

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

*In re: Hi-Crush Partners L.P. Securities Litigation*

No. 12-Civ-8557 (CM)

**ECF Case**

**AMENDED CONSOLIDATED  
CLASS ACTION COMPLAINT  
FOR VIOLATIONS OF THE  
FEDERAL SECURITIES  
LAWS**

**DEMAND FOR JURY TRIAL**

**I. NATURE OF THE ACTION AND FACTUAL OVERVIEW**

Lead Plaintiffs HITE Hedge LP and HITE MLP LP (collectively, “HITE” or “Lead Plaintiff”), individually and on behalf of all others similarly situated, by Lead Plaintiff’s undersigned attorneys, for Lead Plaintiff’s complaint against defendants, alleges the following based upon personal knowledge as to Lead Plaintiff and Lead Plaintiff’s own acts, and upon information and belief as to all other matters based on the investigation conducted by and through Lead Plaintiff’s attorneys, which included, among other things, a review of Hi-Crush Partners LP’s press releases, Securities and Exchange Commission (“SEC”) filings, court filings, analyst reports, media reports and other publicly disclosed reports and information about defendants. Lead Plaintiff believes that substantial evidentiary support will exist for the allegations set forth hereinafter after a reasonable opportunity for discovery.

1. This is an action on behalf of all persons or entities who purchased the common units of Hi-Crush Partners LP, pursuant and/or traceable to the Registration Statement and Prospectus issued in connection with its August 16, 2012 initial public units offering (“IPO”), including units purchased on the open market during the period from August 16, 2012 through

November 12, 2012, inclusive (“Class Period”) seeking to pursue: 1) remedies under the Securities Act of 1933 (the “Securities Act”); and 2) remedies under the Securities Exchange Act of 1934 (“Exchange Act”).

2. Hi-Crush Partners LP (together with its subsidiaries, “Hi-Crush” or the “Partnership”) is a Delaware limited partnership formed on May 8, 2012 to acquire selected sand reserves and related processing and transportation facilities of Hi-Crush Proppants LLC (“Hi-Crush Proppants” or “Sponsor”). Hi-Crush is managed and operated by the board of directors and executive officers of its general partner, Hi-Crush GP LLC (“Hi-Crush GP”), a wholly owned subsidiary of Hi-Crush Proppants. In connection with its formation, the Partnership issued: (a) a non-economic general partner interest to Hi-Crush GP; and (b) a 100.0% limited partner interest to the Sponsor. Hi-Crush is engaged in the production of premium monocrySTALLINES and a specialized mineral, or “proppant,” which enhances hydrocarbon recovery from oil and natural gas wells. Since the IPO, Hi-Crush’s units have traded on the NYSE under the symbol “HCLP.”

3. On August 16, 2012, the Partnership completed the IPO through the sale of 12,937,500 common units by the Sponsor at \$17 per unit, receiving approximately \$220 million in gross proceeds, pursuant to the final Prospectus filed on August 16, 2012, which became effective that same day, and the registration statement previously-filed with the SEC on Form S-1 and subsequent amendments thereto, which became effective on August 16, 2012 (collectively, with the documents incorporated therein, the “Registration Statement” or “Offering Documents”). As part of the transaction, the Sponsor contributed cash and four entities formerly owned by the Sponsor (Hi-Crush Chambers LLC, Hi-Crush Railroad LLC, Hi-Crush Wyeville LLC and Hi-Crush Operating LLC) to the Partnership.

4. According to the Registration Statement, almost all of Hi-Crush’s frac sand was being sold to four customers. Emphasizing the strength of those customer relationships, the Registration Statement highlighted one of the four customers, Baker Hughes Incorporated

(together with its subsidiaries, “Baker Hughes”), as being one of the Partnership’s two largest customers, and, thus, a particularly important revenue source, stating in pertinent part as follows:

Our current customer base is comprised of subsidiaries of four of North America's largest providers of pressure pumping services: ***Baker Hughes Incorporated (“Baker Hughes”)***, FTS International, LLC. (“FTS International”), Halliburton Company (“Halliburton”) and Weatherford International Ltd. (“Weatherford”). ***Our largest customers based on current contracts, Baker Hughes and Halliburton, are each rated A2 / A by Moody’s and Standard & Poor’s, respectively, and Weatherford is rated Baa2 / BBB by these agencies. FTS International Services LLC, the subsidiary of FTS International that is the counterparty to our customer contract, is rated Ba3 / B by these agencies. Spears and Associates estimates that these four companies controlled 47% of North American pressure pumping fleet in 2011 and accounted for greater than 50% of the North American pressure pumping market, based on 2011 revenue. For the year ended December 31, 2011, sales to Halliburton and Weatherford accounted for 64% and 36% of our total revenues, respectively. Sales under our contracts with Baker Hughes and FTS International commenced in May 2012.***

(emphasis added).

5. In its Registration Statement, Hi-Crush represented that, based on contracted volumes and pricing, sales to Baker Hughes will represent approximately 18.2% of Hi-Crush’s contracted 2012 revenue.

6. Moreover, in a September 25, 2012 presentation made publicly available on Hi-Crush’s website, Hi-Crush touted that its supply contract with Baker Hughes was an important revenue source and stated that as a long term take-or-pay contract, the Baker Hughes contract, provided long-term contracted cash flow stability. According to the Registration Statement, “take-or-pay” contracts required Hi-Crush’s customers to pay a specified price for a specified volume of frac sand each month.

7. However, all was not as it was represented. Defendants’ statements concerning contracted revenues from Baker Hughes were untrue and omitted material facts. Specifically, Hi-Crush’s relationship with Baker Hughes was strained. On November 13, 2012, Hi-Crush issued a press release disclosing that on September 19, 2012, Baker Hughes had given notice that it was terminating its supply contract with Hi-Crush, on the grounds that Hi-Crush was in breach. The press release further stated that following Baker Hughes’ repudiation of the supply contract

and failed efforts to negotiate, on November 12, 2012, Hi-Crush “formally terminated the supply agreement and filed suit in the State District Court of Harris County, Texas against Baker Hughes seeking damages for Baker Hughes’ prior wrongful termination of the supply agreement.”

8. Hi-Crush filed an Original Petition in *Hi-Crush Operating LLC vs. Baker Hughes Oilfield Operations, Inc.*, No. 2012-67261 (Harris County District Court), on November 12, 2012 (“Original Petition”). In the lawsuit, Hi-Crush alleged that beginning in February 2012, Baker Hughes, through a subsidiary, had demanded a renegotiation of the terms of the supply contract executed in October 2011 with Hi-Crush Operating LLC (at that time a subsidiary of the Sponsor and at the time of the IPO a subsidiary of Hi-Crush). Performance on the supply contract was not scheduled to begin until May 2012, but in February 2012 Baker Hughes had demanded, and in May 2012 Hi-Crush granted, significant volume and other concessions in an effort to keep Baker Hughes from repudiating the entire supply contract. In the Original Petition, Hi-Crush alleged that Baker Hughes’ recent repudiation of the supply contract was part of a continuing effort to circumvent its binding purchase obligations under the supply contract which had apparently started with Baker Hughes’ demands for volume concessions in February 2012. In the Original Answer and Counterclaims filed by Baker Hughes in *Hi-Crush Operating LLC vs. Baker Hughes Oilfield Operations, Inc.*, No. 2012-67261 (Harris County District Court), on December 17, 2012, Baker Hughes alleged that Hi-Crush first materially breached the parties’ agreement in July 2012.

9. Statements in the Registration Statement and throughout the Class Period concerning Hi-Crush’s customer relationships (including, specifically, its relationship with Baker Hughes) and contracted revenues were materially false and omitted material facts including without limitation:

a. Shortly after the contract was executed in October 2011, Baker Hughes began expressing an unwillingness to comply with that contract after executing the original supply contract with Hi-Crush scheduled to begin in February 2012;

b. Six months prior to the IPO, Baker Hughes had demanded significant volume and other concessions resulting in the execution of an amended supply contract (“Supply Agreement”);

c. According to Baker Hughes, Hi-Crush had violated a key provision in the Supply Agreement in July 2012; and

d. Baker Hughes repudiated all of its financial obligations under the Supply Agreement on September 19, 2012, which resulted in a material decrease in Hi-Crush’s revenues and profits.

10. Hi-Crush’s common unit price declined precipitously on November 13, 2012, following disclosure of the previously undisclosed facts concerning Hi-Crush’s relationship with Baker Hughes. The trading price of Hi-Crush common units declined more than \$5 per share that day – a decline of approximately 26% from its prior closing price – on extremely high trading volume of more than 3.3 million units trading following the disclosure.

11. On February 1, 2013, Hi-Crush Co-CEO James Whipkey revealed that the Securities and Exchange Commission (“SEC”) had asked Hi-Crush to provide them with information regarding dispute with Baker Hughes.

## **II. JURISDICTION AND VENUE**

12. The claims asserted herein arise under and pursuant to: 1) Sections 11, 12(a)(2) and 15 of the Securities Act (15 U.S.C. §§ 77k, 77l(a)(2), 77o); and 2) Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. § 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

13. This court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331, as well as Section 22 of the Securities Act, 15 U.S.C. § 77v., and Section 27 of the Exchange Act, 15 U.S.C. § 78aa.

14. Venue is proper in this District pursuant to Section 22 of the Securities Act, Section 27 of the Exchange Act and 28 U.S.C. § 1391 (b), (c) and (d). The acts and conduct

complained of herein occurred in substantial part in this District and most of the Underwriter Defendants (defined below) maintain their principal places of business in this District, with all having offices in this District.

15. In connection with the acts alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

### **III. PARTIES**

#### **A. LEAD PLAINTIFF**

16. Lead Plaintiff HITE purchased Hi-Crush common units in and/or traceable to the IPO, and was damaged thereby, as was detailed in the sworn certification that Lead Plaintiff previously filed with the Court, which is incorporated herein by reference.

#### **B. HI-CRUSH DEFENDANTS**

17. Defendant Hi-Crush is a publicly-traded Delaware limited partnership formed on May 8, 2012 to acquire selected sand reserves and related processing and transportation facilities of Hi-Crush Proppants LLC. Hi-Crush is headquartered in Houston, Texas.

18. Defendant Hi-Crush GP is a Delaware limited liability company and is a wholly owned subsidiary of Hi-Crush Proppants. Hi-Crush GP was formed in May 2012. Hi-Crush GP is the general partner of Hi-Crush. Hi-Crush GP's board of directors and executive officers manage and operate Hi-Crush. Hi-Crush GP is headquartered in Houston, Texas.

19. Defendant Hi-Crush and Defendant Hi-Crush GP are referred to herein as the "Hi-Crush Defendants."

#### **C. INDIVIDUAL DEFENDANTS**

20. Defendant Robert E. Rasmus ("Rasmus") is and was at the time of the IPO, Co-Chief Executive Officer of Hi-Crush GP. Rasmus was appointed to the board of directors of Hi-Crush GP in May 2012. Rasmus signed the Registration Statement.

