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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Smart Sand third-quarter 2016 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded.

I would now like to hand the floor over to Phil Cerniglia, Investor Relations and Budgeting Manager. Please go ahead sir.

Phil Cerniglia - *Smart Sand Inc. - IR & Budgeting Manager*

Good morning, everyone, and thank you for joining us for Smart Sand's third quarter of 2016 earnings call. On the call today, we will have Chuck Young, our Chief Executive Officer, Lee Beckelman, our Chief Financial Officer, and John Young, our Executive Vice President of Sales and Logistics.

Before we begin, I would like to remind all participants that our comments made today will include forward-looking statements which are subject to certain risks and uncertainties that could cause actual results or events to materially differ from those anticipated. For a complete discussion of such risks and uncertainties, please refer to the Company's press release and our documents on file with the SEC. Smart Sand disclaims any intention or obligation to update or revise any financial projections or forward-looking statements whether because of new information, future events, or otherwise.

This conference call contains time sensitive information and is accurate only as of the live broadcast today, December 15, 2016.

Additionally, we may refer to the non-GAAP financial measures of adjusted EBITDA and production costs during this call. These measures, when used in combination with GAAP results, provide us with useful information to better understand our business, and we believe investors may want to consider this impact on our performance as well. Please refer to our most recent press release or our public filings for a full reconciliation of adjusted EBITDA to net income and production costs to cost of goods sold.

Finally, during today's question-and-answer session, we ask you to please limit your questions to one plus a follow-up to ensure that we have enough time to answer as many questions as possible.

I would now like to present our CEO, Mr. Chuck Young.

Chuck Young - *Smart Sand Inc. - CEO*



Thanks Phil. Good morning. I would like to thank everyone for joining Smart Sand's first earnings call as a publicly traded company. We at Smart Sand are excited about being a publicly traded company and look forward to the next chapter in our Company's history.

It was a solid quarter with positive financial results and signs of industry improvement. As you all know, we successfully completed our initial public offering in early November. We raised approximately \$130 million in net proceeds. That includes the exercise overallotment option by our underwriters at the end of November. With these proceeds, we have paid off and terminated our old revolver and redeemed our preferred shares. So, where does that leave us? In a good position with approximately \$30 million of cash remaining available to support future growth initiatives.

With the IPO, we have successfully recapitalized our balance sheet. This leaves us with essentially no debt, and it provides us with needed liquidity, liquidity that allows us to be better positioned to take advantage of future potential growth in the frac sand industry.

It is still early in the cycle and activity levels are continuing to improve in the frac sand market. Over the last three months, inquiries from new, potential customers have steadily increased.

In addition, customers have begun to consider new term contracts. We have recently received RFPs from several potential new customers for term contracts ranging from one to five years. And we are pleased to announce this morning that we had just entered into a new multi-year take-or-pay contract for finer mesh sands with a subsidiary of Rice Energy. We anticipate the volumes to begin shipping in January of 2017. We believe this is a good sign that the market is beginning to take note of increased sand demand and potential need to lock up supply.

We've also witnessed an increased level of interest from E&P companies looking to source sand, directly and we've seen increased interest in our finer mesh sands, 40, 70, and 100 mesh. As our mine reserve is 81% finer mesh sand, we feel that this offers us a unique competitive advantage. We believe market demand is going to continue to grow for finer mesh grades of sand.

Thanks to the financial flexibility created by the IPO, we are able to evaluate investment opportunities and logistics infrastructure, both at our Oakdale operation and in the operating basins. We believe investments in key logistics infrastructure will help with our long-term growth initiatives.

As an example, in June, we began operating a rail siding about 3.5 miles from our Oakdale operation on the Union Pacific on a manifest rail shipment basis. This allows us to be dual served at Oakdale by two Class I rail lines, the Canadian Pacific along with the Union Pacific. We believe this will be a key long-term competitive advantage for Smart Sand going forward. Being dual served allows us to negotiate more competitive rail rates to compete more effectively for delivered sand in the basin.

We are also evaluating potential options for in-basin terminal investment. We are currently in discussions with third parties interested in joint venture in-basin logistics opportunities and we also evaluating sites in the basin that can be developed by us directly. We are currently focusing on in-basin logistics opportunities in the Permian and our goal is to have one to two in-basin terminals in place by the end of 2017.

