margins attainable through increased market exposure. Additionally, the goodwill is attributable to the value of Direct Fuels’ assembled workforce, including a management team, as well as synergies that arose through the streamlining of operations.

The reconciliation of fair values of the assets acquired and liabilities assumed related to the Direct Fuel purchase price follows (\$ in thousands):

Total purchase price	\$98,277
Fair value of assets and liabilities acquired:	
Cash	6,197
Accounts receivable	9,845
Other current assets	13,146
Property, plant and equipment	14,897
Intangible assets	45,080
Goodwill	29,264
Total assets acquired	118,429
Less accounts payable and accrued liabilities	8,652
Less dividend payable	11,500
Total current liabilities	20,152
Net assets acquired	\$98,277

The consideration for the Direct Fuels acquisition included payment of \$22.9 million in cash, issuance of 3,180,612 common units with a fair value totaling \$53.7 million, and assumption of \$21.7 million in long-term debt. The accounts receivable acquired represent the gross contractual amounts and are stated at fair value. Subsequent to May 14, 2013, we have collected the accounts receivable in the table above. Prior to the acquisition, Direct Fuels declared a cash dividend totaling \$11.5 million which was paid after the acquisition.

We attributed \$45.1 million to intangible assets associated with Direct Fuels’ customer relationships, long-term supply and transportation contracts, and a non-compete agreement. We amortize the customer relationships using an accelerated method (based on expected future cash flows) and the other intangibles using straight-line method over their estimated useful lives. The useful lives range as follows: (i) customer relationships, 15 years; (ii) long-term

supply and transportation assets, 3 to 54 months; and (iii) non-compete agreement, 4 years.

In 2013, we expensed \$1.5 million of transaction costs associated with the acquisition of Direct Fuels. We reported these costs as IPO transaction-related costs within operating expenses. For the period May 14, 2013 (date of acquisition) through September 30, 2013, Direct Fuels' revenues totaled \$127.2 million and it reported a net loss of \$1.3 million.

Table of Contents

The financial position and results of operations of Direct Fuels are included in our consolidated financial statements from and as of the date of acquisition. The following unaudited pro forma financial information presents the combined results of operations of the Partnership and Direct Fuels as if the transaction had occurred on January 1, 2013. The pro forma information is not necessarily indicative of what the results of operations actually would have been had the acquisition been completed on January 1, 2013. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, our future operating results. The unaudited financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies, if any, that might result from the acquisition.

	Three Months Ended September 30, 2013 (\$ in thousands)	Nine Months Ended September 30, 2013
Revenues	\$270,241	\$750,447
Net income	\$15,404	\$22,410
Acquisition from Midwest		

On July 25, 2014, we acquired certain assets and obligations of Midwest Frac and Sands LLC ("Midwest") in order to expand access to high quality sand reserves near our Wisconsin processing plants, improve earnings, and exert greater control over our sand feedstock supply. Midwest operated a sand mine and wet wash facility in Barron County, Wisconsin. The assets include, but are not limited to, mineral reserves, real estate, buildings, land improvements, wet wash processing and conveying equipment, fixtures and office equipment, permits, and a non-compete agreement with the seller. The liabilities assumed include accounts payable and a local government highway repair and maintenance agreement. We have accounted for the acquisition as a business combination under ASC 805, Business Combinations.

The purchase agreement specifies a total cash purchase price of \$24.0 million plus contingent consideration, if any. The agreement required an advance payment of \$11 million in June 2014. The additional \$13.0 million is being paid over time as sand is removed from the reserves, with a minimum of \$2.0 million paid each year. After repayment of \$13.0 million, we will continue to pay contingent consideration for any additional sand we remove, for as long as the sand reserves remain economically viable. We used a discounted cash flow analysis to estimate the present value of the contingent consideration and other liabilities assumed as of the purchase date, using management's estimates of the volumes and timing of sand extraction. We estimate that the entire obligation will be repaid within 7 - 8 years after acquisition, assuming production of approximately 850,000 tons of wet washed sand per year. The seller can repurchase the land when we determine the property is no longer viable for our sand mining and processing activities.

As part of the agreement, we cancelled an existing tolling agreement whereby we agreed to convert Midwest's wet washed sand to dry sand as well as an existing supply contract whereby Midwest agreed to supply and deliver wet washed sand. We recorded a \$0.7 million loss on settlement of pre-existing agreements as a component of "Other" expense on our Condensed Consolidated Statements of Operations. We estimated the fair values of the terminated agreements using a discounted cash flow analysis.

We retained a third-party expert to assist in determining the volumes and quality of the in-place mineral reserves. With assistance from a third-party valuations expert, we then used this data in our determination of the fair values of identifiable net assets, using the income approach. Our assessment of the fair values of the assets acquired and liabilities assumed as of July 25, 2014 indicates that there was no goodwill associated with the acquisition. We recognized the assets acquired and liabilities assumed based upon the fair values determined on the date of acquisition, using significant inputs that are not observable in the market (i.e., Level 3 inputs). Such values are preliminary and may be revised as we complete our analysis of the fair values of the assets acquired and liabilities assumed, but will be finalized no later than one year from the acquisition date.

Following is a reconciliation of the total consideration to the assets acquired and liabilities assumed as of the acquisition date (\$ in thousands):

Table of Contents

Consideration:

Cash deposit	\$ 11,000
Present value of purchase obligation	11,226
Present value of contingent consideration	853
Loss on settlement of pre-existing agreements	(689)
Total consideration	\$ 22,390

Assets acquired:

Mineral reserves	\$ 19,381
Other property, plant and equipment	4,403
Non-compete agreement	100
Total assets acquired	23,884
Less liabilities assumed:	
Governmental highway improvement obligation	1,128
Asset retirement obligation	227
Accounts payable	139
Net assets acquired	\$ 22,390

In our Condensed Consolidated Balance Sheets, we have classified the non-current portion of the purchase obligation in "Business acquisition obligation, net of current portion." The governmental highway improvement obligation and the current portion of the purchase obligation are classified as "Accrued liabilities."

We incurred approximately \$60,000 in transaction costs, which were recorded as "Selling, general and administrative expenses" as incurred.

The historical financial information for the assets acquired was impractical to obtain, and inclusion of pro forma information would require us to make estimates and assumptions regarding these assets' historical financial results that may not be reasonable or accurate. As a result, supplemental pro forma results are not presented. This acquisition is not expected to impact our consolidated revenues. It is impractical to determine net income included in our consolidated statements of operations relating to Midwest since the date of acquisition because Midwest has been fully integrated into our sand segment operations and the operating results. For this reason, the operating results of Midwest cannot be separately identified.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. These reclassifications do not impact net income and do not reflect a material change in the information previously presented in our Condensed Consolidated Statements of Operations.

2. OTHER FINANCIAL DATA

Restricted Cash and Equivalents

We were required under agreements with our chief executive officer ("CEO") and an officer in our Sand segment (the "Sand Officer") to establish and maintain Rabbi Trusts which were used to fund deferred compensation as described in the agreements. Restricted cash and equivalents were invested in short-term instruments at market rates; therefore the carrying values approximated fair value. In May 2014, all funds in the Rabbi Trusts were distributed to our CEO and Sand Officer and the Rabbi Trust was terminated.

Allowance for Doubtful Accounts

The allowance for doubtful accounts was \$0.3 million and \$0.3 million at September 30, 2014 and December 31, 2013, respectively.