21. Defendant James M. Whipkey (“Whipkey”) is and was at the time of the IPO, Co-Chief Executive Officer and a Director of Hi-Crush GP. Whipkey was appointed to the board of directors of Hi-Crush GP in May 2012. Whipkey signed the Registration Statement.

22. Defendant Laura C. Fulton (“Fulton”) is and was at the time of the IPO, Chief Financial Officer of Hi-Crush GP. Fulton signed the Registration Statement.

23. Defendant Jefferies V. Alston, III (“Alston”) is and was at the time of the IPO, Chief Operating Officer and a Director of Hi-Crush GP. Alston was appointed to the board of directors of Hi-Crush GP in May 2012. Alston signed the Registration Statement.

24. Defendants Rasmus, Whipkey, Fulton and Alston are sometimes referred herein collectively as the “Senior Management Defendants.”

25. Defendant Robert L. Cebes, Jr. (“Cebes”) is and was at the time of the IPO, a Director of Hi-Crush GP. Cebes was appointed to the board of directors of Hi-Crush GP in May 2012. Cebes signed the Registration Statement.

26. Defendant John R. Huff (“Huff”) is and was at the time of the IPO, a Director of Hi-Crush GP. Huff was appointed to the board of directors of Hi-Crush GP in May 2012. Huff signed the Registration Statement.

27. Defendant Trevor Turbidy (“Turbidy”) is and was at the time of the IPO, a Director of Hi-Crush GP. Turbidy was appointed to the board of directors of Hi-Crush GP in May 2012. Turbidy signed the Registration Statement.

28. Defendant Steven A. Webster (“Webster”) is and was at the time of the IPO, a Director of Hi-Crush GP. Webster was appointed to the board of directors of Hi-Crush GP in May 2012. Webster signed the Registration Statement.

29. The defendants referenced above in ¶¶ 20-28 are referred to herein as the “Individual Defendants.”

#### **D. UNDERWRITER DEFENDANTS**

30. Defendant Barclays Capital Inc. (“Barclays”), based in New York, New York, provides securities brokerage and financial advisory services and operates as a subsidiary of Barclays PLC. Barclays acted as an underwriter and joint book-running manager of Hi-Crush’s IPO, helping to draft and disseminate the Offering Documents.

31. Defendant Morgan Stanley & Co. LLC (“Morgan Stanley”), based in New York, New York, is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to customers, including corporations, governments, financial institutions and individuals. Morgan Stanley assists public and private corporations in raising funds in the capital markets (both equity and debt), as well as in providing strategic advisory services for mergers, acquisitions and other types of financial transactions. Morgan Stanley acted as an underwriter and joint book-running manager of Hi-Crush’s IPO, helping to draft and disseminate the Offering Documents.

32. Defendant Credit Suisse Securities (USA) LLC (“Credit Suisse”), based in New York, New York, is a financial services company that advises clients in all aspects of finance, serving companies, institutional clients and high-net-worth private clients worldwide. Credit Suisse acted as an underwriter and joint book-running manager of Hi-Crush’s IPO, helping to draft and disseminate the Offering Documents.

33. Defendant UBS Securities LLC (“UBS”), an indirect wholly-owned subsidiary of Switzerland-based UBS AG, provides a full range of investment banking services, including corporate finance, mergers and acquisitions, capital markets, trading and sales, fixed income, equity research and prime brokerage operations. UBS’s U.S. headquarters are located in New York, New York. UBS acted as an underwriter and joint book-running manager of Hi-Crush’s IPO, helping to draft and disseminate the Offering Documents.

34. Defendant Raymond James & Associates, Inc. (“Raymond James”) is a publicly owned full service investment bank listed on the NYSE. Raymond James acted as an underwriter of Hi-Crush’s IPO, helping to draft and disseminate the Offering Documents. Raymond James is

headquartered in St. Petersburg, Florida. Raymond James also has offices located in New York, New York.

35. Defendant RBC Capital Markets, LLC (“RBC”) is a Canadian investment bank, part of the Royal Bank of Canada. RBC’s U.S. headquarters are located in New York, New York. RBC Capital acted as an underwriter of Hi-Crush’s IPO, helping to draft and disseminate the Offering Documents.

36. Defendant Robert W. Baird & Co. Incorporated (“Baird”) is the principal U.S. operating subsidiary of Baird, a Milwaukee, Wisconsin-based, international, employee-owned financial services firm providing wealth management, capital markets, private equity, and asset management services to individuals, corporations, institutional investors, and municipalities. Baird acted as an underwriter of Hi-Crush’s IPO, helping to draft and disseminate the Offering Documents. Baird also has offices in New York, New York.

37. The defendants named in ¶¶ 30 through 36, above are referred to herein as the “Underwriter Defendants.” Pursuant to the Securities Act, the Underwriter Defendants are liable for the false and misleading statements in the Registration Statement as follows:

a. The Underwriter Defendants are investment banking houses which specialize, *inter alia*, in underwriting public offerings of securities. They served as the underwriters of the IPO and shared approximately \$13.5 million in fees collectively. The Underwriter Defendants determined that in return for their share of the IPO proceeds, they were willing to merchandize Hi-Crush units in the IPO. The Underwriter Defendants arranged a multi-city roadshow prior to the IPO during which they, and representatives from Hi-Crush, met with potential investors and presented highly favorable information about the Partnership, its operation, and its financial prospects;

b. The Underwriter Defendants also demanded and obtained an agreement from Hi-Crush that Hi-Crush would indemnify and hold the Underwriter Defendants harmless from any liability under the federal securities laws. They also made certain that Hi-Crush had purchased millions of dollars in directors’ and officers’ liability insurance;

c. Representatives of the Underwriter Defendants also assisted Hi-Crush and the Individual Defendants in planning the IPO, and purportedly conducted an adequate and reasonable investigation into the business and operations of Hi-Crush, an undertaking known as a “due diligence” investigation. The due diligence investigation was required of the Underwriter Defendants in order to engage in the IPO. During the course of their “due diligence,” the Underwriter Defendants had continual access to confidential corporate information concerning Hi-Crush’s operations and financial prospects;

d. In addition to availing themselves of virtually unbridled access to internal corporate documents, agents of the Underwriter Defendants met with Hi-Crush’s lawyers, management and top executives and engaged in “drafting sessions” between at least May 2012 and August 2012. During these sessions, understandings were reached as to: (i) the strategy to best accomplish the IPO; (ii) the terms of the IPO, including the price at which Hi-Crush units would be sold; (iii) the language to be used in the Registration Statement; (iv) what disclosures about Hi-Crush would be made in the Registration Statement; and (v) what responses would be made to the SEC in connection with its review of the Registration Statement. As a result of these contacts, the Underwriter Defendants had access to the information underlying the material misrepresentations or omissions alleged herein.; and

e. The Underwriter Defendants caused the Registration Statement to be filed with the SEC and declared effective in connection with offers and sales thereof, including offers and sales to Lead Plaintiff and the Class.

#### **IV. CLASS ACTION ALLEGATIONS**

38. Lead Plaintiff brings this action as a class action on behalf of a class consisting of all those who purchased Hi-Crush common units pursuant and/or traceable to the Registration Statement issued in connection with the IPO, and/or in the open market during the period from August 16, 2012 through and including November 12, 2012 (the “Class Period”).

39. Excluded from the Class are defendants and their families, the officers and directors and affiliates of the defendants, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

40. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Lead Plaintiff at this time and can only be ascertained through appropriate discovery, Lead Plaintiff believes that there are hundreds, if not thousands, of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Hi-Crush or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

41. Lead Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

42. Lead Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class actions and securities litigation.

43. With respect to the Securities Act Claims, common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. whether the defendants' acts as alleged herein violated the Securities Act;
- b. whether statements made by defendants to the investing public in the Registration Statement and Prospectus misrepresented or omitted material facts about the business and operations of Hi-Crush; and
- c. to what extent the members of the Class have sustained damages and the proper measure of damages.

44. With respect to the Exchange Act Claims, common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

a. whether the Hi-Crush Defendants' and the Individual Defendants' acts as alleged herein violated the Exchange Act;

b. whether statements made by the Hi-Crush Defendants and the Individual Defendants to the investing public in the Registration Statement and Prospectus and thereafter in the Class Period misrepresented or omitted material facts about the business and operations of Hi-Crush;

c. whether the Hi-Crush Defendants and the Individual Defendants knew or recklessly disregarded that their statements were false or misleading;

d. whether the market prices of Hi-Crush units during the Class Period were artificially inflated due to material misrepresentations and the failure to correct the material misrepresentations complained of herein; and

e. to what extent the members of the Class have sustained damages caused by defendants' fraud and the proper measure of damages.

45. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

**CLAIMS BROUGHT PURSUANT TO THE SECURITIES ACT AGAINST ALL  
DEFENDANTS**

**V. SUBSTANTIVE ALLEGATIONS**

46. Lead Plaintiff's Securities Act claims alleged in Counts I-III herein are not based on any allegations of knowing or reckless misconduct on the part of the defendants. Lead Plaintiff's Securities Act claims do not allege fraud. Lead Plaintiff specifically disclaims any reference to or reliance upon allegations of fraud in these non-fraud claims under the Securities Act.

**A. THE IPO**

47. As of August 15, 2012, the General Partner owned 100% of Hi-Crush's sand reserves and related excavation and processing facilities located in Wyeville, Wisconsin. On August 16, 2012, the Sponsor contributed its ownership of Hi-Crush Chambers LLC, Hi-Crush Railroad LLC, Hi-Crush Wyeville LLC, Hi-Crush Operating LLC and \$4,606 of cash to the Partnership. In addition, the Sponsor agreed to: (1) convert all \$23,916 of consolidated net intercompany receivables due from the Partnership into capital; and (2) assume via capital contribution \$10,028 of outstanding accounts payable maintained by the General Partner as of the transaction date. In return, the Partnership issued 13,640,351 common units and 13,640,351 subordinated units to the Sponsor. In connection with this transaction, the Partnership also completed the IPO through the sale of 12,937,500 of the common units by the Sponsor.

48. On or about August 16, 2012, Hi-Crush filed its final Prospectus for the IPO, which along with the Form S-1 and amendments thereto forms part of the Registration Statement and which became effective on August 16, 2012.

49. The IPO was successful for the Partnership, the Sponsor and the Underwriters. More than 12.9 million shares of Hi-Crush common units were sold to the public at \$17 per share, raising approximately \$220 million in gross proceeds for the Sponsor.

## B. MISREPRESENTATIONS IN THE REGISTRATION STATEMENT

50. The Registration Statement contained untrue statements of material facts or omitted to state other material facts necessary to make such statements not misleading and was not prepared in accordance with the rules and regulations governing its preparation.