Finally, I would like to discuss the current pricing in the market. During the recent market downturn, we chose not to compete in the spot market. That is because we viewed the price drop to be at, frankly, a rational level. We view the price as being at or below most sand companies' production costs and, as such, not sustainable. Instead, we focused on our efforts of renegotiating our contracts to generate sufficient cash flows to support our business. Spot prices are improving, so we're getting to the point where we will pursue these opportunities while also pursuing additional term contracts.

And with that, I will now turn the call over to our CFO, Lee Beckelman, for discussion of the Company's third-quarter results.

Lee Beckelman - Smart Sand Inc. - CFO

Thanks Chuck. As Chuck highlighted, we had a good third quarter, and I'm going to provide the financial details for the quarter. Starting with sales volumes, sales volumes were 230,000 tons in the third quarter, a 19% increase over second-quarter volumes. 93% of our sales volumes in the quarter were shipped via unit train.

Total revenues for the third quarter were \$10.9 million, a 29% increase over second-quarter results.

So what led to the increase?



The increased sales volumes and higher reservation revenue, which increased from \$2.8 million last \$5 million this quarter. Also, we had transportation revenue of \$1.6 million in the quarter, basically flat with the second quarter.

Our average sales price for the quarter was \$40.66 a ton, a 14% increase over second-quarter results.

Our cost of sales for the quarter were \$5.9 million, a decrease from second-quarter results of \$6.5 million. The decrease was primarily due to higher capitalization and production costs. We had higher mining activity in the third quarter, which led to increased wet sand inventory produced versus sales volumes of dry sand and therefore higher capitalized costs in the quarter. For the higher revenues and lower costs, gross profit increased to \$5 million in the quarter, a \$3 million increase over second-quarter results.

Moving on to operating expenses, our operating expenses in the quarter were \$2.5 million, a slight increase over second-quarter expenses, primarily due to the restructuring of some management compensation packages. Other expenses in the quarter, including interest in our preferred stock and revolving credit facility, were \$2.6 million. For the proceeds of IPO, we fully redeemed our preferred stock, and fully paid off and terminated our old revolving credit facility, so we will not have these charges going forward until such time as we may borrow again under our new credit facility, which I will discuss later in the call.

For the third quarter, we had an income tax benefit of \$5,000. Our statutory effective rates for the quarter were 35%, and negative 5.5%, respectively. With the redemption of our preferred stock, we expect our effective tax rate to be more in line with our statutory rate going forward.

We had a net loss of \$96,000 this quarter, which was an improvement over a net loss of \$2.3 million in the second quarter. Also, as Chuck highlighted earlier, we had a solid adjusted EBITDA in the quarter of \$4.5 million, a 173% increase sequentially over second-quarter results.

In the third quarter, we spent \$1.3 million in capital expenditures, primarily for enhancement and cost improvement initiatives. For the fourth quarter of 2016, we currently anticipate spending in the range of \$1 million to \$2 million.

Moving on to capital liquidity and capital resources, as Chuck highlighted earlier, on November 3, we completed our initial public offering, raising approximately \$121 million in net proceeds. We used these proceeds to pay off approximately \$58 million in outstanding borrowings under our old revolving credit facility and to redeem approximately \$40 million of series A preferred stock.

Additionally, on November 23, our underwriters exercised their overallotment option for the public offering, generating additional cash proceeds for the Company of approximately \$9 million. What does this mean for Smart Sand? It means we have an industry-leading balance sheet with effectively no debt and currently approximately \$30 million in cash available to support growth initiatives going forward.

As for our credit facility, we terminated our old facility in November and recently closed on a new \$45 million revolving credit facility with a three-year term. Its primary financial covenants are a leverage ratio test of three times adjusted EBITDA and a fixed charge coverage ratio of 1.2 times. This facility is fully available to be utilized currently and currently, we have no outstanding borrowings.

Finally, I want to touch on a couple of recent events in addition to the new contract highlighted by Chuck in his comments. As disclosed in our 10-Q, we have settled a dispute related to prepayments made by one of our customers to file for bankruptcy in which a customer demanded a refund of the remaining balance of these prepayments. Under the settlement, we do not have to pay any of the prepayment back and, since the contract has been rejected and no longer enforced, we can recognize this prepayment as revenue. The prepayment was booked as deferred revenue of approximately \$5 million on our balance sheet as of September 30, and this amount will be recognized as revenue in the fourth quarter.

Additionally, on December 9, we came to an agreement to sell our remaining claim related to this customer's bankruptcy to a third party for approximately \$6.6 million. These proceeds have been received and we will recognize this transaction in earnings in the fourth quarter.