Table of Contents

Inventories

Inventories consisted of the following:

	September 30, 2014	December 31, 2013
	(\$ in thousands)	
Refined fuels	\$ 10,123	\$ 15,049
Fuel raw materials and supplies	6,232	12,304
Sand raw materials	64	13
Sand work in process	10,274	9,496
Sand finished goods	6,251	4,458
Total	\$ 32,944	\$ 41,320

Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2014	December 31, 2013
	(\$ in thousands)	
Machinery and equipment (1)	\$ 125,253	\$ 115,629
Buildings and improvements (1)	42,902	31,819
Land and improvements (1)	30,502	20,314
Mineral reserves	30,181	10,800
Construction in progress	40,993	3,405
Capitalized reclamation costs	1,766	1,398
Total cost	271,597	183,365
Accumulated depreciation and depletion	48,615	37,234
Net property, plant and equipment	\$ 222,982	\$ 146,131

(1) Includes assets under capital lease

We recognized \$11.6 million and \$10.0 million of depreciation and depletion expense for the nine months ended September 30, 2014 and 2013, respectively.

Intangible Assets Other Than Goodwill

Our intangible assets other than goodwill consisted of the following:

	Cost	Accumulated Amortization	Net
	(\$ in thousands)		
September 30, 2014:			
Trade names	\$46	\$20	\$26
Customer relationships	43,922	13,516	30,406
Supply and transportation agreements	3,330	1,589	1,741
Non-compete agreement	1,550	514	1,036
Total	\$48,848	\$15,639	\$33,209
December 31, 2013:			
Trade names	\$46	\$17	\$29
Customer relationships	43,922	8,187	35,735
Supply and transportation agreements	3,330	887	2,443
Non-compete agreement	1,450	242	1,208
Total	\$48,748	\$9,333	\$39,415

Table of Contents

We recognized \$6.3 million and \$4.4 million of amortization expense for the nine months ended September 30, 2014 and 2013, respectively.

Other Assets, Net

Other assets, net consisted of the following:

	September 30, 2014	December 31, 2013
	(\$ in thousands)	
Prepaid lease assets, net of current portion*	\$6,225	\$ —
Deferred financing costs, net	5,113	3,469
Other	490	347
Total	\$11,828	\$ 3,816

The cost to transport leased railcars from the manufacturer to our site for initial placement in service is capitalized *and amortized over the term of the lease (typically five to seven years). This balance reflects the non-current portion of these capitalized costs.

Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2014	December 31, 2013
	(\$ in thousands)	
Sales, excise, property and income taxes	\$5,590	\$2,659
Salaries and other employee-related	4,163	2,701
Current portion of business acquisition obligations	3,269	—
Deferred compensation	1,073	6,740
Deferred revenue	127	3,131
Other	7,158	2,043
Total	\$21,380	\$17,274

IPO Transaction-Related Costs

We incurred generally non-recurring expenses related directly to the IPO in 2013. These costs consist primarily of incentive compensation and payroll-related costs paid to management. In addition, we incurred indirect legal, accounting, and other professional fees associated with the IPO transaction not related to the issuance of equity and debt. We reported these amounts as an operating expense.

The following table summarizes these costs for the nine months ended September 30, 2013 (in thousands):

Incentive compensation:

Compensation and payroll-related costs for termination of LTIC plan	\$6,512
Incentive compensation and payroll-related costs to other management employees	2,853
Other IPO-related costs	1,601
Total IPO transaction-related costs	\$10,966

Secondary Offering

On June 20, 2014, we, our general partner, and Emerge Operating, along with certain selling unitholders named therein (the “Selling Unitholders”) entered into an Underwriting Agreement with underwriters named therein (the “Underwriters”), with respect to the offer and sale (the “Secondary Offering”) by the Selling Unitholders of 3,515,388 common units at a price to the public of \$109.06 per common unit (\$105.2429 per common unit, net of underwriting discounts and commissions). On June 25, 2014, the Selling Unitholders completed the Secondary Offering. We did not receive any proceeds from the Secondary Offering. Pursuant to the Underwriting Agreement, the Selling Unitholders also granted the Underwriters an option for a period of 30 days to purchase up to an additional 527,307 common units on the same terms, and on July 18, 2014, the Underwriters partially exercised the option

Table of Contents

to purchase 165,635 common units. Following the closing of this transaction and as of September 30, 2014, Insight Equity held approximately 30% of all of our outstanding common units.

Mining and Wet Sand Processing Agreement

In April 2014, a five-year contract with a sand processor (“Processor”) became effective to support our sand business in Wisconsin. Under this contract, the Processor financed and built a wet wash processing plant near our Wisconsin operations. As part of the agreement, the Processor wet washes our sand, creates stockpiles of washed sand and maintains the plant and equipment. During the term of the agreement the Processor will own the wet plant along with the equipment and other temporary structures used to support this activity. At the end of the five-year term of the agreement or following a default under the contract by the Processor, we have the right to take ownership of the wet plant and other equipment without charge. Subject to certain conditions, ownership of the plant and equipment will transfer to us at the expiration of the term. We accounted for the wet plant as a capital lease obligation. The original capitalized lease asset and corresponding capital lease obligation totaled \$3.3 million.

Fair Value of Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, restricted cash and equivalents, accounts receivable, accounts payable and debt instruments. The carrying amounts of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable are representative of their fair values due to their short maturities. The carrying amounts of our revolving credit facility approximates fair value because the underlying instrument includes provisions that adjust our interest rates based on current market rates.

Retirement Plan

We sponsor 401(k) plans for substantially all employees, including legacy plans from our predecessor and Direct Fuels. The plans provide for us to match 100% of the participants’ contributions up to 5% of the participant’s pay. Additionally, we can make discretionary contributions as deemed appropriate by management. Our employer contributions to these plans totaled \$0.5 million and \$0.3 million for the nine months ended September 30, 2014 and 2013, respectively.

Seasonality

For our Sand segment, winter weather affects the months during which we can wash and wet-process sand in Wisconsin. Seasonality is not a significant factor in determining our ability to supply sand to our customers because we accumulate a stockpile of wet sand feedstock during non-winter months. During the winter, we process the stockpiled sand to meet customer requirements. However, we sell sand for use in oil and natural gas production basins where severe weather conditions may curtail drilling activities. This is particularly true in drilling areas located in the northern U.S. and western Canada. If severe winter weather precludes drilling activities, our frac sand sales volume may be adversely affected. Generally, severe weather episodes affect production in the first quarter with effects possibly continuing into the second quarter. Generally, our Fuel segment does not experience dramatic seasonal shifts in quantities delivered to its customers.

Concentration of Credit Risk

We provide credit, in the normal course of business, to customers located throughout the United States and Canada. We perform ongoing credit evaluations of our customers and generally do not require collateral. In addition, we regularly evaluate our credit accounts for loss potential.

Our two largest customer balances represented 27% and 15% of our net accounts receivable balance as of September 30, 2014. Our largest customer also represented 14% of our net accounts receivable balance as of December 31, 2013. No other customer balance exceeded 10% of the total net accounts receivable balance as of September 30, 2014 and December 31, 2013.

One customer represented 12% of total revenues for the nine months ended September 30, 2014, while no customer exceeded 10% of revenues for the nine months ended September 30, 2013.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised 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 guidance is effective for annual periods beginning after December 15, 2016 and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. We are evaluating the effect of adopting this new accounting guidance but do not expect adoption will have a material impact on our financial position, results of operations or cash flows.

Table of Contents

3. LONG-TERM DEBT

Following is a summary of our long-term debt:

	September 30, 2014	December 31, 2013
	(\$ in thousands)	
Revolving credit facility	\$188,964	\$93,809
Other notes	65	233
Total debt	189,029	94,042
Less current portion	65	233
Long-term portion	\$188,964	\$93,809

Revolving Credit Facility

On May 14, 2013, we entered into a \$150 million revolving credit and security agreement (as amended and restated, the "Credit Agreement") among Emerge Energy Services LP, as parent guarantor, each of its subsidiaries, as borrowers (the "Borrowers"), and PNC Bank, National Association, as administrative agent and collateral agent. Substantially all of the assets of the Borrowers are pledged as collateral under the Credit Agreement.