51. The Registration Statement contained statements emphasizing:

- a. the fact that Baker Hughes was Hi-Crush's second largest customer;
- b. the significant impact that the Baker Hughes Supply Agreement had on Hi-Crush's revenues;
- c. the protections and benefits that the Supply Agreement with Baker Hughes provided Hi-Crush;
- d. the importance the Baker Hughes Supply Agreement had to Hi-Crush's business and contracting strategies;
- e. the fact that Hi-Crush's contracting strategy and use of take-or-pay contracts protected it from, among other things, fluctuations in price, demand and cash flow; and
- f. the risks associated with the fact that Hi-Crush had a highly concentrated customer base.

52. For example, in emphasizing the strength of its relationship with Baker Hughes and the significance Hi-Crush was placing on that relationship, the Registration Statement referred to Baker Hughes as being "*under [a] long-term, take-or-pay contract[] that require[d] [it] to pay a specified price for a specified volume of frac sand each month.*" (emphasis added).

53. With respect to "Customers and Contracts," the Registration Statement stated as follows:

Our current customer base is comprised of subsidiaries of four of North America's largest providers of pressure pumping services: Baker Hughes Incorporated ("Baker Hughes"), FTS International, LLC. ("FTS International"), Halliburton Company ("Halliburton") and Weatherford International Ltd. ("Weatherford"). *Our largest customers based on current contracts, Baker Hughes and Halliburton, are each rated A2 / A by Moody's and Standard & Poor's, respectively, and Weatherford is rated Baa2 / BBB by these agencies. FTS International Services LLC, the subsidiary of FTS International that is the counterparty to our customer contract, is rated Ba3 / B by these agencies. Spears and Associates*

estimates that these four companies controlled 47% of North American pressure pumping fleet in 2011 and accounted for greater than 50% of the North American pressure pumping market, based on 2011 revenue. For the year ended December 31, 2011, sales to Halliburton and Weatherford accounted for 64% and 36% of our total revenues, respectively. Sales under our contracts with Baker Hughes and FTS International commenced in May 2012.

We sell substantially all of the frac sand we produce under long-term, take-or-pay contracts that significantly reduce our exposure to short-term fluctuations in the price of and demand for frac sand. For the year ended December 31, 2011 and the first half of 2012, we generated 99% of our revenues from frac sand delivered under our long-term sand sales contracts, and we expect to continue selling a significant majority of our sand under long-term contracts. As of June 30, 2012, we had four long-term sand sales contracts with a weighted average remaining life of approximately 4.6 years. The following table presents a summary of our contracted volumes and revenues from 2011 through 2015, as well as the average contract sales price and make-whole price our customers are obligated to pay in the event they decline to accept delivery of the required product volumes under their respective contracts.

<b>Year Ended December 31,</b>					
	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
Contracted Volumes (tons)	331,667	1,216,667	1,460,000	1,295,000	1,130,000
% of Processing Capacity(1)	79%	85%	91%	81%	71%
Contracted Revenue	\$19,916,667	\$78,966,667	\$96,466,667	\$88,350,000	\$80,100,000
Average Sales Price per ton	\$60	\$65	\$66	\$68	\$71
Average Make-Whole Price per ton	\$60	\$49	\$49	\$51	\$51

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(1) Percentage of processing capacity for 2011 and 2012 based on weighted average processing capacity for such periods.

As the above table illustrates, when one of our contracts expires in 2014, the average contracted price per ton will increase. The expiring contract provides for sales prices lower than current market prices. Prior to this contract's expiration, we will seek to renew or replace this contract on pricing terms more comparable to market prices at the time. Occasionally, if we have excess production and market conditions are favorable, we may elect to sell frac sand in spot market transactions.

The terms of our customer contracts, including sand quality requirements, quantity parameters, permitted sources of supply, effects of future regulatory changes, force majeure and termination and assignment provisions, vary by customer. As indicated in the above table, our customer contracts contain penalties for non-performance by our customers, with make-whole prices averaging approximately \$49 per ton in 2012. If one of our customers fails to meet its minimum obligations to us, we would expect that the make-whole payment, combined with a decrease in our variable costs (such as royalty payments and excavation

costs), would substantially mitigate any adverse impact on our cash flow from such failure. . .

(emphasis added).

54. With respect to Hi-Crush’s “Business Strategies” the Registration Statement stated as follows:

### **Business Strategies**

Our primary business objective is to increase our cash distributions per unit over time. We intend to accomplish this objective by executing the following strategies:

#### ***Focusing on stable, long-term, take-or-pay contracts with key customers.***

A key component of our business model is our contracting strategy, which seeks to secure a high percentage of our cash flows under ***long-term***, fixed price contracts with take-or-pay provisions, while also staggering the tenors of our contracts ***so that they expire at different times***. We believe this contracting strategy ***significantly mitigates our exposure to the potential price volatility of the spot market for frac sand in the short-term, allows us to take advantage of any increase in frac sand prices over the medium-term and provides us with long-term cash flow stability.***

As current contracts expire or as we add new processing capacity, we intend to pursue similar long-term contracts with our current customers and with other leading pressure pumping service providers. We intend to utilize nearly all of our processing capacity to fulfill these contracts, with any excess processed frac sand first offered to existing customers and the remaining amount sold opportunistically in the spot market.

(emphasis added).

55. The Registration Statement also described as one of the Partnership’s “Competitive Strengths,” the purported “Long-term contracted cash flow stability” derived from the Baker Hughes supply contract. Stating in relevant part as follows:

***Long-term contracted cash flow stability.*** We will generate substantially all of our revenues from the sale of frac sand under long-term ***contracts that require subsidiaries of Baker Hughes, FTS International, Halliburton and Weatherford to pay specified prices for specified volumes of product each month.*** We believe that the take-or-pay volume and pricing provisions and the ***long-term nature of our contracts*** will provide us with a stable base of cash flows and limit the risks associated with price movements in the spot market and any changes in product demand during the contract period. ***We are currently contracted to sell 1,460,000 tons of frac sand annually from our Wyeville facility, and as of June 30, 2012, our contracts had a weighted average remaining life of approximately 4.6 years.***

(emphasis added).

56. With respect to Risk Factors the Registration Statement stated as follows:

**Risks Inherent in Our Business...**

*Substantially all of our sales are generated under contracts with four customers, and the loss of, or significant reduction in purchases by, any of them could adversely affect our business, financial condition and results of operations.*

During the year ended December 31, 2011, subsidiaries of Weatherford and Halliburton accounted for 100% of our sales. We commenced sales under our new contracts with subsidiaries of Baker Hughes and FTS International in May 2012, and expect that our four customers will represent all of our sales in 2012. We have fixed price, take-or-pay supply agreements with each of these customers, with remaining terms ranging from 10 to 70 months, as of June 30, 2012. Upon the expiration of these current supply agreements, however, our customers may not continue to purchase the same levels of our frac sand due to a variety of reasons. In addition, we may choose to renegotiate our existing contracts on less favorable terms and at reduced volumes in order to preserve relationships with our customers. Furthermore, some of our customers could exit the pressure pumping business or be acquired by other companies that purchase the same products and services we provide from other third-party providers. Our current customers also may seek to acquire frac sand from other providers that offer more competitive pricing or superior logistics or to capture and develop their own sources of frac sand.

In addition, upon the expiration of our current contract terms, we may be unable to renew our existing contracts or enter into new contracts on terms favorable to us, or at all. The demand for frac sand or prevailing prices at the time our current supply agreements expire may render entry into new long-term supply agreements difficult or impossible. Any reduction in the amount of frac sand purchased by our customers, renegotiation on less favorable terms, or inability to enter into new contracts on economically acceptable terms upon the expiration of our current contracts could have a material adverse effect on our business, financial condition and results of operations.

57. Defendants had a duty to disclose in the Registration Statement all material information. Thus, defendants had a duty to disclose that Baker Hughes was dissatisfied with its contract, had been demanding significant concessions from Hi-Crush under the original Baker Hughes supply contract, and was of the belief that Hi-Crush had breached the parties' contract, as amended. Moreover, the specific statements from the Registration Statement recited above concerning Hi-Crush's customer relationships gave rise to a duty to disclose the existing strains with Baker Hughes – one of Hi-Crush's largest customers. In light of these undisclosed problems between Hi-Crush and Baker Hughes, the "long-term" nature of the Baker Hughes

contract was in fact questionable, Hi-Crush's revenues were misleadingly stated, Hi-Crush's business strategies and contracting strategies designed to promote stability were compromised, and risks associated with a concentrated customer base were understated. Accordingly, these statements from the Registration Statement, recited above, were materially false and misleading.

58. Moreover, pursuant to Item 11 of Form S-1, registrants are required to provide in a registration statement the information required by Item 303 of Regulation S-K [17 C.F.R. § 229.303], and the SEC's related interpretive releases thereto, including any known trends, events or uncertainties that have had or are reasonably likely to cause the registrant's financial information not to be indicative of future operating results. The adverse events and uncertainties associated with Hi-Crush's business relationship with Baker Hughes was reasonably likely to have a material impact on Hi-Crush's continuing operations and therefore were required to be disclosed in the Registration Statement, but were not.

59. In 1989, the SEC issued an interpretive release on Item 303 and the disclosure required under the regulation. *See* Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), SEC Release No. 6835, 1989 WL 1092885, at \*1 (May 18, 1989) (hereinafter referred to as "1989 Interpretive Release"). In the 1989 Interpretive Release, the SEC stated that:

Required disclosure is based on *currently known trends, events and uncertainties that are reasonably expected to have material effects*, such as: A reduction in the registrant's [sic] product prices; erosion in the registrant's market share; changes in insurance coverage; or the likely non-renewal of a material contract. . .

A disclosure duty exists where a trend, demand, commitment, event or uncertainty is both presently known to management and reasonably likely to have material effects on the registrant's financial condition or results of operation.

*Id.* at \*4.

60. Furthermore, the 1989 Interpretive Release provided the following test to determine if disclosure under Item 303(a) is required:

Where a trend, demand, commitment, event or uncertainty is known, management must make two assessments:

- (1) Is the known trend, demand, commitment, event or uncertainty likely to come to fruition? If management determines that it is not reasonably likely to occur, no disclosure is required.
- (2) If management cannot make that determination, it must evaluate objectively the consequences of the known trend, demand, commitment, event or uncertainty, on the assumption that it will come to fruition. Disclosure is then required unless management determines that a material effect on the registrant's financial condition or results is not reasonably likely to occur.

*Id.* at \*6.

61. Here, information concerning Hi-Crush's ongoing problems with maintaining business dealings with Baker Hughes was material. Accordingly, the Registration Statement was required to disclose these facts but did not.

62. These trends, events or uncertainties that were reasonably likely to have a material adverse effect on Hi-Crush's dealings with Baker Hughes and in turn Hi-Crush's future operating results, were negligently omitted by defendants from the Registration Statement.