Finally, as disclosed in the 10-Q, the Company had issued warrants to certain management and founding shareholders to purchase approximately 4 million shares of common stock. And these warrants were exercised earlier this month and are now part of our outstanding share account in balance.

And with that, that ends our prepared remarks, and we will open it up for questions.

QUESTION AND ANSWER

Operator

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(Operator Instructions). Jim Wicklund, Credit Suisse.

Jim Wicklund - Credit Suisse - Analyst

Good morning guys. Congratulations. Not only did you beat Q3, but you gave us a lot of insight into positives in Q4, so thanks.

Can you tell us what happened or where we stand with the renewal or the situation with the EOG contract?

Chuck Young - Smart Sand Inc. - CEO, Director

Sure. John, you can take that.

John Young - Smart Sand Inc. - EVP Sales & Logistics

Yes, sure. So, to date, EOG continues to take volume from Smart Sand. We are continuing to work on a long-term supply agreement with them. We expect to continue to have them as a long-term customer.

And with regard to EOG, I think, as they have more clarity into their plans for 2017 and 2018, we expect to be part of their supply chain.

Jim Wicklund - Credit Suisse - Analyst

Okay, that's helpful. And on the Rice side, because we're thinking production volumes here, can you give us some idea of the volumes being committed to Rice? And in context of that question, where do you see the need for ramp-up and volume through 2017 as a result?

Lee Beckelman - Smart Sand Inc. - CFO

Well, I will start with that question, Jim. As you know, we are not giving any forward-looking guidance related to volume or financial results for the fourth quarter or 2017 currently, but what I can say is that, with the Rice contract, adding that into our other existing contracts in place, we will have about 1.6 million tons of annual production under contract with a weighted average life of those contracts of about 3.5 years.

Chuck Young - Smart Sand Inc. - CEO, Director

And Jim, this is Chuck here. Along the lines in both of those discussions, obviously we have seen an appetite for long-term supply. We see that right now. We believe that will continue. We see a lot of E&Ps out there looking for long-term supply agreement, and we believe that 40, 70, and 100 mesh sand is in tight supply.

Jim Wicklund - Credit Suisse - Analyst

It is.

Chuck Young - Smart Sand Inc. - CEO, Director

People are looking to get long-term deals to make sure they have it so they can complete their wells.

Jim Wicklund - Credit Suisse - Analyst

Okay. That's very helpful guys. Those are my two questions. I appreciate it. I will get back in the queue.

Operator

George O'Leary, TPH.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

I'm just curious if you could break out for us the level of tonnage that you guys sold out of inventory versus what you actually mined and sold on the quarter just so we can help keep track of that 2.1 million tons of inventory you guys had pre-IPO.

Lee Beckelman - Smart Sand Inc. - CFO

George, I'll have to get back to you on that. I don't have a specific number in place because also, as we over-mine -- as you know, during the non-winter months, we produce our wet sand and we can only mine because we have a wet plant outside. So we are actually probably increasing that -- increasing the level of our wet sand inventory, both 100 mesh and cores as we get ready to come into the winter months where we will not be producing any wet sand inventory and will just be pulling out. So I don't have a real calculation of how much that net balance changed in the quarter.

Chuck Young - Smart Sand Inc. - CEO, Director

So, just an example of that, so, right now, it's record freeze in Wisconsin. We are no longer making wet sand at this part of the year, and we pick that back up once things thought out, so we will deplete our inventory down, but we anticipated volumes increases, so we ran our wet process all the way up to the last moment that we could run it this year. And we are more than ready to supply sand through the winter months and then get right back to work on the wet side.

Lee Beckelman - Smart Sand Inc. - CFO

So what I can say, George, is that roughly this year, of our year-to-date sand sales of 552,000 tons, about 53% of that has been 100 mesh.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

Okay.

Lee Beckelman - Smart Sand Inc. - CFO

[55%] of that has been 100 mesh sales today of our total sales volume.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

Okay, that's very helpful color on both of those points.

And then you mentioned our selling some spot sales, our having some spot sales to EOG. I guess any color on kind of the current state of pricing? We're hearing from pressure pumpers that there may be kind of some initial signs of pricing increasing on that front. And given the tight linkage between pressure pumpers and what you guys do, just curious where leading-edge pricing is going versus the last couple of months or versus the third quarter.

John Young - Smart Sand Inc. - EVP Sales & Logistics

Yes. Sure George. John here.

So, pricing has recovered enough for us to want to participate in the spot market, and so we are seeing some increases in our spot market business out there, whereas, prior we weren't engaged in that process simply because we viewed the pricing is irrational. So, we are seeing that.



