

CARBO

2014 ANNUAL REPORT



Different By Design

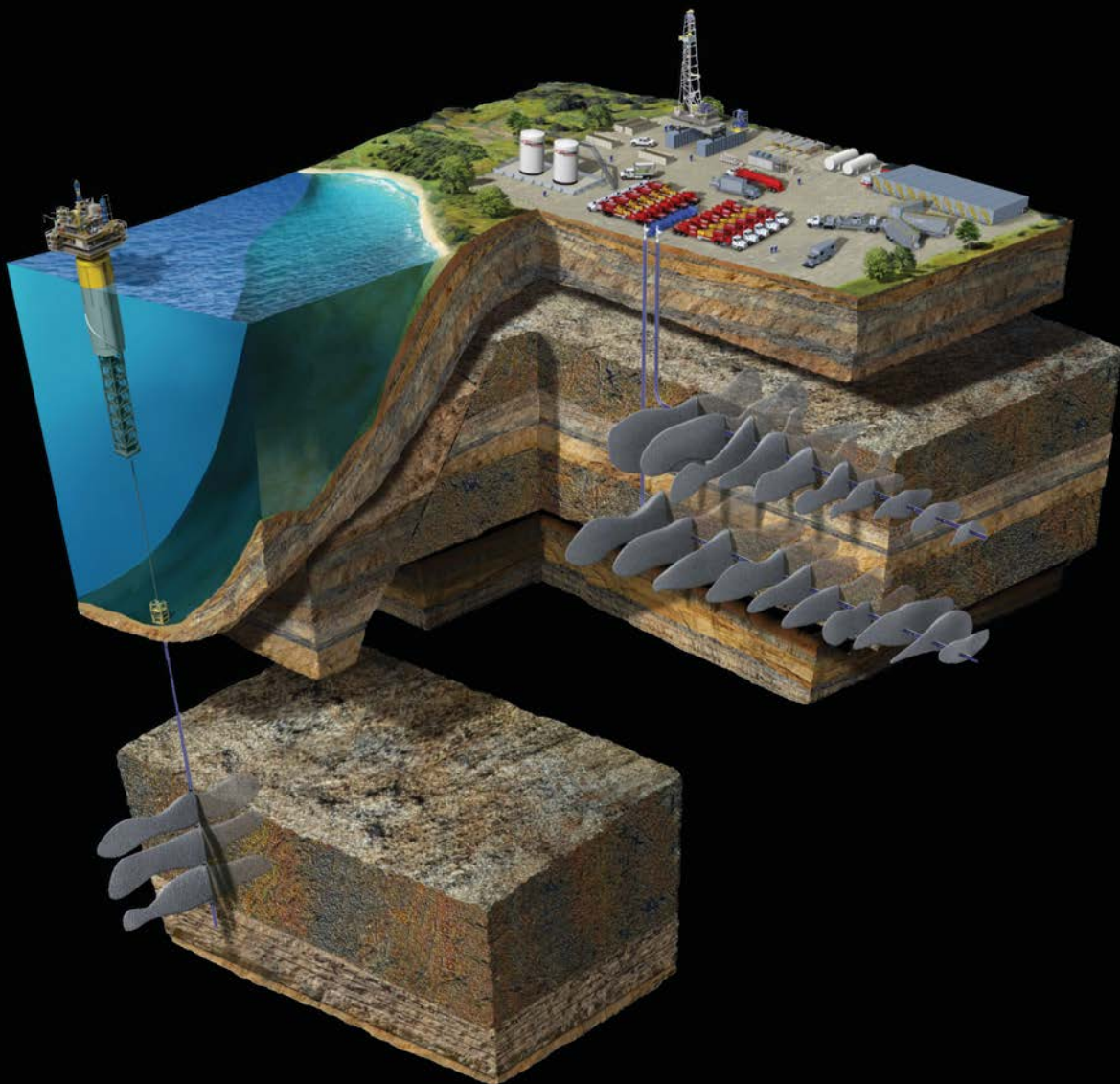
Different By Design

CARBO didn't become one of the world's leading providers of production enhancement solutions by following the pack.

Instead, we created a vision and implemented a strategy. To provide products engineered for the highest performance.

To introduce innovative technologies that break boundaries and expand possibilities. To offer complete, holistic solutions that increase value.