### **C. THE TRUTH IS REVEALED**

63. On November 13, 2012, Hi-Crush issued a press release that stated in relevant part:

Hi-Crush also announced today the termination of the supply agreement with Baker Hughes Oilfield Operations, Inc. On September 19, 2012, Baker Hughes provided notice that it was terminating the contract. Hi-Crush believes that Baker Hughes' termination was wrongful and a direct effort to circumvent its binding purchase obligations under the supply agreement. Hi-Crush engaged in discussions with Baker Hughes after receiving the notice, but the parties were unable to reach a mutually satisfactory resolution of the matter. On November 12, 2012, Hi-Crush formally terminated the supply agreement and filed suit in the State District Court of Harris County, Texas against Baker Hughes seeking damages for Baker Hughes' prior wrongful termination of the supply agreement.

64. On November 12, 2012, Hi-Crush filed an Original Petition in Harris County District Court, *Hi-Crush Operating LLC vs. Baker Hughes Oilfield Operations*, No. 2012-67261, seeking liquidated damages. The Original Petition stated in relevant part:

7. . . . Approximately one year ago, Baker signed a six-year “take-or-pay” contract to purchase frac sand from Hi-Crush (the "Supply Agreement"). Now apparently *unhappy with the contract it signed*, Baker attempted to walk away from its obligations entirely, causing substantial injury to Hi-Crush. To make matters worse, Baker has wrongfully tried to shift the blame for its breach to Hi-Crush, even going so far as to issue its own, sham notice of termination of the Supply Agreement.

\* \* \*

10. Baker and Hi-Crush signed the Supply Agreement in October 2011, and its originally agreed-upon Term was May 1, 2012 to April 30, 2017. For the duration of that Term, the supply Agreement required Baker to buy (and Hi-Crush to sell) certain minimum amounts of sand (at a specified price per ton) on a monthly and annual basis, or else be subject to certain liquidated damages obligations. If Hi-Crush failed to supply or Baker failed to take delivery of the requisite amount of sand, then the offending party either had to make up its deficit in a manner specified by the Supply Agreement or pay an agreed upon amount per short ton as liquidated damages.

11. Beginning in February 2012 - before the Supply Agreement even took effect - *Baker approached Hi-Crush seeking to reduce the amount of sand it was required to take under the Supply Agreement*. Although Hi-Crush was under no obligation to do so, *Hi-Crush agreed to reduce the minimum amount of sand that Baker was required to purchase in the first contract year, among other concessions*. The parties also agreed to extend the Supply Agreement for an additional year (until April 30, 2018) and to a modification of the price term. These agreements are contained in the First Amendment to Supply Agreement (“First Amendment”), *which the parties signed on May 10, 2012*, with retroactive effect to May 1, 2012.

12. The Supply Agreement provides in § 8.1 that it shall continue in effect through April 30, 2018, “unless earlier terminated as provided herein.” Section 8.2 (entitled “Termination by Baker”) sets out the means and circumstances in which Baker can terminate the Agreement, and § 8.3 (entitled "Termination by Supplier") does the same for Hi-Crush.

\* \* \*

15. . . . on September 19, 2012, Baker sent Hi -Crush a letter purporting to terminate the Supply Agreement based on two meritless allegations that Hi-Crush had breached the *confidentiality* obligations contained in Article 6 of the Supply Agreement.

\* \* \*

17. Since its September 19, 2012 termination letter, Baker has not ordered any additional sand from Hi-Crush. Instead, Baker confirmed its intention to abandon, renounce, and refuse to perform its obligations to take or pay for HiCrush's sand as required by the Supply Agreement.

18. As a result of Baker's actions, including Baker's failure to cure its refusal to take delivery of or pay for sand from Hi-Crush and Baker's failure to withdraw its wrongful termination letter, High-Crush validly terminated the Supply Agreement on November 12, 2012 pursuant to its terms.

\* \* \*

23. Baker's repudiation of a failure to comply with its obligations under the Supply Agreement has caused Hi-Crush substantial injury. . . .and substantially impaired the value of the Supply Agreement to Hi-Crush.

(emphasis added).

65. On December 17, 2012, Baker Hughes filed an Original Answer and Counterclaim, in Harris County District Court, *Hi-Crush Operating LLC vs. Baker Hughes Oilfield Operations*, No. 2012-67261. The Original Answer and Counterclaim stated in relevant part:

13. Plaintiff materially breached the terms of the Supply Agreement. On or about July 6, 2012, Plaintiff improperly disclosed confidential information from the Supply Agreement in its S-1 Form Registration Statement filed as a part of its initial public offering. Plaintiff's disclosure is not permitted within the limited circumstances provided by the Supply Agreement. Moreover, Plaintiff wholly failed to provide BHOO with any prior written notification of the intended disclosure.

14. Plaintiff is also responsible for a second improper disclosure of confidential information from the Supply Agreement. On or about September 16, 2012, Plaintiff's initial public offering underwriter, Raymond James & Associates, Inc. ("Raymond James"), disclosed confidential information from the Supply Agreement in an analyst report it issued after the initial public offering. Plaintiff had provided the confidential information to Raymond James.

66. As set forth in Baker Hughes' Original Answer and Counterclaim, Baker Hughes has claimed that Hi-Crush had committed a material breach of the parties agreement (by Breaching certain confidentiality provisions) on or about July 6, 2012. Pursuant to the parties' agreement, Baker Hughes was required to notify Hi-Crush promptly of any breaches of the agreement. However, this breach was not disclosed in the Registration Statement.

67. In addition, the Registration Statement did not disclose that, in order to prevent Baker Hughes from terminating the parties agreement, Hi-Crush had to amend the agreement in May 2012 in order to make several concessions (in addition to agreeing to reduce the minimum amount of sand that Baker Hughes was required to purchase in the first contract year). Hi-Crush's first disclosure that it made concessions was in its November 2012 Original Complaint against Baker Hughes.

68. The above revelations made clear that defendants' statements in the Registration Statement were materially false and misleading. In the wake of the Partnership's disclosure that Baker Hughes had unilaterally repudiated its supply contract with Hi-Crush, stating Hi-Crush was in breach, Hi-Crush's unit price declined precipitously, by \$5 per share – approximately 25% of its prior night's closing price – on extremely high trading volume of more than 3.3 million shares trading.

## **COUNT I**

### **Violations of Section 11 of the Securities Act by Lead Plaintiffs Against All Defendants**

69. Lead Plaintiff repeats and realleges the allegations set forth above in ¶¶ 12-43 and ¶¶ 45-68, as if set forth fully herein.

70. This Cause of Action is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. § 77k, on behalf of the Class, against all defendants.

71. The Registration Statement for the IPO was inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to render the statements made not misleading, and omitted to state material facts required to be stated therein.

72. As issuer of the units, Hi-Crush is strictly liable to Lead Plaintiff and the Class for the material misstatements and omissions in the Registration Statement. Each of the other defendants are also liable to Lead Plaintiff and the Class for such misstatements and omissions in the Registration Statement as each of the Individual Defendants signed the Registration Statement and each the remaining defendants was an Underwriter of the IPO of common units.

73. None of the defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading.

74. By reason of the conduct herein alleged, each defendant violated, and/or controlled a person who violated, Section 11 of the Securities Act.

75. Lead Plaintiff acquired Hi-Crush common units in and traceable to the IPO and the Registration Statement.

76. Less than one year has elapsed from the time that Lead Plaintiff discovered or reasonably could have discovered the facts upon which this complaint is based to the time that Lead Plaintiff commenced this action. Less than three years has elapsed between the time that the securities upon which this Claim for Relief is brought were offered to the public and the time Lead Plaintiff commenced this action.

77. Lead Plaintiff and the Class have sustained damages. The value of the Hi-Crush common units have declined substantially subsequent to and due to defendants' violations.

78. At the time of their purchases of Hi-Crush common units, Lead Plaintiff and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not have reasonably discovered those facts prior to the disclosures herein.

79. This claim does not sound in fraud. For purposes of asserting this claim under the Securities Act, Lead Plaintiff does not allege that Hi-Crush or the Underwriter Defendants acted with scienter or reckless or fraudulent intent, which are not elements of this cause of action.

## COUNT II

### **For Violation of Section 12(a)(2) of the Securities Act Against Hi-Crush and the Underwriting Defendants**

80. Lead Plaintiff repeats and realleges the allegations set forth above in ¶¶ 12-43 and ¶¶ 45-79, as if set forth fully herein.

81. The Prospectus contained untrue statements of material fact, and concealed and failed to disclose material facts, as detailed above. Defendants owed Lead Plaintiff and the other members of the Class who purchased Hi-Crush common units pursuant to the Prospectus the duty to make a reasonable and diligent investigation of the statements contained in the Prospectus to ensure that such statements were true and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading. Defendants, were obligated to exercise of reasonable care, and were negligent in including misstatements and omissions contained in the Prospectus as set forth above.

82. Lead Plaintiff did not know, nor in the exercise of reasonable diligence could have known, of the untruths and omissions contained in the Prospectus at the time it acquired Hi-Crush common units.

83. By means of the defective Prospectus, defendants promoted and sold Hi-Crush common units to Lead Plaintiff and other members of the Class.

84. Hi-Crush was a seller, offerer and/or solicitor of purchases of the Hi-Crush common units, pursuant to the Prospectus incorporated into the Registration Statement. These materials contained untrue statements of material fact and omitted other facts necessary to make the statements not misleading, and failed to disclose material facts, as set forth herein.

85. Hi-Crush directly solicited the purchase of Hi-Crush common units by Plaintiffs and other members of the Class by means of the Prospectus and Offering Documents, and thereby raised millions of dollars in the IPO.

86. Hi-Crush used means and instrumentalities of interstate commerce and the U.S. mails.

87. The Underwriting Defendants were a seller, offerer and/or solicitor of purchases of the Hi-Crush common units, pursuant to the Prospectus incorporated into the Registration Statement. These materials contained untrue statements of material fact and omitted other facts necessary to make the statements not misleading, and failed to disclose material facts, as set forth herein.

88. The Underwriter Defendants solicited the purchase of Hi-Crush common units by Lead Plaintiff and other members of the Class by means of Prospectuses and in so doing earned substantial underwriting fees.

89. The Underwriter Defendants used means and instrumentalities of interstate commerce and the U.S. mails.

90. Lead Plaintiff and other members of the Class purchased or otherwise acquired Hi-Crush common units in the IPO pursuant to the materially untrue and misleading Prospectus and did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained therein.

91. The value of the Hi-Crush common units has declined substantially subsequent to the consummation of the Offerings and Plaintiffs and the other members of the Class have sustained damages.

92. Less than one year has elapsed from the time that Lead Plaintiff discovered or reasonably could have discovered the facts upon which this complaint is based to the time that Lead Plaintiff commenced this action. Less than three years has elapsed between the time that the securities upon which this Claim for Relief is brought were offered to the public and the time Lead Plaintiff commenced this action.