On December 10, 2013, we amended the Credit Agreement to revise certain definitions and to increase the commitment amount for our revolving loan credit facility to \$200 million.

On June 27, 2014, we amended and restated the Credit Agreement to:

• increase our revolving credit facility (the "Credit Facility") to \$350 million, which we may increase from time to time upon our satisfaction of certain conditions by up to an aggregate of \$150 million;

• revise the interest rates applicable to borrowings under the Credit Facility as follows (at our option);

a Base Rate (as defined in the Credit Agreement), which will be the base commercial lending rate of PNC Bank, as publicly announced to be in effect from time to time, plus an applicable margin ranging from 1.25% to 2% based on our total leverage ratio; or

• LIBOR plus an applicable margin ranging from 2.25% to 3% based on our total leverage ratio;

• increase the sublimit for the issuance of letters of credit to \$30 million;

• revise financial covenants as discussed below; and

• extend the maturity date to June 27, 2019.

We also incur a commitment fee of 0.375% on committed amounts that are neither used for borrowings nor under letters of credit.

In May 2013, we initially borrowed \$112.7 million to (i) make distributions of \$17.0 million to Superior Silica Holdings LLC ("SSH") and to fund the cash payment in the Direct Fuels acquisition amounting to \$22.2 million; and, (ii) repay \$73.5 million of existing SSH debt. As part of the original Credit Agreement, we incurred \$3.6 million of direct financing costs for professional and legal fees, which we recorded as deferred financing cost. We subsequently incurred \$0.1 million and \$2.3 million in deferred financing costs related to amendments in 2013 and 2014, respectively.

The Credit Agreement contains various covenants and restrictive provisions and requires maintenance of financial covenants as follows:

• an interest coverage ratio (as defined in the Credit Agreement) of not less than 3.00 to 1.00; and

a total leverage ratio (as defined in the Credit Agreement) of not greater than 3.00 to 1.00. The requirement to

• maintain the total leverage ratio is subject an increase to 3.50 to 1.00 in connection with certain permitted acquisitions.

At September 30, 2014, we were in compliance with our loan covenants and had undrawn availability under the Credit Facility totaling \$125.0 million. At September 30, 2014, our outstanding borrowings under the Credit Agreement bore interest at a weighted-average rate of 2.99%.

4. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

In addition to the contractual obligations and other commitments disclosed in our 2013 Annual Report on Form 10-K, we have entered into significant long-term commitments during the first three quarters of 2014. The following table presents the remaining minimum contractual obligations for these additional commitments as of September 30, 2014.

	Operating Lease Commitments	Purchase Commitments	Obligation for Acquisition (1)	Capital Lease Obligations
	(\$ in thousands)			
Remainder of 2014	\$5,274	\$ 180	\$912	\$531
2015	24,003	1,200	2,503	800
2016	24,880	1,200	2,423	800
2017	24,198	1,200	2,344	192
2018	22,800	—	2,264	—
Thereafter	39,273	—	4,936	—
Total	\$140,428	\$ 3,780	15,382	2,323
Less amount representing interest			3,303	133
Total less interest			\$12,079	\$2,190

(1) Represents estimated undiscounted payments, inclusive of expected contingent consideration, based on forecasted volumes.

Environmental Matter

On November 21, 2013, the EPA issued a General Notice Letter and Information Request (“Notice”) under Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (“CERCLA”), to one of our subsidiaries operating within the Fuel segment. The Notice provides that the subsidiary may have incurred liability with respect to the Reef Environmental site in Alabama, and requested certain information in accordance with Section 107(a) of CERCLA. We timely responded to the Notice. At this time, no specific claim for cost recovery has been made by the EPA (or any other potentially responsible party) against us. There is uncertainty relating to our share of environmental remediation liability, if any, because our allocable share of wastewater is unknown and the total remediation cost is also unknown. Consequently, management is unable to estimate the possible loss or range of loss, if any. We have not recorded a loss contingency accrual as of September 30, 2014 or December 31, 2013. In the opinion of management, the outcome of such matters will not have a material adverse effect on our financial position, liquidity or results of operations.

5. RELATED PARTY TRANSACTIONS

Related party transactions included in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations are summarized in the following table:

	Nine Months Ended September 30,	
	2014	2013
	(\$ in thousands)	
Wages and employee-related costs (1)	\$19,627	\$7,962
Interest expense (2)	\$—	\$1,915
General and administrative expense reimbursements (3)	\$75	\$19
Consulting services (4)	\$—	\$112
Lease expense	\$19	\$18

Table of Contents

	September 30, 2014	December 31, 2013
	(\$ in thousands)	
Accounts receivable	\$336	\$124
Accounts payable and accrued liabilities	\$916	\$515

We do not have any employees. Prior to May 14, 2013, our Predecessor and Direct Fuels had employees assigned directly to their respective operations. On May 14, 2013, our general partner hired all employees of the

(1) Predecessor and Direct Fuels. After this date, our general partner manages our human resource assets, including fringe benefits and other employee-related charges. We routinely and regularly reimburse our general partner for any employee-related costs paid on our behalf, and report such costs as operating expenses.

(2) Debt payable to related parties was repaid using proceeds of our IPO in May 2013.

We paid Insight Equity Management Company LLC (collectively, with its affiliated investment funds and its

(3) controlling equity owners, "Insight Equity") certain IPO transaction-related costs and other general and administrative costs.

Prior to May 14, 2013, our Fuel segment paid an affiliated company for leadership services at an annual amount of \$250,000 plus bonus for financial performance, if any. Beginning May 14, 2013, these services are being

(4) performed by Insight Equity employees and are charged to us through the reimbursement process described in (1) above.

6. EQUITY-BASED COMPENSATION

Effective May 14, 2013, we adopted our 2013 Long-Term Incentive Plan (the "LTIP") for providing long-term incentives for employees, directors, and consultants who provide services to us. The plan is administered by a committee subject to oversight by the board of directors of our general partner (the "Board of Directors"). The committee has delegated authority to: (i) designate participants; (ii) determine types of awards; (iii) determine number of units covered by the award; (iv) determine terms and conditions of awards; (v) determine how and when awards might be settled; and (vi) interpret and administer the plan and take other such actions as might be necessary for the proper administration of the plan. The LTIP provides for the issuance of an aggregate of up to 2,321,968 common units to be granted either as options, restricted units, phantom units, distribution equivalent rights, unit appreciation rights, unit award, profits interest units, or other unit-based award granted under the plan. All of our outstanding grants will be settled through issuance of limited partner common units. Our CEO and our Sand Officer also participate in the LTIP plan. On May 14, 2013, we granted 530,588 and 265,294 phantom units to our CEO and Sand Officer, respectively. Half of these phantom units vested after one year, and the remaining half will vest one year later. The agreements covering the CEO and the Sand Officer entitle them to receive dividends in an amount equal to any distributions to our common unitholders whether or not such phantom units are vested. Independent director restricted units vest on the following anniversary of our IPO. For other employees, we assumed a 30-month vesting period for phantom unit grants, which represents management's estimate of the amount of time until all vesting conditions have been met. Concurrent with the closing of a secondary offering in June 2014 and the exercise of the underwriters' over-allotment in July 2014, 90,686 of these phantom units vested and common units were issued. Regarding distributions for independent directors and other employees, distributions are credited to a distribution equivalent rights account for the benefit of each participant and become payable generally within 45 days following the date of vesting. As of September 30, 2014, the unpaid liability for distribution equivalent rights totaled \$0.9 million.

The following table summarizes awards granted during the nine months ended September 30, 2014.