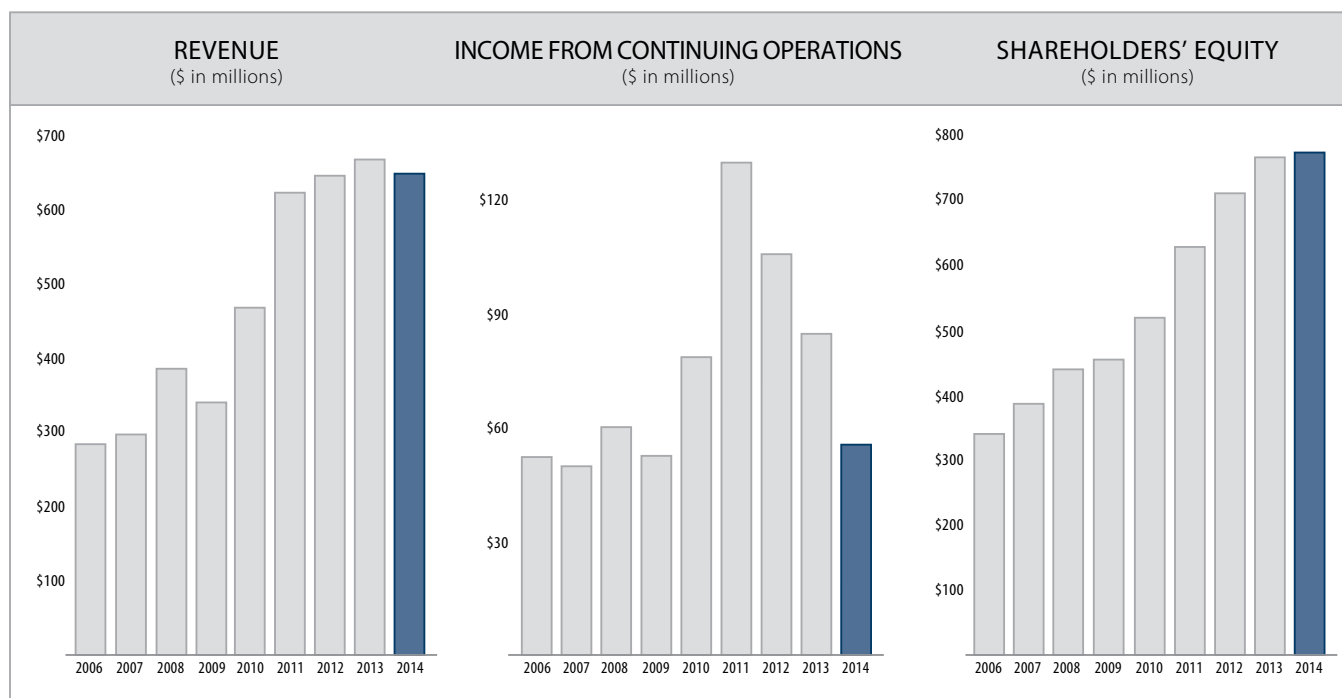
It's not typical. But it's what our clients have come to expect. It's what makes CARBO different... by design.



CARBO increases the production of oil and natural gas wells and helps exploration and production (E&P) clients achieve higher ultimate recovery rates. The Company also reduces clients' environmental risk and provides environmental services.

Financial Highlights

Years Ended December 31,	2009	2010	2011	2012	2013	2014
SUMMARY STATEMENT OF INCOME DATA (In thousands, except per share amounts)						
Revenue	\$ 341,872	\$ 473,082	\$ 625,705	\$ 645,536	\$ 667,398	\$ 648,325
Gross profit	120,503	174,671	261,715	223,505	192,995	181,280
Operating profit	79,450	119,610	197,602	158,886	124,591	92,855
Income before income taxes	79,794	119,349	197,450	158,590	125,201	92,871
Income from continuing operations	52,810	78,716	130,136	105,933	84,886	55,588
Diluted earnings per share	\$ 2.27	\$ 3.40	\$ 5.62	\$ 4.59	\$ 3.67	\$ 2.41
Average shares outstanding – diluted	23,112	22,977	23,012	22,969	22,957	22,946
SUMMARY BALANCE SHEET DATA (In thousands)						
Current assets	\$ 218,870	\$ 237,655	\$ 302,565	\$ 349,917	\$ 371,382	\$ 337,611
Total assets	513,412	599,571	740,865	808,878	878,951	934,226
Current liabilities	32,458	51,247	79,066	50,830	56,688	77,415
Shareholders' equity	457,316	521,979	630,158	713,078	768,587	776,057
OTHER DATA (In thousands)						
Depreciation and amortization	\$ 24,905	\$ 27,728	\$ 36,015	\$ 44,893	\$ 47,472	\$ 50,860
Capital expenditures	46,127	96,566	90,395	77,189	99,936	\$ 161,469



To Our Shareholders, Clients and Employees:

For CARBO®, and indeed the entire oil and natural gas industry, 2014 was marked by two distinct periods. During the first half of the year business conditions were favorable, and CARBO experienced encouraging results. In the second half of the year, however, global crude oil production levels resulted in an oversupply, and crude oil prices rapidly declined to reach a five-year low.