93. This claim does not sound in fraud. For purposes of asserting this claim under the Securities Act, Lead Plaintiff does not allege that Hi-Crush or the Underwriter Defendants acted with scienter or reckless or fraudulent intent, which are not elements of this cause of action.

94. By virtue of the conduct alleged herein, Hi-Crush and the Underwriter Defendants violated Section 12(a)(2) of the Securities Act. Accordingly, Lead Plaintiff and/or other members of the Class who purchased in the IPO pursuant to the Prospectus and have retained their common units, have the right to rescind and recover the consideration paid for their common units, and hereby elect to rescind and tender their common units to Hi-Crush and the Underwriter Defendants. In addition, Lead Plaintiff and/or the members of the Class who have sold their common units that they originally purchased through the IPO seek to rescissory damages to the extent permitted by law.

### **COUNT III**

#### **For Violation of Section 15 of the Securities Act Against the Hi-Crush GP and the Individual Defendants**

95. Lead Plaintiff repeats and realleges the allegations set forth above in ¶¶ 12-43 and ¶¶ 45-94, as if set forth fully herein.

96. This Cause of Action is brought pursuant to Section 15 of the Securities Act against Hi-Crush GP and the Individual Defendants.

97. The Hi-Crush GP and the Individual Defendants each were control persons of Hi-Crush with respect to the filing of the Registration Statement by virtue of their positions as directors and/or senior officers of Hi-Crush GP.

98. By virtue of their high-level positions, participation in and/or awareness of Hi-Crush operations and/or intimate knowledge of its business practices, Hi-Crush GP and the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of Hi-Crush, including the content and dissemination of the various statements which Lead Plaintiff contends are false and misleading. Hi-Crush GP

and the Individual Defendants signed the Registration Statement and thus, had the power to, and did, influence and control the content of the statements contained therein. In addition, Hi-Crush GP and the Individual Defendants were provided with or had unlimited access to copies of Hi-Crush's internal reports, press releases, public filings and other statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued, and had the ability to either prevent the issuance of the statements or cause the statements to be corrected.

99. Hi-Crush GP and the Individual Defendants acted as controlling persons of Hi-Crush within the meaning of Section 15(a) of the Securities Act as alleged herein. By virtue of Hi-Crush GP's and the Individual Defendants' high-level positions and participation in Hi-Crush operations and business practices, they had the power to influence control and did influence and control, directly or indirectly, the decision-making of Hi-Crush, including the content and dissemination of the various statements in the Registration Statement, which Lead Plaintiff contends are false and misleading. Hi-Crush GP and the Individual Defendants were provided with or had unlimited access to copies of statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to either prevent the issuance of the statements or cause the statements to be corrected.

100. Less than one year has elapsed from the time that Lead Plaintiff discovered or reasonably could have discovered the facts upon which this complaint is based to the time that Lead Plaintiff commenced this action. Less than three years has elapsed between the time that the securities upon which this Claim for Relief is brought were offered to the public and the time Lead Plaintiff commenced this action.

101. As a result, the Hi-Crush GP and the Individual Defendants are liable under Section 15 of the Securities Act.

102. This claim does not sound in fraud. For purposes of asserting this claim under the Securities Act, Lead Plaintiff does not allege that Hi-Crush or the Underwriter Defendants acted with scienter or reckless or fraudulent intent, which are not elements of this cause of action.

**CLAIMS BROUGHT PURSUANT TO SECURITIES EXCHANGE ACT AGAINST THE  
HI-CRUSH DEFENDANTS AND THE SENIOR MANAGEMENT DEFENDANTS**

**VI. SUBSTANTIVE ALLEGATIONS**

103. Lead Plaintiff repeats and realleges ¶¶ 12-42, ¶¶ 44-45, and ¶¶ 47-49 above as if set forth fully herein.

**A. MISREPRESENTATIONS**

**1. Misrepresentations In The Registration Statement**

104. The Registration Statement contained untrue statements of material facts or omitted to state other facts necessary to make the statements made not misleading.

105. In emphasizing the strength of its relationship with Baker Hughes and the significance Hi-Crush was placing on that relationship, the Registration Statement referred to Baker Hughes as being “*under [a] long-term, take-or-pay contract[] that require[d] [it] to pay a specified price for a specified volume of frac sand each month.*” (Emphasis added). This statement was materially misleading because, it failed to disclose that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract and that Baker Hughes believed that Hi-Crush had committed a material breach of the parties agreement (by breaching certain confidentiality provisions) on or about July 6, 2012. Accordingly, the “long-term” nature of the Baker Hughes contract was questionable.

106. With respect to “Customers and Contracts,” the Registration Statement stated as follows:

Our current customer base is comprised of subsidiaries of four of North America’s largest providers of pressure pumping services: Baker Hughes Incorporated (“Baker Hughes”), FTS International, LLC. (“FTS International”), Halliburton Company (“Halliburton”) and Weatherford International Ltd. (“Weatherford”). *Our largest customers based on current contracts, Baker Hughes and Halliburton, are each rated A2 / A by Moody's and Standard & Poor's, respectively, and Weatherford is rated Baa2 / BBB by these agencies. FTS International Services LLC, the subsidiary of FTS International that is the counterparty to our customer contract, is rated Ba3 / B by these agencies. Spears and Associates estimates that these four companies controlled 47% of North American pressure pumping fleet in 2011 and accounted for greater than 50% of the*

North American pressure pumping market, based on 2011 revenue. For the year ended December 31, 2011, sales to Halliburton and Weatherford accounted for 64% and 36% of our total revenues, respectively. Sales under our contracts with Baker Hughes and FTS International commenced in May 2012.

We sell substantially all of the frac sand we produce under long-term, take-or-pay contracts that significantly reduce our exposure to short-term fluctuations in the price of and demand for frac sand. For the year ended December 31, 2011 and the first half of 2012, we generated 99% of our revenues from frac sand delivered under our long-term sand sales contracts, and we expect to continue selling a significant majority of our sand under long-term contracts. As of June 30, 2012, we had four long-term sand sales contracts with a weighted average remaining life of approximately 4.6 years. The following table presents a summary of our contracted volumes and revenues from 2011 through 2015, as well as the average contract sales price and make-whole price our customers are obligated to pay in the event they decline to accept delivery of the required product volumes under their respective contracts.

<b>Year Ended December 31,</b>					
	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
Contracted Volumes (tons)	331,667	1,216,667	1,460,000	1,295,000	1,130,000
% of Processing Capacity(1)	79%	85%	91%	81%	71%
Contracted Revenue	\$19,916,667	\$78,966,667	\$96,466,667	\$88,350,000	\$80,100,000
Average Sales Price per ton	\$60	\$65	\$66	\$68	\$71
Average Make-Whole Price per ton	\$60	\$49	\$49	\$51	\$51

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(1) Percentage of processing capacity for 2011 and 2012 based on weighted average processing capacity for such periods.

As the above table illustrates, when one of our contracts expires in 2014, the average contracted price per ton will increase. The expiring contract provides for sales prices lower than current market prices. Prior to this contract's expiration, we will seek to renew or replace this contract on pricing terms more comparable to market prices at the time. Occasionally, if we have excess production and market conditions are favorable, we may elect to sell frac sand in spot market transactions.

The terms of our customer contracts, including sand quality requirements, quantity parameters, permitted sources of supply, effects of future regulatory changes, force majeure and termination and assignment provisions, vary by customer. As indicated in the above table, our customer contracts contain penalties for non-performance by our customers, with make-whole prices averaging approximately \$49 per ton in 2012. If one of our customers fails to meet its minimum obligations to us, we would expect that the make-whole payment, combined with a decrease in our variable costs (such as royalty payments and excavation

costs), would substantially mitigate any adverse impact on our cash flow from such failure. . .

(emphasis added).

107. These statements concerning “Customers and Contracts” were materially false and misleading because they failed to disclose that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract and that Baker Hughes believed that Hi-Crush had committed a material breach of the parties agreement (by breaching certain confidentiality provisions) on or about July 6, 2012. In light of Hi-Crush’s failure to disclose this information, these statements materially overstated the value of the contract to Hi-Crush. The statement asserted that Baker Hughes was one of Hi-Crush’s largest customers and included revenue projections based on contracts including the Supply Agreement with Baker Hughes. As it was unclear whether this contract would continue, the revenues as stated were misleading. Moreover, the statements misleadingly advised that Hi-Crush was effectively protected against failures or declines cash flow, as well as, in its Customers’ requirements for frac sand.

108. With respect to Hi-Crush’s “Business Strategies” the Registration Statement stated as follows:

### **Business Strategies**

Our primary business objective is to increase our cash distributions per unit over time. We intend to accomplish this objective by executing the following strategies:

#### ***Focusing on stable, long-term, take-or-pay contracts with key customers.***

A key component of our business model is our contracting strategy, which seeks to secure a high percentage of our cash flows under ***long-term***, fixed price contracts with take-or-pay provisions, while also staggering the tenors of our contracts ***so that they expire at different times***. We believe this contracting strategy ***significantly mitigates our exposure to the potential price volatility of the spot market for frac sand in the short-term, allows us to take advantage of any increase in frac sand prices over the medium-term and provides us with long-term cash flow stability.***

As current contracts expire or as we add new processing capacity, we intend to pursue similar long-term contracts with our current customers and with other leading pressure pumping service providers. We intend to utilize nearly all of our processing capacity to fulfill these contracts, with any excess processed frac sand first offered to existing customers and the remaining amount sold opportunistically in the spot market.

(Emphasis Added).

109. Hi-Crush represented that it focused on stable long-term take-or-pay contracts with “key customers” and that a “key” component of its business model was its contracting strategy. Hi-Crush further represented that the “stable, long-term, take-or-pay” supply contract strategy, which staggers the tenors of their contracts “so that they expire at different times,” and that “significantly mitigates our exposure to the potential price volatility of the spot market for frac sand in the short-term, allows us to take advantage of any increase in frac sand prices over the medium-term and provides us with long-term cash flow stability.”

110. The above statements were materially false and misleading. The Hi-Crush Defendants and Senior Management Defendants failed to disclose that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract and that Baker Hughes believed that Hi-Crush had committed a material breach of the parties agreement (by Breaching certain confidentiality provisions) on or about July 6, 2012. In light of these facts, there was a meaningful risk that Baker Hughes would terminate or renegotiate any written contract it had entered into with Hi-Crush at any time. Moreover, the Hi-Crush Defendants and Senior Management Defendants knew the questionability of the continuation of the terms and duration of the Supply Agreement with Baker Hughes contradicted the Partnership’s stated business strategy that relied in part on staggering the expiration dates of contracts with customers. The Hi-Crush Defendants and Senior Management Defendants also knew that Hi-Crush’s relationship with Baker Hughes was anything but stable at the time of the IPO and because of that, Hi-Crush’s business strategy of mitigating exposure to price volatility was undermined. Accordingly, these statements were materially misleading.