And moreover, what we're seeing is that pricing has recovered enough on the spot basis that we are interested now in signing off long-term contracts at these current price points as long as we've got the indexing in there to WTI to allow us to play on the upside. So we are seeing some of the benefits of that.

We believe we're going to continue to add new E&Ps and service companies under long-term supply agreements. And we're going to participate aggressively in the spot market as the prices maintain their rationality versus what we were seeing earlier this year and last year.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

Great, that's really helpful color. Maybe I'll sneak in one more if I can. If you look -- you mentioned a lot of RFPs from customers, and it sounds like the terminals that you guys would look to add by the end of 2017 would be in the Permian basin, but if you think about the RFP that you are getting regionally from a basin distribution standpoint, is it broad-based demand? Is it primarily in just a couple of basins? Just curious, any color you could provide us on that geographic distribution of demand.

Chuck Young - Smart Sand Inc. - CEO, Director

We would say that the -- obviously the Marcellus and the Permian Delaware basin have been the two top through the downturn. But as things are starting to come back, we're actually seeing some interest from multiple basins that were kind of very, very slow before, and the Mid-Con and the DJ as well.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

Awesome. That is super helpful and encouraging to hear. Thanks for the color guys.

Operator

John Watson, Simmons and Company.

John Watson - Simmons & Company International - Analyst

On the 1.6 million tons that are contracted, is any of that including Weatherford volumes? And can you provide maybe some color on your discussions with Weatherford with them potentially shutting down their frac business?

Lee Beckelman - Smart Sand Inc. - CFO

Well, in terms of the 1.6 million, yes, that does include our contracted volumes with Weatherford. In terms of Weatherford, they are fairly under long-term contract with us. It goes out through 2020. They have indicated that they have hot-stacked their equipment, but they've been taking their volumes and continue to do so to the end of the year at a minimum. They have also said they continue to look to take volumes and then moving them. And Weatherford also has a monthly capacity chart. So regardless, they are under contract and we continue to see them take volumes and pay their monthly reservation charge and still meet their obligations under their contract.

John Watson - Simmons & Company International - Analyst

Okay, great. And then unrelated follow-up, on those terminals you're looking at in the Permian, can you maybe discuss what part of the basin -- what part of the basin those are in?

Chuck Young - Smart Sand Inc. - CEO, Director

So, in the terminals, that's actually a pretty good question. Part of what we're doing right now -- and we view terminals as something that is not really a problem to do. We think that it's a matter of just investing money, but, more importantly, it's a matter of having the right long-term rail rates negotiated. So we're in the process of



evaluating opportunities on the Union Pacific and opportunities on the BNS Aspen because of our unique access -- our asset in Oakdale being dual served, we are able to do that. So into the Permian, primarily the Delaware basin and the Midland areas are the focus.

John Watson - Simmons & Company International - Analyst

Okay, great. Thanks. I will turn it back.

Operator

(Operator Instructions). Jim Wicklund, Credit Suisse.

Jim Wicklund - Credit Suisse - Analyst

On the topic of trans-load terminals, there is -- I was at a frac sand conference back in October and there seemed to be a number of companies that are building those terminals. And we have done some work on the cost of ownership versus leasing. And I'm just curious. Is location -- are the lease availability terminals in the right location? You guys have obviously done your due diligence. What would be, today, the most likely both economic and logistical preference in terms of the sand business for terminals? Do you own or do you rent?

John Young - Smart Sand Inc. - EVP Sales & Logistics

So, Jim, John here, great question. So Chuck had kind of alluded to it. We look at the in-basin as not being a current problem. We have access to these basins through existing third-party terminals and you referenced that there's other folks out there aggressively building new stuff. So, we have options to either own or JV or contract this in-basin capacity, but we continue to believe that the key is going to be tying those capacity commitments from either E&Ps or service companies to infrastructure build, JV, or contract, if you follow me.

Jim Wicklund - Credit Suisse - Analyst

Got you, I do.

John Young - Smart Sand Inc. - EVP Sales & Logistics

And I think, from our perspective, we would say that being last into the in-basin infrastructure game is definitely not a negative to us.

Jim Wicklund - Credit Suisse - Analyst

Oh no, not a negative, I wouldn't think so.

John Young - Smart Sand Inc. - EVP Sales & Logistics

(multiple speakers) giving us the ability to evaluate what is perfect out there. And really the key on this is we are going to leverage our position in being last in on this to negotiate the most effective long-term rail rate before we spend a dime.