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	Total Units	Phantom Units	Restricted Units	Fair Value per Unit at Award Date
Outstanding at December 31, 2013	1,098,235	1,087,648	10,587	\$ 17.00
Granted	6,710	3,815	2,895	118.49
Vested	(499,281)	(488,627)	(10,654)	17.01
Forfeitures	—	—	—	—
Outstanding at September 30, 2014	605,664	602,836	2,828	\$ 18.12

For the nine months ended September 30, 2014 and 2013, we recorded non-cash compensation expense relating to equity-based compensation of \$6.7 million and \$3.5 million, respectively, in selling, general and administrative expenses. As of September 30, 2014, the unrecognized compensation expense related to the grants discussed above amounted to \$7.1 million to be recognized over a weighted average of 0.79 year.

Table of Contents

7. INCOME TAXES

Provision for Income Taxes

Our provision for income taxes relates to: (i) Texas margin taxes for the Partnership and for Emerge Energy Distributors Inc. (“Distributor”), as well as (ii) federal and state income taxes for Distributor. For federal income tax purposes, we report our income, expenses, gains, and losses as a partnership not subject to income taxes. As such, each partner is responsible for his or her share of federal and state income tax. Net earnings for financial statement purposes may differ significantly from taxable income reportable to each partner because of differences between the tax basis and financial reporting basis of assets and liabilities. Distributor reports its income, expenses, gains, and losses as a corporation and is subject to both federal and state income taxes.

The composition of our provision for income taxes follows:

	Nine Months Ended September 30,	
	2014	2013
	(\$ in thousands)	
Federal and state income tax expense for Distributor	\$275	\$159
Texas margin tax	239	137
Total provision for income taxes	\$514	\$296

Effective Income Tax Rate

Distributor began operations in May 2013. For the nine months ended September 30, 2014, Distributor’s effective income tax rate was 35%. For Distributor, there were no significant differences between book and taxable income. We are responsible for our portion of the Texas margin tax that is included in our subsidiaries’ consolidated Texas franchise tax returns. For our operations in Texas, the effective margin tax rate is approximately 0.5% as defined by applicable state law. The margin tax qualifies as an income tax under GAAP, which requires us to recognize the impact of this tax on the temporary differences between the financial statement assets and liabilities and their tax basis attributable to such tax.

8. EARNINGS PER COMMON UNIT

We compute basic earnings per unit by dividing net income by the weighted-average number of common units outstanding including participating securities. Participating securities include unvested equity-based payment awards that contain non-forfeitable rights to distributions. For these purposes, unvested grants to our CEO and the Sand Officer are deemed participating securities.

Diluted earnings per unit is computed by dividing net income by the weighted-average number of common units outstanding, including participating securities, and increased further to include the number of common units that would have been outstanding had potential dilutive units been exercised. The dilutive effect of restricted units is reflected in diluted net income per unit by applying the treasury stock method. Under FASB ASC 260-10-45, Contingently Issuable Shares, 201,080 of our outstanding phantom units are not included in basic or diluted earnings per common unit calculations as of September 30, 2014. At September 30, 2014, there were no anti-dilutive units outstanding.

Basic and diluted earnings per unit are computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Post-IPO net income (in thousands)	\$26,083	\$15,404	\$64,661	\$8,055
Basic earnings per unit:				
Weighted average common units outstanding	23,717,985	23,219,680	23,462,937	23,219,680
Weighted average phantom units deemed participating securities	397,941	795,882	591,810	795,882
Total	24,115,926	24,015,562	24,054,747	24,015,562
Earnings per common unit (basic)	\$1.08	\$0.64	\$2.69	\$0.34
Diluted earnings per unit:				
Weighted average common units outstanding	23,717,985	23,219,680	23,462,937	23,219,680
Weighted average phantom units deemed participating securities	397,941	795,882	591,810	795,882
Weighted average potentially dilutive units outstanding	460	5,627	2,860	5,038
Total	24,116,386	24,021,189	24,057,607	24,020,600
Earnings per common unit (diluted)	\$1.08	\$0.64	\$2.69	\$0.34

9. SEGMENT INFORMATION AND GEOGRAPHICAL DATA

Segment Information

We operate our business through two reportable business segments:

- Sand - the production and sale of various grades of sand primarily used in the extraction of oil and natural gas and the production of numerous building products and foundry materials.
- Fuel - the refining of transmix, distribution of finished fuel products, terminal and reclamation activities, and refining of biodiesel.

Segments have been identified based on how management makes operating decisions, assesses performance and allocates resources. Certain items are reviewed by our management on a consolidated basis, and are therefore presented as corporate income rather than segment income:

- general and administrative costs related to corporate overhead, such as headquarters facilities and personnel, as well as equity-based compensation;
- certain other operating costs such as IPO transaction-related; and
- non-operating items such as interest, other income and income taxes.

Although not used by management in its performance monitoring activities, asset information is included in the following tables together with financial information concerning our reportable segments for the three and nine months ended September 30, 2014 and 2013.

Table of Contents

	Three Months Ended September 30,							
	Sand Segment		Fuel Segment		Corporate		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	(\$ in thousands)							
Revenues	\$95,783	\$47,451	\$200,555	\$222,790	\$—	\$—	\$296,338	\$270,241
Operating expenses:								
Cost of goods sold (excluding depreciation, depletion and amortization)	55,747	25,753	196,019	212,983	—	—	251,766	238,736
Depreciation, depletion and amortization	3,396	2,715	3,017	3,675	8	—	6,421	6,390
Selling, general and administrative expenses	3,904	2,606	1,487	1,701	4,168	3,662	9,559	7,969
IPO transaction-related costs	—	—	—	—	—	44	—	44
Operating income (loss)	\$32,736	\$16,377	\$32	\$4,431	\$(4,176)	\$(3,706)	\$28,592	\$17,102
	Nine Months Ended September 30,							
	Sand Segment		Fuel Segment		Corporate		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	(\$ in thousands)							
Revenues	\$237,587	\$113,972	\$631,105	\$513,253	\$—	\$—	\$868,692	\$627,225
Operating expenses:								
Cost of goods sold (excluding depreciation, depletion and amortization)	146,483	61,192	606,474	491,792	—	—	752,957	552,984
Depreciation, depletion and amortization	8,842	7,672	9,039	6,794	21	—	17,902	14,466
Selling, general and administrative expenses	9,568	6,904	4,276	4,290	13,184	6,202	27,028	17,396
IPO transaction-related costs	—	—	—	—	—	10,966	—	10,966
Operating income (loss)	\$72,694	\$38,204	\$11,316	\$10,377	\$(13,205)	\$(17,168)	\$70,805	\$31,413
Total assets (at period end)	\$255,825	\$134,932	\$160,076	\$173,134	\$11,065	\$31,933	\$426,966	\$339,999

Geographical Data

Although we own no long-term assets outside the United States, our Sand segment began selling product in Canada during 2013. We recognized \$13.7 million and \$7.8 million of revenues in Canada for the nine months ended September 30, 2014 and 2013, respectively. All other sales have occurred in the United States.

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We follow FASB ASC 820, Fair Value Measurement, which defines fair value, establishes a framework for measuring fair value, and specifies disclosures about fair value measurements. This guidance establishes a hierarchy for disclosure of the inputs to valuations used to measure fair value. The hierarchy prioritizes the inputs into three broad levels as follows.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

•

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 inputs are measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources.

Our valuation models consider various inputs including (a) mark to market valuations, (b) time value and, (c) credit worthiness of valuation of the underlying measurement.

Table of Contents

A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The following table shows the three interest rate swap agreements we entered into during 2013 to manage interest rate risk associated with our variable rate borrowings.