The 2014 ceramic proppant market was impacted by two main factors. A number of exploration and production (E&P) operators began experimenting with the increased use of raw sand proppant instead of ceramic proppant. With an oversupplied ceramic proppant market, cheaper Chinese products of inferior quality remained in the market. These events drove both domestic and international competitors to reduce prices. As a result of these market conditions, our ceramic proppant sales volumes and revenues declined from the previous year.

Managing through the ups and downs

The oil and gas industry is cyclical. Our management team has experienced multiple industry downturns and understands what is required to navigate these cycles. Our priority has been managing the cash flow in each of our businesses as we also implemented measures to reduce costs. Throughout the year, we leveraged our Design, Build, and Optimize the Frac® platform to provide a holistic production enhancement solution to maximize our clients' well production and increase estimated ultimate recovery (EUR). And, importantly, we continued to introduce significant technologies for production enhancement that differentiate CARBO from competitors in the marketplace. We believe the Company is well positioned to manage this cycle.

Financial overview

Revenues for 2014 were \$648.3 million compared to \$667.4 million the previous year. Net income in 2014 was \$55.6 million compared to \$84.9 million in 2013.

Optimizing well productivity

The geology and geophysics of oil and gas reservoirs have not changed. Neither has the importance of finding a balance between the two main factors that optimize production and EUR: contact area and conductivity.

We have conducted studies to show the production, EUR and economic benefits of optimizing both the contact area and conductivity in the reservoir. These studies show that some of these wells, utilizing only low-conductivity sand, are underperforming offset wells within six months from completion. We believe this shows that wells need more conductivity and durability than sand can provide. While the use of more sand may initially lower well costs, it results in lost production, lower EURs, and potential costly re-fractures in the future.

The CARBO approach

We believe in "doing it right the first time." Our Design, Build, and Optimize the Frac technology approach is formulated to result in the highest production and EUR at the optimal net present value for our E&P clients. This results in the lowest finding and development costs per barrel of oil equivalent (BOE) for the E&P.

Business highlights

Throughout 2014, in each of our businesses, we increased efforts to introduce innovative technologies, improve



Gary Kolstad
President and
Chief Executive Officer



Ernesto Bautista, III
Vice President and
Chief Financial Officer



Don Conkle
Vice President,
Marketing and Sales



Sean Elliott
Vice President and
General Counsel



Chad Cannan
Vice President, Research
and Development



Roger Riffey
Vice President,
Manufacturing



Ellen Smith
Vice President,
Human Resources

operating efficiencies and enhance our offerings to our clients. We combatted market conditions and cheap, low quality competition by focusing on things for which there are no substitutes.

KRYPTOSPHERE has arrived

At the end of 2014, the first commercial KRYPTOSPHERE® HD job was successfully pumped in the Gulf of Mexico. This ultra-high-strength proppant sets a new paradigm for increased production and EUR in the deepest, highest-pressure wells. We expect continued growth and client success with this technology.

SCALEGUARD technology recognized

Our innovative SCALEGUARD® proppant was named as a finalist in the 2014 World Oil Awards that honor the industry’s top innovations. SCALEGUARD job intensity ramped up in 2014, with results exceeding clients’ expectations.

RPM technology improves proppant pack permeability

CARBO introduced Relative Permeability Modifier (RPM) technology that increases the effective fracture length, conductivity and permeability of the pack, leading to higher production and increased ultimate recovery. Client acceptance has been enthusiastic.

Outlook

To date, E&P budget cuts have been significant, and rig activity is declining rapidly. We have seen a shift resulting in

lower demand for ceramic proppant. As a result, we expect to see continued pricing pressure for ceramic proppant.