111. The Registration Statement described as one of the Partnership’s “Competitive Strengths,” the purported “Long-term contracted cash flow stability” derived from the Baker Hughes supply contract. Stating in relevant part as follows:

***Long-term contracted cash flow stability.*** We will generate substantially all of our revenues from the sale of frac sand under long-term ***contracts that require subsidiaries of Baker Hughes***, FTS International, Halliburton and Weatherford ***to pay specified prices for specified volumes of product each month.*** We believe that the take-or-pay volume and pricing provisions and the ***long-term nature of our contracts*** will provide us with a stable base of cash flows and limit the risks associated with price movements in the spot market and any changes in product demand during the contract period. ***We are currently contracted to sell 1,460,000 tons of frac sand annually from our Wyeville facility, and as of June 30, 2012, our contracts had a weighted average remaining life of approximately 4.6 years.***

(Emphasis added).

112. These statements describing “Long-term contracted cash flow stability” as one of the “Competitive Strengths” was materially false and misleading because Hi-Crush Defendants and Senior Management Defendants failed to disclose that that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract and that Baker Hughes believed that Hi-Crush had committed a material breach of the parties agreement (by breaching certain confidentiality provisions) on or about July 6, 2012. Accordingly, the “long-term” nature of the Baker Hughes contract and any cash flows stemming from that contract were questionable.

113. Furthermore, the statement that Hi-Crush was “currently contracted to sell 1,460,000 tons of frac sand annually from our Wyeville facility, and as of June 30, 2012, our contracts had a weighted average remaining life of approximately 4.6 years” was materially false and misleading because the Hi-Crush Defendants and Senior Management Defendants failed to disclose that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract and that Baker Hughes believed that Hi-Crush had committed a material breach of the parties agreement (by breaching certain confidentiality provisions) on or about July 6, 2012. Accordingly, the Hi-Crush Defendants and Senior Management Defendants knew the volume and time period in which those sales would occur was misleadingly represented.

114. With respect to Risk Factors the Registration Statement stated as follows:

## **Risks Inherent in Our Business. . .**

***Substantially all of our sales are generated under contracts with four customers, and the loss of, or significant reduction in purchases by, any of them could adversely affect our business, financial condition and results of operations.***

During the year ended December 31, 2011, subsidiaries of Weatherford and Halliburton accounted for 100% of our sales. We commenced sales under our new contracts with subsidiaries of Baker Hughes and FTS International in May 2012, and expect that our four customers will represent all of our sales in 2012. We have fixed price, take-or-pay supply agreements with each of these customers, with remaining terms ranging from 10 to 70 months, as of June 30, 2012. Upon the expiration of these current supply agreements, however, our customers may not continue to purchase the same levels of our frac sand due to a variety of reasons. In addition, we may choose to renegotiate our existing contracts on less favorable terms and at reduced volumes in order to preserve relationships with our customers. Furthermore, some of our customers could exit the pressure pumping business or be acquired by other companies that purchase the same products and services we provide from other third-party providers. Our current customers also may seek to acquire frac sand from other providers that offer more competitive pricing or superior logistics or to capture and develop their own sources of frac sand.

In addition, upon the expiration of our current contract terms, we may be unable to renew our existing contracts or enter into new contracts on terms favorable to us, or at all. The demand for frac sand or prevailing prices at the time our current supply agreements expire may render entry into new long-term supply agreements difficult or impossible. Any reduction in the amount of frac sand purchased by our customers, renegotiation on less favorable terms, or inability to enter into new contracts on economically acceptable terms upon the expiration of our current contracts could have a material adverse effect on our business, financial condition and results of operations.

115. These statements regarding “Risk Inherent in Our Business” are false and misleading because the Hi-Crush Defendants and Senior Management Defendants failed to disclose that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract and that Baker Hughes believed that Hi-Crush had committed a material breach of the parties agreement (by breaching certain confidentiality provisions) on or about July 6, 2012. As stated in the Registration Statement, Hi-Crush faced a risk of reduced purchases or less favorable terms “upon the expiration of these current supply agreements” or “current contract terms.” However, in light of the fact that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract and that Baker Hughes believed that Hi-

Crush had committed a material breach of the parties agreement, the Hi-Crush Defendants and Senior Management Defendants knew there was a meaningful risk that Baker Hughes altogether would terminate or renegotiate any written contract it had entered into with Hi-Crush. Accordingly, the true nature of the risk to Hi-Crush arising out of a highly concentrated customer base was misrepresented.

## **2. Additional Class Period Misrepresentations**

116. On September 21, 2012, Hi-Crush, announced that Rasmus, Co-Chief Executive Officer, and Fulton, Chief Financial Officer, would present at the Energy Prospectus Group luncheon in Houston, Texas, on Tuesday, September 25, 2012. In advance of that presentation, a copy of Hi-Crush's presentation materials was made available at the time of or prior to the presentation in the Investor Relations section of Hi-Crush's web site: <http://www.hicrushpartners.com> ("Hi-Crush Presentation").

117. On Page 3 and again on page 19 of the Hi-Crush Presentation, Hi-Crush included the following slide entitled "High Growth, Stable Cash Flow Shale Play":

# High Growth, Stable Cash Flow Shale Play

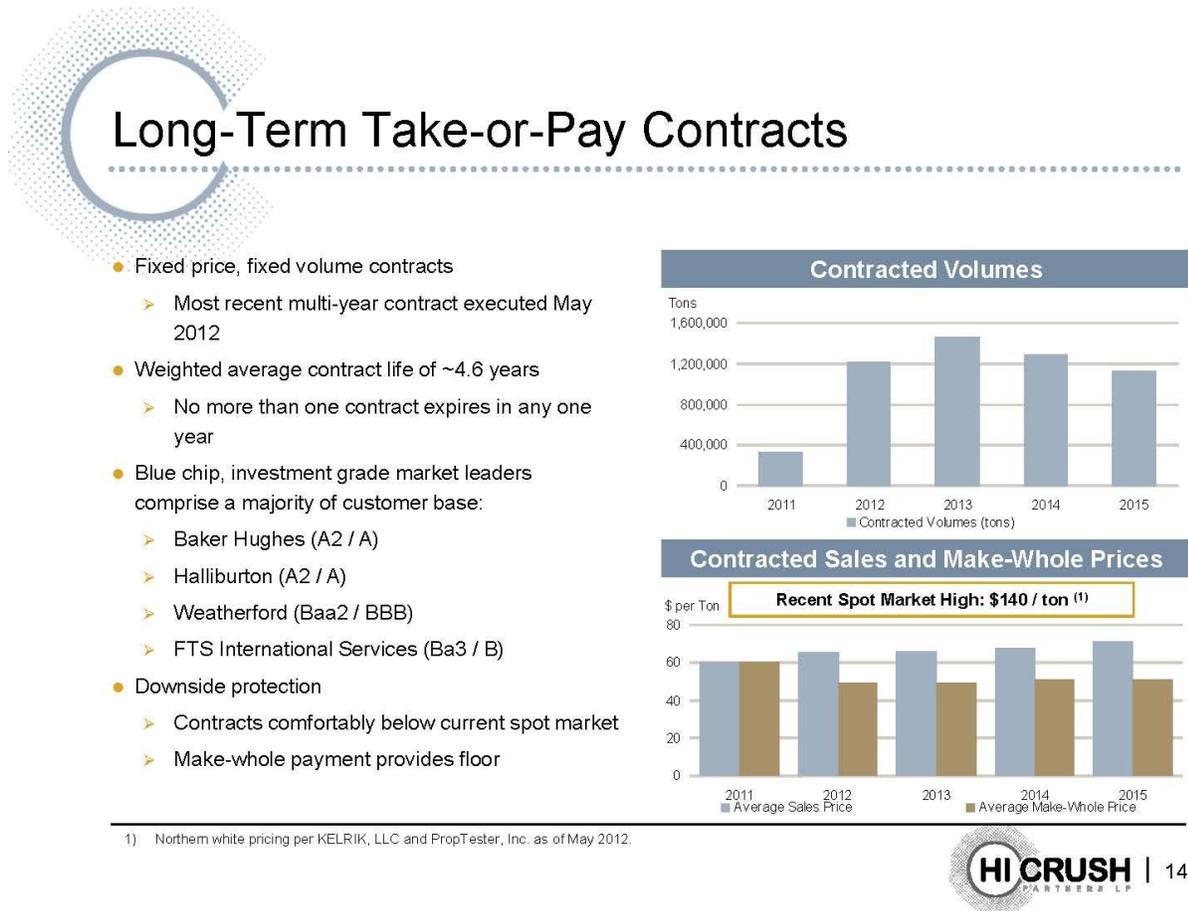
Compelling Industry Fundamentals	<ul style="list-style-type: none"> <li>● Growth fueled by rapidly increasing raw sand usage in horizontal completions</li> <li>● Increasing pressure on supply growth, particularly in coarse product</li> </ul>
High Quality Product, Low Cost Operations	<ul style="list-style-type: none"> <li>● Market favors API spec, Northern White frac sand</li> <li>● 48.4 million ton reserve base with significant cost structure advantages vs. competitors</li> </ul>
Long-Term Contracted Cash Flow Stability	<ul style="list-style-type: none"> <li>● Fixed price / volume contracts with 4.6 year weighted average life</li> <li>● Blue-chip, investment grade market leader customer base</li> </ul>
Substantial Growth Opportunities	<ul style="list-style-type: none"> <li>● Significant near-term drop-down opportunity with Augusta facility</li> <li>● Numerous additional development prospects in hand and 3<sup>rd</sup> party acquisition possibilities</li> </ul>
Experienced and Incentivized Management Team	<ul style="list-style-type: none"> <li>● Vast expertise in developing sand mining and processing facilities</li> <li>● Substantial management ownership rewarded by distribution growth</li> </ul>



118. The slides on page 3 and 19 of the Hi-Crush Presentation attributed Hi-Crush’s “Stable Cash Flow” in part to “Long Term Contracted Cash Flow Stability.” It also stated that its Long Term Contracted Cash Flow is based on: 1) “Fixed Priced/volume contracts with a 4.6 year weighted average life”; and 2) “Blue Chip, investment grade market leader Customer Base.” These statements were materially false and misleading because: 1) the Hi-Crush Defendants and the Individual Defendants failed to disclose that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract; 2) that Baker Hughes believed that Hi-Crush had committed a material breach of the parties’ agreement (by breaching certain confidentiality provisions) on or about July 6, 2012; and 3) at the time these statements were made Hi-Crush and Senior Management Defendants already knew that Baker Hughes had given

notice of its intention to terminate the Supply Agreement with Hi-Crush. These disclosure failures rendered these statements false and misleading as the “long-term” nature of the Baker Hughes contract and any cash flows stemming from that contract negatively impacted by the termination of the contract and the volume and time period in which those sales would occur was now falsely represented.