Agreement Date	Effective Date	Maturity Date	Notional Amount	Fixed Rate	Variable Rate
Nov. 1, 2013	Oct. 14, 2014	Oct. 16, 2017	\$25,000,000	1.33200%	1 Month LIBOR
Nov. 7, 2013	Oct. 14, 2014	Oct. 16, 2017	\$25,000,000	1.25500%	1 Month LIBOR
Nov. 21, 2013	Oct. 14, 2014	Oct. 16, 2017	\$20,000,000	1.21875%	1 Month LIBOR

Our Fuel segment utilizes financial hedging arrangements whereby we hedge a portion of our gasoline and diesel inventory, which reduces our commodity price exposure on some of our activities. The derivative commodity instruments we utilize consist mainly of futures traded on the New York Mercantile Exchange. As of September 30, 2014 and December 31, 2013, we had 30 and 40 open commodity derivative contracts, respectively, to manage fuel price risk.

We do not designate our derivative instruments as hedges under GAAP. As a result, we recognize derivatives at fair value on the consolidated balance sheet with resulting gains and losses reflected in interest expense (for interest rate swap agreements) and cost of goods sold (for derivative commodity instruments), as reported in the condensed consolidated statements of operations. Our derivative instruments serve the same risk management purpose whether designated as a hedge or not. We derive fair values principally from published market interest rates and fuel price quotes (Level 2 inputs). The precise level of open position commodity derivatives is dependent on inventory levels, expected inventory purchase patterns and market price trends. We do not use derivative financial instruments for trading or speculative purposes.

The fair values of outstanding derivative instruments and their classifications within our Condensed Consolidated Balance Sheets are summarized as follows:

	September 30, 2014	December 31, 2013	Classification
	(\$ in thousands)		
Derivative assets:			
Interest rate swaps	\$—	\$247	Prepaid expenses and other current assets
Commodity derivative contracts	\$108	\$—	Prepaid expenses and other current assets
Derivative liabilities:			
Interest rate swaps	\$140	\$—	Accrued liabilities
Commodity derivative contracts	\$—	\$66	Accrued liabilities

The effect of derivative instruments, none of which has been designated for hedge accounting, on our Condensed Consolidated Statements of Operations was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Classification
	2014	2013	2014	2013	
	(expense)(income), \$ in thousands)				
Interest rate swaps	\$(246	) \$—	\$387	\$—	Interest expense, net
Commodity derivative contracts	(714	) 234	(310	) (717	) Cost of goods sold
	\$(960	) \$234	\$77	\$(717	)

11. SUPPLEMENTAL CASH FLOW DISCLOSURES

The following supplemental disclosures may assist in the understanding of our Consolidated Statements of Cash Flows:

	Nine Months Ended September 30,	
	2014	2013
	(\$ in thousands)	
Cash paid for interest	\$4,174	\$2,836
Cash paid for income taxes, net of refunds	\$413	\$—
Issuance of common units to acquire Direct Fuels	\$—	\$53,721
Customer advances offset against accounts receivable	\$—	\$4,043
Deferred compensation expense	\$182	\$6,389
Distribution equivalent rights accrued, net of payments	\$555	\$112
Capitalized reclamation costs	\$420	\$—
Purchases of PP&E accrued in a prior period and paid in the current period	\$1,641	\$9,455
Purchases of PP&E included in accounts payable	\$3,789	\$—

12. SUBSEQUENT EVENT

On October 23, 2014, the Board of Directors approved a quarterly distribution of \$1.38 per common unit. We will pay \$32.7 million on November 14, 2014 to holders of record as of November 6, 2014. We will also distribute \$0.5 million to the CEO and the Sand Officer pursuant to terms of the LTIP.

Table of Contents

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

Emerge Energy Services LP ("Emerge") is a Delaware limited partnership that completed its initial public offering ("IPO") on May 14, 2013 to become a publicly traded partnership. The combined entities of Superior Silica Sands LLC ("SSS"), a Texas limited liability company, Allied Energy Company LLC ("AEC"), an Alabama limited liability company, and Emerge Energy Services Operating LLC ("Emerge Operating"), a Delaware limited liability company, represent the predecessor for accounting purposes (the "Predecessor") of Emerge.

References to the "Partnership," "we," "our" or "us" when used for dates or periods ended prior to the IPO, refer collectively to the Predecessor. References to the "Partnership," "we," "our" or "us" when used for dates or periods ended on or after the IPO, refer collectively to Emerge and all of its subsidiaries, including Direct Fuels LLC ("Direct Fuels"), which was acquired in a business combination concurrent with our IPO.

Overview

We are a publicly-traded limited partnership formed in 2012 by management and affiliates of Insight Equity Management Company LLC and its affiliates (collectively "Insight Equity") to own, operate, acquire and develop a diversified portfolio of energy service assets.

Our current operations are organized into two service-oriented business segments: our Sand segment and our Fuel segment (formerly referred to as our "Fuel Processing and Distribution" segment). Through our Sand segment, we are engaged in the businesses of mining, processing, and distributing silica sand, a key input for the hydraulic fracturing of oil and gas wells. Our Fuel segment processes transmix, distributes refined motor fuels and renewable fuels, operates bulk motor fuel storage terminals, and provides complementary services. We believe this diverse set of operations provides a stable cash flow profile when compared to companies with only one line of business.

We conduct our Sand operations through our subsidiary SSS and our Fuel operations through our subsidiaries Direct Fuels and AEC. We believe that our subsidiary brands, especially our SSS brand, have significant name recognition and a strong reputation with our customers.

The following discussion analyzes our financial condition and results of operations and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, as well as historical condensed consolidated financial statements and notes included elsewhere in this Quarterly Report.

Acquisitions

Direct Fuels

On May 14, 2013, we completed the acquisition of Direct Fuels' net assets for \$98.3 million. Direct Fuels operates a motor fuel terminal and transmix processing facility in Texas. The acquisition of Direct Fuels expanded our geographic presence into the Dallas-Fort Worth, Texas market. Direct Fuels is part of our Fuel segment.

Acquisition of Mineral Reserves

On July 25, 2014, we completed an acquisition of mineral reserves and related assets to help manage the supply and cost of raw sand to our Wisconsin sand processing plants. See Note 1 to our Condensed Consolidated Financial Statements for further information.

Table of Contents

Results of Operations

The following table summarizes our consolidated operating results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(\$ in thousands)			
Revenues	\$296,338	\$270,241	\$868,692	\$627,225
Operating expenses:				
Cost of goods sold (excluding depreciation, depletion and amortization)	251,766	238,736	752,957	552,984
Depreciation, depletion and amortization	6,421	6,390	17,902	14,466
Selling, general and administrative expenses	9,559	7,969	27,028	17,396
IPO transaction-related costs	—	44	—	10,966
Total operating expenses	267,746	253,139	797,887	595,812
Operating income	28,592	17,102	70,805	31,413
Other expense (income):				
Interest expense	1,479	1,645	5,006	9,308
Loss on extinguishment of debt	—	—	—	907
Other	775	(118)	624	(277)
Total other expense	2,254	1,527	5,630	9,938
Income before provision for taxes	26,338	15,575	65,175	21,475
Provision for taxes	255	171	514	296
Net income	\$26,083	\$15,404	\$64,661	\$21,179
Adjusted EBITDA (a)	\$37,439	\$25,971	\$95,555	\$60,570

(a) See “Adjusted EBITDA” below for a discussion of Adjusted EBITDA and a reconciliation to net income (loss).

Recent Trends

Major factors impacting comparability between prior and future periods are:

- substantial growth of our Sand segment through:
- addition of the Barron dry plant in late 2012, which ramped up its production throughout 2013;
- development of our distribution and logistics services to better serve our customers through additional transload sites in 2013 and 2014 (currently shipping to 11 transload sites); and
- construction of new facilities to process sand;
- the acquisition of mineral reserves and related assets in July 2014 to better manage the cost of raw sand for a portion of our Wisconsin plants’ production;
- the acquisition of Direct Fuels to substantially increase our Fuel segment in May 2013; and
- our IPO in May 2013, which brought these two segments together for the first time and allowed us to refinance our debt at more favorable terms going forward.