Jim Wicklund - Credit Suisse - Analyst

Okay. And my follow-up, the \$64,000 question for both Amazon and the sand business, the last mile. Schlumberger uses Solaris, Sandbox got bought by Silica, Hi-Crush is starting their own organic group out of Denver. We know people are looking. Nobody wants to just own a trucking company as the last mile. What do you guys see as the most effective solution for the industry and for Smart Sand in terms of last mile?



John Young - Smart Sand Inc. - EVP Sales & Logistics

Yes, so another great question Jim. So, obviously, we view the last mile as important, if not critical. And we continue to evaluate the best approaches to the market. There's multiple -- you kind of mentioned there's multiple ways to meet that need, but primarily, from a logistics perspective, our focus is going to be maximizing tonnage throughput. And we are aware that there's multiple competing solutions that need to be proven as to which is the most effective way to move it, whether it's a box or whether it is a mobile silo type solution.

So, we've got options where we are working with partners out there to provide last mile today in some of our responses for capacity inquiry, but, quite frankly, some of the solutions that we see out there look an awful lot like what got the industry, the sand industry, into the large railcar overhang that we had a few years ago. And what I mean by that is they emphasize the box over the actual movement of the material. We think the movement is going to be the key to maximize throughput.

Jim Wicklund - Credit Suisse - Analyst

Interesting point. Okay, okay, thanks guys, appreciate it.

Operator

[Hervier Cole], Cole Capital.

Hervier Cole - Cole Capital - Analyst

Good morning gentlemen. Thank you for doing this call. Regarding RFPs and prospective customers interested in buying from you, can you give me a sense of, when a service company like a Halliburton or an E&P company contact you, do you get the sense that they may take the RFP to two, three, four, five different sand entities and choose one of them? So, I'm just trying to understand. When RFPs are coming your way, how competitive is it or do you really have situations where the would-be buyer is really only going to one or two suppliers and trying to get a relationship?

John Young - Smart Sand Inc. - EVP Sales & Logistics

Yes, so good question, right. So it depends. We've been doing our job in the downturn, keeping our relationships solid with potential customers so that when we were -- when we start to see this return in the cycle here that we are prepared.

But in general, customers are farming out their RFPs and their proposal requests to multiple sand companies. But I think the key on this is the market has shifted pretty markedly from what we saw at the last peak in 2014 from the perspective of coarse sands versus finer mesh sands. And we continue to believe that the finer mesh sands are going to be -- the supply for the finer mesh sands, 40, 70, and 100 mesh, are going to be tight, particularly when you look at the projections that are out there from a number of different companies. So, it gets to the point where I think, as customers start to look under the covers a little bit, they are really more concerned with the ability to sustainably supply these massive volumes that we used to have.

A quick example of that is, in 2013, 2014, if you are an E&P with a 50-well program and you're pumping between 1,000 and 2,000 tons per well, from a logistics standpoint, you're looking at 50,000 to 100,000 tons of sand, a relatively easy logistics puzzle to solve. But now that you are talking about these high-intensity fracs with 3,000 plus pounds per foot loadings in there, you are easily into that 10,000 to 20,000 tons per well arranged, so you take that same 50-well program and you could be looking at 1 million tons of sand requirement for that program, which is an entirely different sustainability and logistics puzzle to solve. And we think we are really well-positioned for that.

Chuck Young - Smart Sand Inc. - CEO, Director

We also think that it's going to be interesting to see, as people that are in contracts actually go and start looking to take the sand that they have contracted out to, where it's going to come from on the finer mesh sides. We are already seeing a real shortage on 40, 70 and 100 mesh, and we think that's going to occur, because we think the industry, prior to 2014, all the builds were going towards very, very coarse product. And now it's actually moved all the way the other way. And if you don't have the right reserve base, it's very difficult to make the type of sand it's in demand.



Hervier Cole - Cole Capital - Analyst

And just one follow-up question here, just thinking ahead, who knows if it's six months or two years, but you obviously have an ability to expand your current facility in the future if there is more demand. Once you approach 2 million or 3 million tons of current production, how much do you want to have in terms of visibility in terms of under contract on a one-year or longer-term basis before you will have the confidence to give the green light to do an expansion?

John Young - Smart Sand Inc. - EVP Sales & Logistics

So, Lee would tell you he would probably be most comfortable with about 75% to 80% contracted before we do the expansion on the processing. We view that as a pretty easy -- just a capital spend out of our Oakdale operation. Again, that's 1,200 acres, 300 million plus tons of sand and 81% of that reserve base is the high demand, 40, 70, and 100 mesh sand.