119. On page 14 of the Hi-Crush Presentation, Hi-Crush included the following slide:



120. This slide (page 14 of the Hi-Crush Presentation) states that these contracts are “Fixed price, fixed volume contracts” with the “Most recent multi-year contract executed May 2012.” It explains that these long-term take-or-pay contracts have a “Weighted average contract

life of ~4.6 years” and that “[n]o more than one contract expires in any one year.” The slide also states that for its long-term take-or-pay contracts, “Blue chip, investment grade market leaders comprise a majority of [Hi-Crush’s] customer base,” lists “Baker Hughes” as the first of four of its major customers. These statements were materially false and misleading because: 1) the Hi-Crush Defendants and Senior Management Defendants failed to disclose that that Baker Hughes had been demanding significant concessions under the Baker Hughes supply contract; 2) that Baker Hughes believed that Hi-Crush had committed a material breach of the parties agreement (by breaching certain confidentiality provisions) on or about July 6, 2012; and 3) at the time these statements were made Hi-Crush and Senior Management Defendants already knew that Baker Hughes had given notice of its intention to terminate the Supply Agreement with Hi-Crush. Moreover, the presentation expressly noted that certain facts, such as the “Northern White pricing” was “as of May 2012.” The Hi-Crush and Senior Management Defendants, however, included no such limitation on statements relating to Hi-Crush’s contract with Baker Hughes.

## **B. SCIENTER ALLEGATIONS**

121. As alleged herein, Hi-Crush and the Senior Management Defendants acted with scienter in that they knew or recklessly disregarded that the public documents and statements issued or disseminated in the name of the Partnership were materially false and/or misleading, knew that such statements and documents would be issued or disseminated to the investing public, and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. The Hi-Crush Defendants and Senior Management Defendants, either knew or recklessly disregarded the fact that the misleading statements and omissions described herein would artificially inflate or maintain the price of Hi-Crush’s units. In addition, the Hi-Crush Defendants were motivated to misrepresent and conceal material facts in the Offering Documents and thereafter because they knew that proper disclosure would materially impair their ability to proceed with the IPO at the valuation they sought and to raise the money necessary for their

ongoing business operations. The Hi-Crush Defendants and Senior Management Defendants, by acting as herein described, did so knowingly or in such a reckless manner as to constitute a fraud and deceit upon Lead Plaintiff and members of the Class that Lead Plaintiff seeks to represent.

122. Because of the Senior Management Defendants' position of control and authority as an officer or director of Hi-Crush GP, each was able to, and did control the contents of the Registration Statement, SEC filings, press releases, and presentations to securities analysts pertaining to Hi-Crush. The Hi-Crush Defendants and Senior Management Defendants were provided with copies of Hi-Crush's Registration Statement alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or to cause them to be corrected. The Senior Management Defendants also signed the Registration Statement. Because of Rasmus', Whipkey's and Alston's board membership and executive and managerial positions with Hi-Crush GP and Fulton's executive and managerial positions with Hi-Crush GP, the Senior Management Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public, and that the positive representations being made were then materially false and misleading. The Hi-Crush Defendants and Senior Management Defendants therefore are liable for the false statements pleaded herein.

123. Specifically, the Hi-Crush Defendants and the Senior Management Defendants were aware that: 1) Hi-Crush only had four customers at the time of the IPO; 2) Hi-Crush's contract with Baker Hughes was projected to represent approximately 18.2% of Hi-Crush's 2012 revenue; and 3) termination of the Baker Hughes contract or a significant reduction in purchases from Baker Hughes would have a material adverse impact on Hi-Crush's business, financial condition and results of operations. In light of the significance to Hi-Crush's contract with Baker Hughes, the Hi-Crush Defendants and Senior Management Defendants were aware of all events and dealings that materially related to the continuation of Hi-Crush's contract with Baker Hughes.

124. Moreover, as set forth in the Original Petition that Hi-Crush filed against Baker Hughes:

10. ***Baker and Hi-Crush signed the Supply Agreement in October 2011***, and its originally agreed-upon Term was May 1, 2012 to April 30, 2017. For the duration of that Term, the supply Agreement required Baker to buy (and Hi-Crush to sell) certain minimum amounts of sand (at a specified price per ton) on a monthly and annual basis, or else be subject to certain liquidated damages obligations. If Hi-Crush failed to supply or Baker failed to take delivery of the requisite amount of sand, then the offending party either had to make up its deficit in a manner specified by the Supply Agreement or pay an agreed upon amount per short ton as liquidated damages.

11. Beginning in February 2012 - before the Supply Agreement even took effect - ***Baker approached Hi-Crush seeking to reduce the amount of sand it was required to take under the Supply Agreement***. Although Hi-Crush was under no obligation to do so, ***Hi-Crush agreed to reduce the minimum amount of sand that Baker was required to purchase in the first contract year, among other concessions***. The parties also agreed to extend the Supply Agreement for an additional year (until April 30, 2018) and to a modification of the price term. These agreements are contained in the First Amendment to Supply Agreement (“First Amendment”), ***which the parties signed on May 10, 2012***, with retroactive effect to May 1, 2012.

(emphasis added).

125. In light of the relative importance that the Baker Hughes’ contract had to Hi-Crush’s revenues and earnings, the Hi-Crush Defendants and Senior Management Defendants by May 2012 knew that in February 2012 Baker had approached Hi-Crush Operating LLC seeking to reduce the amount of sand it was required to take under the Supply Agreement. Moreover, the Hi-Crush Defendants and Senior Management Defendants knew as of the time of the IPO that in May 2012, Hi-Crush Operating LLC entered into an Amended Supply Agreement with Baker Hughes in which Hi-Crush Operating LLC ***agreed to reduce the minimum amount of sand that Baker was required to purchase in the first contract year, among other concessions***.

126. As the Hi-Crush Defendants and Senior Management Defendants were aware that Baker Hughes sought to renegotiate the original contract to the detriment of Hi-Crush, which was executed months earlier but prior to the time which Hi-Crush had begun supplying frac sand to Baker Hughes, Hi-Crush Defendants and Senior Management Defendants were aware that

Baker Hughes was a highly contentious entity to do business with, there is an inference that said defendants knew of or were reckless to the meaningful risk that Baker Hughes would terminate or renegotiate any written contract it had entered into with Hi-Crush.

127. As detailed in the November 13, 2012 Hi-Crush press release and the November 12, 2012 Original Petition against Baker Hughes, on September 19, 2012, Baker Hughes provided notice to Hi-Crush that it was terminating the Supply Agreement for Hi-Crush's alleged breaches of confidentiality obligations. As set forth in Baker Hughes' Original Answer and Counterclaim, filed on December 12, 2012, Baker Hughes has claimed that Hi-Crush had committed a material breach of the parties' agreement (by breaching certain confidentiality provisions) on or about July 6, 2012. Pursuant to the parties' agreement, Baker Hughes was required to notify Hi-Crush promptly of any breaches of the agreement. Thus, it is reasonable to infer the Hi-Crush Defendants and Senior Management Defendants were aware of the fact that Baker Hughes perceived the July filing with the SEC of the original and amended supply contracts between Baker Hughes and Hi-Crush as a potential breach of confidentiality obligations, soon after those agreements were filed with the SEC in July 2012. However, in all cases the Hi-Crush Defendants and Senior Management Defendants were aware of Baker Hughes allegations of Hi-Crush's July 2012 breach by September 19, 2012 or shortly thereafter. However, this breach was not disclosed in the Registration Statement.

128. In light of the size and importance of the Baker Hughes Supply Agreement, Hi-Crush Defendants and Senior Management Defendants learned of the termination either on September 19, 2012 or shortly thereafter. The Hi-Crush Defendants and Senior Management Defendants were aware of the Supply Agreement termination at the time that the Hi-Crush Presentation materials were made available on the Hi-Crush website (which was no earlier than September 21, 2012) and by the time, those presentation materials were utilized at the September 25, 2012 Energy Prospectus Group luncheon by Robert E. Rasmus, Co-Chief Executive Officer, and Laura C. Fulton, Chief Financial Officer. The Hi-Crush Defendants and Senior Management Defendants either knew or were reckless to the knowledge that statements in the presentation

were rendered false and misleading by the fact that Baker Hughes terminated its supply agreement with Hi-Crush.

### **C. MATERIALITY**

129. Once the truth concerning the termination of the Baker Hughes contract, investor confidence in Hi-Crush was shattered and an immediate decline in the price of Hi-Crush common units ensued. On the first day of trading after the news of the contract termination became publicly available, Hi-Crush's shares lost approximately 26% of their value – on extremely high trading volume of more than 3.3 million units, falling from \$20.35 per unit on November 12, 2012 to close at \$15.00 per unit on November 13, 2012. Moreover, the November 13, 2012 intra-day low was \$13.21 per unit. This clearly demonstrates the impact that the termination of Hi-Crush's contract with Baker Hughes and the materially false and misleading public statements had on the market's assessment of the value of Hi-Crush's stock.

130. This sharp and immediate market reaction is an extremely practical and clear indicator of materiality.

131. Materiality is also evidenced by Hi-Crush's own Statements in the Registration Statement. As stated in the Registration Statement, Baker Hughes was one of only four customers of Hi-Crush and Hi-Crush's contract with Baker Hughes was projected to represent approximately 18.2% of Hi-Crush's 2012 revenue.

132. Moreover, Hi-Crush's Statements in the Risk Factors Section of the Registration Statement also evidence the materiality of a termination of the Baker Hughes contract:

#### **Risks Inherent in Our Business. . .**

Substantially all of our sales are generated under contracts with four customers, and the loss of, or significant reduction in purchases by, any of them could adversely affect our business, financial condition and results of operations.

133. Here, Hi-Crush concedes that the loss of the Baker Hughes contract or a significant reduction in purchases from Baker Hughes was material to Hi-Crush's business, financial condition and results of operations.

#### **D. LOSS CAUSATION**

134. The Hi-Crush Defendants' and Senior Management Defendants' above-mentioned, undisclosed and fraudulent business practices allowed Hi-Crush to report misleading, false and inflated financial revenues, income, profits, margins and growth. Said defendants omitted to disclose that Hi-Crush was having serious problems with Baker Hughes, one of its four major customers and that the business relationship was in jeopardy. Believing that the continued stability of one the long-term contracts, which Hi-Crush based its business model on was not in question, the market consequently so valued Hi-Crush's units. The Hi-Crush Defendants' and Senior Management Defendants' false and misleading statements caused Hi-Crush's units to trade at artificially inflated levels throughout the Class Period.

135. Although the market and the investing public did not then know it, Hi-Crush was not as it seemed. One of the four long-term customer contracts, which largely drove the revenues, profits, income and margins, and the growth in the foregoing that formed the basis for the market's valuation of Hi-Crush's unit value, was not actually secure. The loss of the Baker Hughes contract significantly diminished Hi-Crush's value.