Previously, we announced the construction of a new facility to process sand located near Independence, Wisconsin. While we expected this facility to be operational in early 2015, due to a number of complications, including spillover effects of the increasingly challenging legal and permitting environment, we now believe operations will begin in mid-2015.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2013, railroads must begin purchasing Tier 4 locomotives, which only accept 15 ppm sulfur diesel, starting in 2015. As a result, the 500 ppm sulfur diesel we currently sell from our transmix processing will be phased out of the locomotive market over time beginning in 2015. We are currently adopting business practices to accommodate this expected change in product mix. We believe these business practices will alleviate any material negative impact.

Table of Contents

Sand Segment

	Three Months Ended September 30, 2014 2013		Nine Months Ended September 30, 2014 2013	
	(\$ in thousands)			
Revenues	\$95,783	\$47,451	\$237,587	\$113,972
Operating expenses:				
Cost of goods sold (excluding depreciation, depletion and amortization)	55,747	25,753	146,483	61,192
Depreciation, depletion and amortization	3,396	2,715	8,842	7,672
Selling, general and administrative expenses	3,904	2,606	9,568	6,904
Operating income	\$32,736	\$16,377	\$72,694	\$38,204
Adjusted EBITDA (a)	\$36,139	\$19,187	\$81,560	\$45,976
Volume of sand sold (tons in thousands):				
Barron, Wisconsin facility	598	344	1,610	821
New Auburn, Wisconsin facility	460	360	1,245	967
Kosse, Texas facility	88	30	218	98
Total volume of sand produced	1,146	734	3,073	1,886

(a) See “Adjusted EBITDA” below for a discussion of Adjusted EBITDA and a reconciliation to net income (loss).
Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Revenues

Sand revenues increased by \$48.3 million, primarily due to a 56% increase in total volumes sold with the ramp-up of operations at our Barron facility as well as increased capacity and utilization at our New Auburn facility. We also expanded our logistics and distribution network throughout 2013 and 2014 with the addition of transload facilities in the U.S. and Canada to serve our customers in various shale plays and basins. We charge higher prices at our transload sites in order to cover the additional costs for transportation from our plants to the transload sites.

The major changes from 2013 to 2014 are as follows:

- \$39.5 million increase for the Barron plant due to:
 - a 74% increase in volumes sold as operations ramped up throughout the year following its opening; and
 - higher sales prices related mainly to sales from transload sites;
- \$6.5 million increase for the New Auburn plant due to a 28% increase in volumes sold as well as an increase in average sales prices; and
- \$2.3 million increase for the Kosse plant due to a 193% increase in volumes sold as well as an increase in average sales prices.

Cost of goods sold (excluding depreciation, depletion and amortization)

Our cost of goods sold consists primarily of direct costs such as purchased sand, transportation to the plant or to transload facilities, and mining and processing costs including plant wages, as well as indirect costs such as plant repairs and maintenance. All major components of our direct costs increased with our increased production, particularly transportation costs as we expanded our distribution network with new transload sites in 2013 and 2014. The most significant components of the \$30.0 million increase are:

- \$24.9 million increase in rail transportation expense, due mainly to higher rail use charges and railcar lease expense as we expand our shipping operations to transload facilities;
- \$4.4 million increase in the cost of sand purchased from third-party mines and processed and washed sand from proprietary mines, due primarily to increased sales from the Wisconsin plants; and
- \$1.4 million increase in utilities and labor costs, primarily for processing higher volumes of sand in our dry plants.

Table of Contents

Selling, general and administrative expense

Increased selling, general and administrative expense is attributable primarily to the addition of new sales and administrative employees as well as additional insurance coverage and property taxes for our expanded operations. Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Revenues

Sand revenues increased by \$123.6 million, primarily due to a 63% increase in total volumes sold with the ramp-up of operations at our Barron facility as well as increased capacity at our New Auburn facility. We also expanded our logistics and distribution network throughout 2013 and 2014 with the addition of transload facilities in the U.S. and Canada to serve our customers in various shale plays and basins. We charge higher prices at our transload sites in order to cover the additional costs for transportation from our plants to the transload sites.

The major changes from 2013 to 2014 are as follows:

- \$102.2 million increase for the Barron plant due to:
 - a 96% increase in volumes sold as operations ramped up throughout the year following its opening; and
 - higher sales prices related to sales from transload sites;
- \$16.7 million increase for the New Auburn plant due to:
 - a 29% increase in volumes, partially due to a production capacity increase with the installation of an additional screen deck in 2013; and
 - an increase in average sales prices;
- and
- \$4.8 million increase for the Kosse plant due to a 122% increase in volumes sold as well as a slight increase in average sales prices.

Cost of goods sold (excluding depreciation, depletion and amortization)

Our cost of goods sold consists primarily of direct costs such as purchased sand, transportation to the plant or to transload facilities, and mining and processing costs including plant wages, as well as indirect costs such as plant repairs and maintenance. All major components of our direct costs increased with our increased production, particularly transportation costs as we expanded our distribution network with new transload sites in 2013. The most significant components of the \$85.3 million increase are:

- \$63.0 million increase in rail transportation expense, due mainly to higher rail use charges and railcar lease expense as we expand our shipping operations to transload facilities;
- \$15.7 million increase in the cost of sand purchased from third-party mines and processed and washed sand from proprietary mines, due primarily to increased production at the Wisconsin plants; and
- \$2.2 million increase in utilities costs, primarily for processing higher volumes of sand in our dry plants; and
- \$1.7 million increase in labor to process higher volumes of sand in our dry plants.

Depreciation, depletion and amortization

The \$1.2 million increase in depreciation, depletion and amortization is due primarily to administrative assets, the New Auburn plant capacity expansion in 2013 and depletion of sand reserves acquired in July 2014.

Selling, general and administrative expense

Increased selling, general and administrative expense is attributable primarily to the addition of new sales and administrative employees as well as additional insurance coverage and property taxes for our expanded operations.

Table of Contents

Fuel Segment

	Three Months Ended September 30, 2014		September 30, 2013	
	2014		2013	
	(\$ in thousands)			
Revenues	\$200,555	\$222,790	\$631,105	\$513,253
Operating expenses:				
Cost of goods sold (excluding depreciation, depletion and amortization)	196,019	212,983	606,474	491,792
Depreciation, depletion and amortization	3,017	3,675	9,039	6,794
Selling, general and administrative expenses	1,487	1,701	4,276	4,290
Operating income	\$32	\$4,431	\$11,316	\$10,377
Adjusted EBITDA (a)	\$3,072	\$8,146	\$20,453	\$17,275
Volume of refined fuels sold (gallons in thousands)	67,421	69,645	206,163	161,071
Volume of terminal throughput (gallons in thousands)	51,515	60,788	157,940	151,451
Volume of transmix refined (gallons in thousands)	28,082	34,909	91,777	59,392
Refined transmix as a percent of total refined fuels sold	41.7	% 50.1	% 44.5	% 36.9

(a) See “Adjusted EBITDA” below for a discussion of Adjusted EBITDA and a reconciliation to net income (loss).
Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Revenues

The major components of the \$22.2 million decrease in Fuel segment revenues are:

\$16.4 million decrease due to lower average fuel sales prices; and

\$6.7 million decrease for lower volumes of fuel sold; offset by

\$1.1 million increase in excise and other transaction taxes.

Cost of goods sold (excluding depreciation, depletion and amortization)

Our cost of goods sold consists primarily of direct costs associated with the purchase of refined fuels, transmix feedstock, plant labor and burden, and costs to operate our transmix and terminal facilities. The primary components of the \$17.0 million decrease in costs of goods sold are:

\$11.5 million decrease for lower average fuel purchase prices; and

\$6.3 million decrease for lower volumes of fuel sold; offset by

\$1.1 million increase in excise and other transaction taxes.