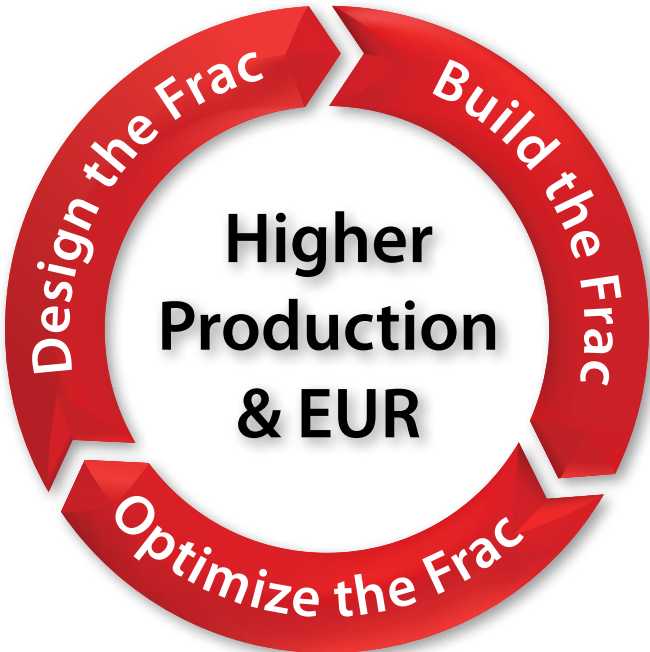
We currently anticipate that CARBO capital expenditures in 2015 will be reduced to less than half of 2014 capital expenditures and will primarily focus on the retrofit of one of our plants with the new KRYPTOSPHERE proppant technology. We have deferred the completion of the second ceramic proppant manufacturing line at our Millen, Georgia, facility. We are reducing our operational cost base to better match anticipated activity in 2015.

The duration and associated impact of the lower commodity price environment are difficult to determine. Managing through this environment will continue to be challenging. Our plans are to be competitive in the market and flexible with our clients, but CARBO will maintain its valued position as a market leader offering premium products and services that generate exceptional value.

Finally, we have a team of dedicated, resourceful people and a culture that embraces challenges in good times or bad. They, along with our shareholders and clients, give me confidence as we move forward. I thank you all.

Sincerely,

Gary Kolstad
President and Chief Executive Officer



Everything we do is designed to help our clients increase production and recovery in oil and gas wells.



At CARBO, our mission can be distilled into two words: Production Enhancement. It's a guiding principle. And it's a challenge we pursue each day.

It's the reason that our business lines operate synergistically and holistically. Our technologies and innovations literally redefine categories. Our manufacturing sets world-class standards. And our people continually strive for excellence. To some, it might seem a bit obsessive. At CARBO, it's just what we do.



Engineered for
Superior Performance

CARBO Fracture Technologies

Making oil and gas wells productive

Proppant is one of the most critical components of the hydraulic fracturing process. When a rock formation containing oil or natural gas is fractured, a granular material is pumped in to fill the fractures, propping them open—thus the name “proppant.” The proppant-filled fracture creates a permeable channel through which the hydrocarbons can flow more freely, thereby increasing both production rates and the total amount of oil or natural gas recovered from the reservoir.

CARBO is the world’s largest supplier of ceramic proppant, a manufactured product that is stronger, rounder, more uniform than alternatives such as sand-based proppant. CARBO ceramic proppant increases production rates, increases ultimate recovery (EUR), and ensures higher return on investment with a rapid payout. We provide a comprehensive range of products for superior performance in most applications.