So, the answer to the question is we're going to spend our capital on logistics and expansion once we get to the contracted area of around 75%.

Hervier Cole - Cole Capital - Analyst

Okay. And let me just repeat what you said to make sure I understand it. So, your current capacity is 3.3 million tons per year. You would like to have 75% of that contracted on an annual basis and, at that point, you would consider expanding.

Lee Beckelman - Smart Sand Inc. - CFO

Well, I think contracted and/or having consistent sales volumes, because there could be some spot as part of that, but we like to see our activity level and see consistency around that 75% of capacity being utilized before we move forward and adding additional new capacity.

Hervier Cole - Cole Capital - Analyst

Great. Thank you so much. Best of luck.

Operator

Christopher Hillary, Roubaix Capital.

Christopher Hillary - Roubaix Capital, LLC - Analyst

Can you just talk us through a little bit the puts and takes that you foresee on your incremental margins in the years ahead?

Lee Beckelman - Smart Sand Inc. - CFO

The puts and takes? Well, in terms of margin, I think we see a lot of opportunity. We are running at a fairly low utilization today, around 30%, give or take. And so we see a lot of opportunity to improve, on a per ton basis, our cost. As we talked about, when we were on the road show today, we are running around -- year-to-date, we are about \$15 per ton production cost, and we would like to see that and believe we can get that number down to \$10 to \$12 per ton consistently if we get our utilization up to that 75% level. And so that gives you \$2 to \$3 potentially in margin there or more just from cost improvements. And then it really comes down to pricing and could we capture pricing over time. And that is really dependent on how activity picks up and the ramp-up of that activity.

Christopher Hillary - Roubaix Capital, LLC - Analyst

Thank you.

Operator

George O'Leary, TPH.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

Just one more for me. It's kind of a follow-on to one of the prior two questions, thinking about the scalability of the asset in the OPL facility and the potential to grow that capacity meaningfully over time. I guess, if you think about, over the last 30 days, what you've seen from a volume increase standpoint, does it feel like you may pull forward some of those expansion plans just based on the RFPs you are seeing, some the spot sales you're having in the fourth quarter, or would you say it's kind of unchanged versus the roadshow time frame?

Lee Beckelman - Smart Sand Inc. - CFO

Yes George, I would say it's still early to say we're going to pull that -- pull forward. I think we need to see how volume activity picks up over the first six months of this year. And if activity levels continue to improve and we were to get a couple of more contracts and/or see spot moving in a positive direction for us, I think we could look to consider moving on expansion in the second half of the year. I think it's still really dependent overall on the market activity and it's still a little early to give any real guidance on when that expansion could occur.

Chuck Young - Smart Sand Inc. - CEO, Director

From the sale side of the house, we are going to push the Lee to spend that money as quickly as possible because we want to grow the business and we have a tremendous asset there. And we definitely see that Boyd reports and gradation matters in this new marketplace, and we feel that we have one of the best assets out there to build around this rail thing, which not a lot of people have jumped on. But being dual served, if you look at any businesses that move high-volume product, being dual served is a key, key, competitive advantage.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

Yes, I like it. And then maybe just one more if I could. We always thinking about it with the model open. The -- I just want to make sure I'm understanding it right. The \$5 million that you got from -- \$5 million that you guys will book in revenue associated with the CNJ negotiations and then \$6.6 million that will flow through to net income, those are additive on top of each other. Then I guess versus what you were expecting for the fourth quarter at the time of the IPO, was any of that baked into your expectations for the fourth quarter, or is that all incremental?

Lee Beckelman - Smart Sand Inc. - CFO

Yes, George, in terms of expectations for the fourth quarter, that was all incremental. And you are right; they are additive. So there's the \$5 million that is the acceleration of the prepay, and then, separately, we settled our outstanding claim for the \$6.6 million, so it's in total \$11.6 million that will flow through the financials in the fourth quarter.

George O'Leary - Tudor, Pickering, Holt & Co. Securities - Analyst

Perfect. Thanks very much for the color guys.

Operator

Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back over to Chuck Young for any closing comments.

Chuck Young - Smart Sand Inc. - CEO, Director

Thank you again to everyone that joined our earnings call today. As we have discussed this morning, it was a solid quarter with positive financial results and signs of industry improvement. We look forward to speaking with you all again in March.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone have a great day.

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