Depreciation, depletion and amortization

Depreciation, depletion and amortization decreased \$0.7 million due primarily to full amortization of certain short-term intangible assets acquired in May 2013.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Revenues

Our Fuel segment revenues increased \$117.9 million, primarily due to \$129.3 million incremental revenues attributable to including a full nine months of revenues for Direct Fuels in 2014 versus 4.5 months in 2013. The primary differences for total Fuel segment revenues (including Direct Fuels) are:

\$132.3 million increased revenues for higher fuel sales volumes; and

\$2.6 million increase in excise and other transaction taxes; offset by

\$16.9 million decrease for an average fuel sales price decrease.

Table of Contents

Cost of goods sold (excluding depreciation, depletion and amortization)

Our cost of goods sold consists primarily of direct costs associated with the purchase of refined fuels, transmix feedstock, plant labor and burden, and costs to operate our transmix and terminal facilities. Our cost of goods sold increased \$114.7 million mainly due to \$124.1 million incremental costs associated with Direct Fuels, resulting from a full nine months of expense in 2014 versus 4.5 months in 2013. The primary differences for our total Fuel segment (including Direct Fuels) are:

\$125.0 million increased costs for higher fuel sales volumes; and
 \$2.6 million increase in excise and other transaction taxes; offset by
 \$14.4 million decrease for an average fuel purchase price decrease.

Depreciation, depletion and amortization

Depreciation, depletion and amortization increased \$2.2 million for our acquisition of Direct Fuels in May 2013.

Corporate

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(\$ in thousands)			
Depreciation, depletion and amortization	\$8	\$—	\$21	\$—
Selling, general and administrative expenses	4,168	3,662	13,184	6,202
IPO transaction-related costs	—	44	—	10,966
Operating income (loss)	(4,176	) (3,706	) (13,205	) (17,168
Other expense (income):				
Interest expense, net	1,479	1,645	5,006	9,308
Loss on extinguishment of debt	—	—	—	907
Other	775	(118	) 624	(277
Income (loss) before provision for taxes	(6,430	) (5,233	) (18,835	) (27,106
Provision for income taxes	255	171	514	296
Unallocated corporate income (loss)	\$(6,685	) \$(5,404	) \$(19,349	) \$(27,402
Adjusted EBITDA (a)	\$(1,772	) \$(1,362	) \$(6,458	) \$(2,681

(a) See “Adjusted EBITDA” below for a discussion of Adjusted EBITDA and a reconciliation to net income (loss).
 Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Selling, general and administrative expenses

The \$0.5 million increase in corporate selling, general and administrative expenses relates to various professional fees, salaries and other related costs necessary to manage our newly combined business and provide the incremental services necessary for a publicly traded partnership (such as compliance with requirements of the U.S. Securities and Exchange Commission, the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange, additional insurance coverage and director fees).

Other

In July 2014, we recorded a \$0.7 million loss on settlement of a pre-existing sand supply agreement related to a business combination. See Note 1 to our Condensed Consolidated Financial Statements for further information.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Selling, general and administrative expenses

The largest single component of the \$7.0 million increase in corporate selling, general and administrative expenses is the \$3.2 million increase in equity-based compensation. The remaining increase is primarily for various professional fees, salaries and other related costs necessary to manage our newly combined business and provide the incremental services necessary for a publicly traded partnership (such as compliance with requirements of the U.S. Securities and Exchange Commission, the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange, additional insurance coverage and director fees) beginning in May 2013.

Table of Contents

Interest expense, net

Prior to our IPO, we carried debt which incurred interest at a higher average rate than we currently pay. In May 2013, we re-financed our debt and improved our financing costs by: repaying substantially all of our long-term debt using proceeds from the IPO; and entering into our Credit Agreement, which incurs interest at significantly lower rates.

Liquidity and Capital Resources

Our principal liquidity requirements are to finance current operations, fund capital expenditures, including acquisitions from time to time, to service our debt and to pay distributions to partners. Our sources of liquidity generally include cash generated by our operations, borrowings under our revolving credit and security agreement and issuances of equity and debt securities. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements for at least the next twelve months. See Notes 2 and 3 to our Condensed Consolidated Financial Statements for discussion of our recent financings.

Cash Flow Summary

The table below summarizes our cash flows.

	Nine Months Ended September 30,	
	2014	2013
	(\$ in thousands)	
Cash flows from operating activities	\$61,286	\$39,492
Cash flows from investing activities	\$(69,380)	\$(35,271)
Cash flows from financing activities	\$9,288	\$16,670
Cash and cash equivalents at beginning of period	\$2,167	\$1,467
Cash and cash equivalents at end of period	\$3,361	\$22,358

Operating cash flows

Net cash provided from operating activities has generally trended the same as our net income adjusted for non-cash items of depreciation, depletion and amortization, equity-based compensation and interest paid in-kind. Changes in working capital items such as inventories, prepaid assets and accounts receivable also reflect much higher levels of operations, particularly for sand operations.

Investing cash flows

Capital expenditures increased significantly, particularly for construction of sand processing facilities. We expect to incur approximately \$17 million in the remainder of 2014 for planned capital expansion projects. In June 2014, we made an \$11 million deposit for a business acquisition that was finalized in July 2014. See Note 1 to the Condensed Consolidated Financial Statements for further discussion of this acquisition.

Financing cash flows

The main categories of our financing cash flows can be summarized as follows:

	Nine Months Ended September 30,	
	2014	2013
	(\$ in thousands)	
Non-recurring:		
Proceeds from IPO, net of offering costs	\$—	\$116,220
Distribution to Direct Fuels' owners	—	(11,500)
Recurring:		
Net debt proceeds (payments)	94,986	(52,971)
Distributions to owners	(79,711)	(28,514)
Other	(5,987)	(6,565)
Total	\$9,288	\$16,670

Table of Contents

Contractual Obligations

In addition to the contractual obligations and other commitments disclosed in our 2013 Annual Report on Form 10-K, we have entered into significant long-term contracts for a business acquisition, railcar leases, purchases of services and a capital lease during the first three quarters of 2014. The following table presents the remaining minimum contractual obligations for these additional commitments as of September 30, 2014.

	Operating Lease Commitments (\$ in thousands)	Purchase Commitments	Obligation for Acquisition (1)	Capital Lease Obligations
Remainder of 2014	\$5,274	\$ 180	\$912	\$531
2015	24,003	1,200	2,503	800
2016	24,880	1,200	2,423	800
2017	24,198	1,200	2,344	192
2018	22,800	—	2,264	—
Thereafter	39,273	—	4,936	—
Total	\$140,428	\$ 3,780	\$15,382	\$2,323

(1) Represents estimated undiscounted payments, inclusive of expected contingent consideration, based on forecasted volumes.

ADJUSTED EBITDA

Adjusted EBITDA is a non-GAAP financial measure we define generally as: net income plus interest expense, tax expense, depreciation, depletion and amortization expense, non-cash charges and unusual or non-recurring charges less interest income, tax benefits and selected gains that are unusual or non-recurring. Adjusted EBITDA is used as a supplemental financial measure by our management and external users of our financial statements, such as investors and commercial banks, to assess:

- the financial performance of our assets without regard to the impact of financing methods, capital structure or historical cost basis of our assets;
- the viability of capital expenditure projects and the overall rates of return on alternative investment opportunities;
- our liquidity position and the ability of our assets to generate cash sufficient to make debt payments and to make distributions; and
- our operating performance as compared to those of other companies in our industry without regard to the impact of financing methods and capital structure.