136. Hi-Crush's unit price fell sharply in response to the disclosure of the termination of the Supply Agreement with Baker Hughes and the consequent market revision of Hi-Crush's future. On the first day of trading after the news of the contract termination became publicly available, Hi-Crush's shares lost approximately 26% of their value – on extremely high trading volume of more than 3.3 million units – falling from \$20.35 per unit on November 12, 2012 to close at \$15.00 per unit on November 13, 2012. Moreover, the November 13, 2012 intra-day low was \$13.21 per unit.

137. In sum, during the Class Period, by failing to disclose that the continuation of Baker Hughes' business with Hi-Crush was in jeopardy and that Baker Hughes in fact terminated its contract with Hi-Crush, the Hi-Crush Defendants and Senior Management Defendants engaged in a course of conduct that deceived the market, that artificially inflated the prices of Hi-Crush's units, and that operated as a fraud and deceit upon Lead Plaintiff and the Class.

Defendants' failure to disclose their above-mentioned, undisclosed dealings with Baker Hughes misled Lead Plaintiff and the Class as to Hi-Crush's future prospects. As a result of Hi-Crush's undisclosed problems with Baker Hughes, investors did not know that there was a significant risk that Baker Hughes would terminate the long-term contract with Hi-Crush. Therefore, by concealing rather than disclosing such risks (and the conduct, which gave rise to those risks), the Hi-Crush Defendants and Senior Management Defendants presented to Lead Plaintiff and the Class a misleading picture of Hi-Crush's prospects for building upon prior success and meeting earnings estimates. The November 13, 2012 disclosure had a substantial and material corrective effect on the value of and artificial inflation in Hi-Crush's units, causing Lead Plaintiff and other Class Members economic losses and thus damages under the federal securities laws.

138. The more-than 26% decline in the value of Hi-Crush's units following the above-detailed disclosures was the direct result of the nature and extent of the Hi-Crush Defendants' and Senior Management Defendants' fraud finally being revealed to investors and the market. The timing, speed and magnitude of Hi-Crush's price declines negate any inference that the losses suffered by Lead Plaintiff and the Class were caused by changed market conditions, macroeconomic or industry-wide factors, or Company-specific facts unrelated to said defendants' fraudulent conduct. The economic losses suffered by Lead Plaintiff and the Class were the direct result of said defendants' artificial inflation of Hi-Crush's unit price and the subsequent decline in the value of Hi-Crush's shares when the Hi-Crush Defendants' and Senior Management Defendants' Class-Period misrepresentations and other fraudulent conduct were revealed.

**E. THE HI-CRUSH DEFENDANTS' AND SENIOR MANAGEMENT DEFENDANTS' MISREPRESENTATIONS PROXIMATELY CAUSED LEAD PLAINTIFF'S DAMAGES THROUGH A FRAUD ON THE MARKET**

139. At all relevant times, the market for Hi-Crush was an efficient market that promptly digested current information with respect to the Company from all publicly-available sources and reflected such information in Hi-Crush's unit price.

140. The common units of Hi-Crush met the requirements for listing, and were listed and actively traded, on the NYSE, a highly developed and efficient market. During the Class Period, Hi-Crush units were heavily traded, with volume averaging approximately 387,000 units daily. Hi-Crush was required to file periodic public reports with the SEC, and was followed by analysts from brokerages including: RBC Capital Markets, Raymond James, Barclays, Credit Suisse, Robert W. Baird & Co., Morgan Stanley, UBS, and IPOfinancial.com. The reports of these analysts were redistributed to their customers and the public at large, and Hi-Crush regularly issued press releases, which were carried by national newswires. Thus, the analyst reports and Hi-Crush's press releases entered the public marketplace. As a result, the market for Hi-Crush's units promptly digested current information with respect to Hi-Crush from all publicly-available sources, and reflected such information in Hi-Crush's unit price. Lead Plaintiff and other members of the Class relied on the integrity of the market price of Hi-Crush's publicly traded units.

141. As would be expected where a security is traded in an efficient market, material news concerning Hi-Crush's operations, financial results, and prospects had an immediate effect on the market price of Hi-Crush. The November 13, 2012 disclosure of Baker Hughes' termination of its contract with Hi-Crush and the consequent drop in the value of Hi-Crush's common units vividly so demonstrate.

142. At the times Lead Plaintiff purchased or otherwise acquired Hi-Crush's units, Lead Plaintiff and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not have reasonably discovered those facts.

## COUNT IV

### **For Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against the Hi-Crush Defendants and the Senior Management Defendants**

143. Lead Plaintiff repeats and realleges the allegations set forth in ¶¶ 12-42, ¶¶ 44-45, ¶¶ 47-49 and ¶¶ 103-142, above as though fully set forth herein.

144. This Count is brought by Lead Plaintiff pursuant to Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC against the Hi-Crush Defendants and Senior Management Defendants.

145. The defendants named in this count: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary in order to make the statements made not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of Hi-Crush units in an effort to maintain artificially high market prices for Hi-Crush units in violation of Section 10(b) of the Exchange Act and Rule 10b-5. Defendants are sued as primary participants in the wrongful and illegal conduct charged herein and/or as controlling persons as alleged below.

146. In addition to the duties of full disclosure imposed on the Hi-Crush Defendants and Senior Management Defendants by their status as controlling persons of Hi-Crush, as a result of their affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, and as a result of their sales of Hi-Crush units during the Class Period, said defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC regulations S-X (17 C.F.R. § 210.1, et seq.) and S-K (17 C.F.R. § 229.10, et seq.) and other SEC regulations, including accurate and truthful information with respect to Hi-Crush units, operations, financial condition and earnings so that the market price of Hi-Crush units would be based on truthful, complete and accurate information.

147. The Hi-Crush Defendants and Senior Management Defendants, by using the means and instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business and operations of Hi-Crush as specified herein. Said defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Hi-Crush's value, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Hi-Crush, in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Hi-Crush units during the Class Period.

148. The Hi-Crush Defendants and Senior Management Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein or recklessly disregarded the same. Those defendants' material misrepresentations or omissions were done knowingly or recklessly and for the purpose and effect of concealing the friction in the relationship between Hi-Crush and Baker Hughes, and/or that Baker Hughes had sought to modify or cancel its contract with Hi-Crush during the Class period.

149. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts by the Hi-Crush Defendants and Senior Management Defendants, as set forth above, the market price of Hi-Crush units was artificially inflated during the Class Period. In ignorance of the fact that the market price for Hi-Crush units was artificially inflated, and relying directly or indirectly on the false and misleading statements made by the Hi-Crush Defendants and Senior Management Defendants, or upon the integrity of the market in which the shares trade, and the truth of any representations made to appropriate agencies and to the investing public, at the times at which any statements were made, and/or on the absence of material adverse information that was known by the Hi-Crush Defendants and Senior

Management Defendants but not disclosed in public statements by said defendants during the Class Period, Lead Plaintiff and the other members of the Class acquired Hi-Crush units during the Class Period at artificially high prices and were damaged thereby as the market price of Hi-Crush units declined in response to disclosures of Hi-Crush's true state of affairs.

150. At the time of said misrepresentations and omissions, Lead Plaintiff and other members of the Class were ignorant of their falsity and believed them to be true. Had Lead Plaintiff and the other members of the Class and the marketplace known of the Hi-Crush Defendants' and Senior Management Defendants' practices and of the liabilities to which such practices exposed Hi-Crush and Hi-Crush investors, which were not disclosed by said defendants, Lead Plaintiff and other members of the Class would not have purchased Hi-Crush units during the Class Period, or, if they had purchased such units during the Class Period, they would not have done so at the artificially inflated prices which they paid.

151. By virtue of the foregoing, the Hi-Crush Defendants and Senior Management Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. Lead Plaintiff and the other members of the Class suffered damages in connection with their purchases of Hi-Crush units during the Class Period, a direct and proximate result of the wrongful conduct of Hi-Crush and the Individual Defendants.

### **COUNT V**

#### **For Violation of Section 20(a) of the Exchange Act Against Hi-Crush GP and the Senior Management Defendants**

152. Lead Plaintiff repeats and realleges the allegations set forth above ¶¶ 12-42, ¶¶ 44-45, ¶¶ 47-49 and ¶¶ 103-151, as if set forth fully herein.

153. Hi-Crush GP and the Senior Management Defendants acted as a controlling person of Hi-Crush within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of Hi-Crush GP's and the Senior Management Defendants high-level positions, participation in and/or awareness of Hi-Crush operations and/or intimate knowledge of its business practices, Hi-Crush GP and the Senior Management Defendants had the power to

influence and control and did influence and control, directly or indirectly, the decision-making of Hi-Crush, including the content and dissemination of the various statements which Lead Plaintiff contends are false and misleading. Hi-Crush GP and the Senior Management Defendants signed the Registration Statement and thus, had the power to and did, control the content of the statements contained therein. In addition, Hi-Crush GP and the Senior Management Defendants were provided with or had unlimited access to copies of Hi-Crush's internal reports, press releases, public filings and other statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to either prevent the issuance of the statements or cause the statements to be corrected. In particular, Hi-Crush GP and the Senior Management Defendants had direct involvement in or intimate knowledge of the day-to-day operations of Hi-Crush and therefore are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

154. Hi-Crush GP and the Senior Management Defendants acted as controlling persons of Hi-Crush within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of the Hi-Crush GP and the Senior Management high-level position, participation in and/or awareness of Hi-Crush operations and/or intimate knowledge of its business practices, they had the power to influence and control and did influence and control, directly or indirectly, the decision-making of Hi-Crush, including the content and dissemination of the various statements which Lead Plaintiff contends are false and misleading. Hi-Crush GP and the Senior Management were provided with or had unlimited access to copies of statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to either prevent the issuance of the statements or cause the statements to be corrected. In particular, Hi-Crush GP and the Senior Management Defendants had direct involvement in or intimate knowledge of the day-to-day operations of Hi-Crush and they obviously had knowledge of their own conduct and therefore are presumed to have had the power to control or influence

the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

155. Hi-Crush GP and the Senior Management Defendants each were culpable participants in the violations of Section 10-b of the Exchange Act and Rule 10b-5 promulgated thereunder alleged above, based on their having: 1) signed or authorized the signing of the Registration Statement; 2) otherwise participated in the process which allowed the IPO to be successfully completed; and 3) authorized and made the other additional misstatements during the Class Period that are set forth above.

156. As set forth above, the Hi-Crush GP and the Senior Management Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by their acts and omissions as alleged in this Complaint. By virtue of their position as controlling persons, Hi-Crush GP and the Senior Management Defendants are liable pursuant to Section 20(a) of the Exchange Act.

157. Lead Plaintiff and other members of the Class suffered damages in connection with their purchases of Hi-Crush units during the Class Period, as a direct and proximate result of the wrongful conduct of Hi-Crush GP and the Senior Management Defendants.

### **PRAYER FOR RELIEF**

WHEREFORE, Lead Plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, and certifying Lead Plaintiff as Class representative;

B. Awarding compensatory damages in favor of Lead Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Lead Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;