We believe that Adjusted EBITDA provides useful information to investors because, when viewed with our GAAP results and the accompanying reconciliations, it provides a more complete understanding of our performance than GAAP results alone. We also believe that external users of our financial statements benefit from having access to the same financial measures that management uses in evaluating the results of our business. In addition, the lenders under our credit facility use a metric similar to Adjusted EBITDA to measure our compliance with certain financial covenants.

Adjusted EBITDA should not be considered an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of financial performance presented in accordance with GAAP. Moreover, our Adjusted EBITDA as presented may not be comparable to similarly titled measures of other companies.

Table of Contents

Reconciliation of Net Income (Loss) to Adjusted EBITDA

The following tables present a reconciliation of net income (loss) to Adjusted EBITDA for each segment, corporate, and in total.

	Three Months Ended September 30,							
	Sand Segment		Fuel Segment		Corporate		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	(\$ in thousands)							
Net income (loss)	\$32,736	\$16,377	\$32	\$4,431	\$(6,685)	\$(5,404)	\$26,083	\$15,404
Interest expense, net	—	—	—	—	1,479	1,645	1,479	1,645
Loss on extinguishment of debt	—	—	—	—	—	—	—	—
Other (income) loss	—	—	—	—	775	(118)	775	(118)
Provision for income taxes	—	—	—	—	255	171	255	171
Operating income (loss)	32,736	16,377	32	4,431	(4,176)	(3,706)	28,592	17,102
Depreciation, depletion and amortization	3,396	2,715	3,017	3,675	8	—	6,421	6,390
IPO transaction-related costs	—	—	—	—	—	44	—	44
Equity-based compensation expense	—	—	—	—	2,396	2,300	2,396	2,300
Loss (gain) on disposal of equipment	—	(4)	(15)	—	—	—	(15)	(4)
Provision for doubtful accounts	—	96	38	40	—	—	38	136
Accretion of asset retirement obligation	7	3	—	—	—	—	7	3
Adjusted EBITDA	\$36,139	\$19,187	\$3,072	\$8,146	\$(1,772)	\$(1,362)	\$37,439	\$25,971
	Nine Months Ended September 30,							
	Sand Segment		Fuel Segment		Corporate		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	(\$ in thousands)							
Net income (loss)	\$72,694	\$38,204	\$11,316	\$10,377	\$(19,349)	\$(27,402)	\$64,661	\$21,179
Interest expense, net	—	—	—	—	5,006	9,308	5,006	9,308
Loss on extinguishment of debt	—	—	—	—	—	907	—	907
Other (income) loss	—	—	—	—	624	(277)	624	(277)
Provision for income taxes	—	—	—	—	514	296	514	296
Operating income (loss)	72,694	38,204	11,316	10,377	(13,205)	(17,168)	70,805	31,413
Depreciation, depletion and amortization	8,842	7,672	9,039	6,794	21	—	17,902	14,466
IPO transaction-related costs	—	—	—	—	—	10,966	—	10,966
Equity-based compensation expense	—	—	—	—	6,726	3,521	6,726	3,521
Loss on disposal of equipment	19	1	(15)	—	—	—	4	1
	(12)	96	113	104	—	—	101	200

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Provision for doubtful
accounts

Accretion of asset retirement obligation	17	3	—	—	—	—	17	3
Adjusted EBITDA	\$81,560	\$45,976	\$20,453	\$17,275	\$(6,458)	\$(2,681)	\$95,555	\$60,570

31

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the nine months ended September 30, 2014, does not differ materially from that discussed under Item 7A of our Annual Report on Form 10-K for 2013.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Controls 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 report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Internal Controls and Procedures

We have begun the process of evaluating our internal control over financial accounting and reporting and expect to complete our documentation and testing in 2014, using a suitable, recognized control framework. During the course of the evaluation, we may identify deficiencies, possibly significant deficiencies or material weaknesses, of the effectiveness of internal control over financial reporting that would require remediation by us. We cannot predict the outcome of our evaluation, or any possible remediation efforts that may be needed, at this time.

Our independent registered public accounting firm is not yet required to attest formally to the effectiveness of our internal controls over financial reporting, and will not be required to do so for as long as we are an “emerging growth company” pursuant to the provisions of the JOBS Act.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Although we are, from time to time, involved in litigation and claims arising out of our operations in the normal course of business, we do not believe that we are a party to any litigation that could have a material adverse impact on our financial condition or results of operations. We are not aware of any undisclosed significant legal or governmental proceedings against us, or contemplated to be brought against us. We maintain such insurance policies with insurers in amounts and with coverage and deductibles as our general partner believes are reasonable and prudent. However, we cannot assure you that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at acceptable prices.

Environmental Matter

On November 21, 2013, the EPA issued a General Notice Letter and Information Request (“Notice”) under Section 104(e) of CERCLA to one of our subsidiaries operating within the Fuel segment. The Notice provides that the subsidiary may have incurred liability with respect to the Reef Environmental site in Alabama, and requested certain information in accordance with Section 107(a) of CERCLA. We timely responded to the Notice. At this time, no specific claim for cost recovery has been made by the EPA (or any other potentially responsible party) against us. There is uncertainty relating to our share of environmental remediation liability, if any, because our allocable share of wastewater is unknown and the total remediation cost is also unknown. Consequently, management is unable to estimate the possible loss or range of loss, if any. We have not recorded a loss contingency accrual in our financial statements. In the opinion of management, the outcome of such matters will not have a material adverse effect on our financial position, liquidity or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risks described in this report and in our

Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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. We designed our safety program 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 organized safety committees at our plants made up of both 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. Our corporate health and safety department administers the health and safety programs 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. Following passage of The Mine Improvement and New Emergency Response Act of 2006, MSHA significantly increased the numbers of citations and orders charged against mining operations. The dollar penalties assessed for citations issued has also increased in recent years. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Certificate of Limited Partnership of Emerge Energy Services LP (incorporated by reference to Exhibit 3.1 to the Registrant’s Registration Statement on Form S-1, Registration No. 333-187487).
3.2	Amendment to Certificate of Limited Partnership of Emerge Energy Services LP (incorporated by reference to Exhibit 3.2 to the Registrant’s Registration Statement on Form S-1, Registration No. 333-187487).
3.3	First Amended and Restated Limited Partnership Agreement of Emerge Energy Services LP, dated as of May 14, 2013 (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K, filed with the SEC on May 20, 2013).
3.4	Certificate of Limited Formation of Emerge Energy Services GP LLC (incorporated by reference to Exhibit 3.5 to the Registrant’s Registration Statement on Form S-1, Registration No. 333-187487).
3.5	Amendment to Certificate of Formation of Emerge Energy Services GP LLC (incorporated by reference to Exhibit 3.6 to the Registrant’s Registration Statement on Form S-1, Registration No. 333-187487).
3.6	Amended and Restated Limited Liability Company Agreement of Emerge Energy Services GP, LLC, dated as of May 14, 2013 (incorporated by reference to Exhibit 3.2 to the Registrant’s Current Report on Form 8-K, filed with the SEC on May 20, 2013).
10.1	Second Amendment to Employment Letter, dated August 5, 2014, between Emerge Energy Services GP LLC and Robert Lane (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed with the SEC on August 11, 2014).
31.1*	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

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- 31.2* Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
- 95.1* Mine Safety Disclosure Exhibit.
- 101* Interactive Data Files - XBRL.

* Filed herewith (or furnished in the case of Exhibits 32.1 and 32.2).

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 7, 2014

EMERGE ENERGY SERVICES LP

By: EMERGE ENERGY SERVICES GP LLC,
its general partner

By: /s/ Rick Shearer
Rick Shearer
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Robert Lane
Robert Lane
Senior Vice President, Chief Financial
Officer and Treasurer
(Principal Financial Officer)

Table of Contents

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