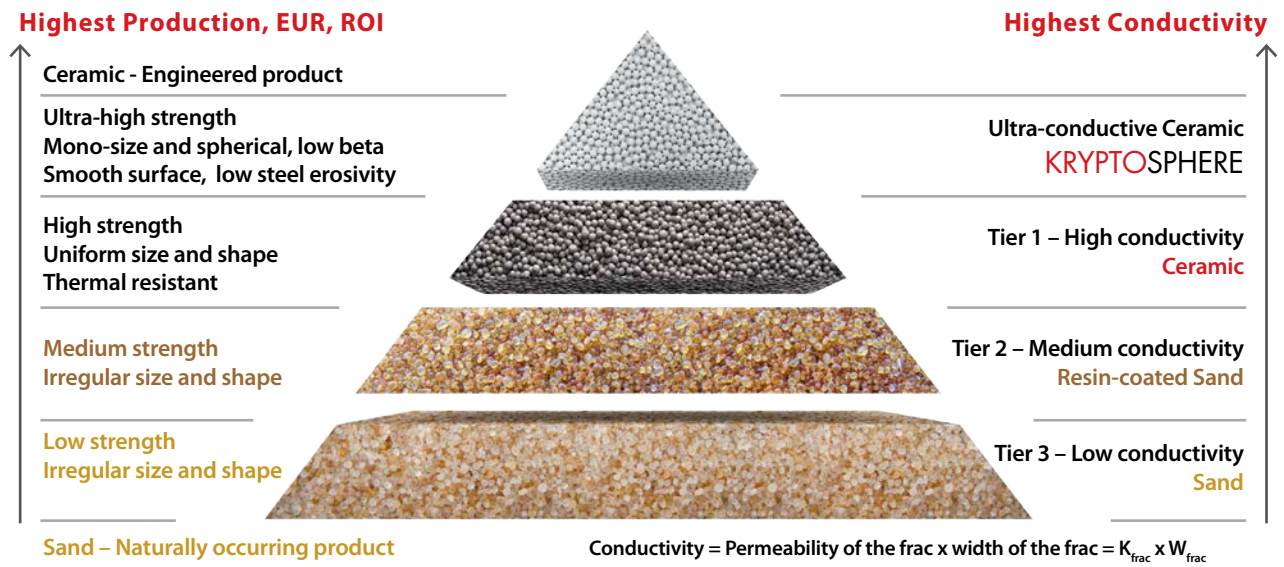
Why is 90% of oil left in the ground?

Today, the most active resource plays are shale formations that involve horizontal drilling. In spite of advances in drilling methods, it is estimated that more than 90 percent of the oil in a shale reservoir is left in the ground. This presents a dramatic need and a significant opportunity to improve the recovery of these wells. Improving the recovery from wells in such impermeable formations requires two critical factors:

- Creating large reservoir contact areas, through multiple transverse fracture stages
- Building high conductivity, durable fractures with a “life of the well” flow channel

CARBO ceramic proppant provides the high conductivity, durability and superior performance that can give an operator a greater return on investment.

Well Production – Hierarchy of Proppant Value



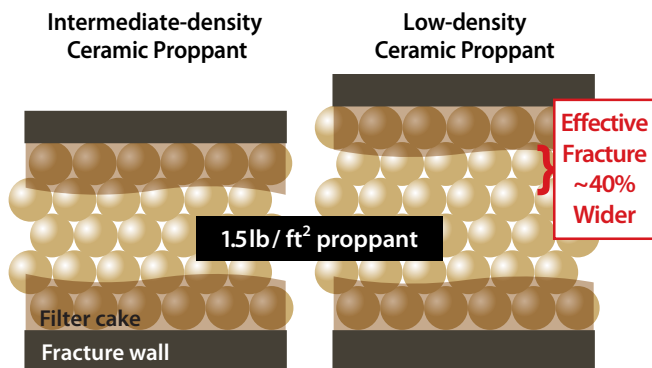
CARBO produces the highest quality proppant that gives the highest conductivity in the reservoir.

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The low-density advantage: increased contact and conductivity

The CARBO proppant portfolio includes high quality, high performance low-density ceramic (LDC) proppant engineered to deliver both high conductivity and high contact area for exceptional production and economic performance in typical reservoir stress conditions.

Compared to commonly used intermediate-density ceramic proppant, our high performance LDC requires 20 percent less proppant to create the same reservoir contact and delivers higher conductivity, which reduces treatment cost and provides a lower cost per barrel of oil equivalent (BOE).



Wide fractures are less impacted by filter cake, magnifying the benefit of low density ceramic proppant.

All ceramics are not created equal

In recent years the North American market has seen an influx of lower-priced, imported ceramic proppant. Proppant from many foreign sources, particularly China, is often markedly inferior to that manufactured by CARBO. Its low crush-resistance and low conductivity can result in a loss of production and revenue. With our proprietary manufacturing processes and continuous quality testing, CARBO proppant is stronger, more spherical and more consistent in size. It produces higher conductivity which leads to superior well performance.

KRYPTOSPHERE: a paradigm shift in proppant technology

KRYPTOSPHERE® HD is the strongest, highest conductivity proppant commercially available today, developed for the industry's deepest, highest-stress wells. CARBO engineered and developed a proprietary formulation and a new manufacturing process to create this ultra-high-strength proppant that is dramatically superior in shape, uniformity, surface smoothness, microstructure and durability to any other proppant in existence. It delivers four times the conductivity of competing bauxite proppant at a closure stress of 20,000 psi.

KRYPTOSPHERE HD was patented and commercialized in 2014, and the first job was pumped in the Gulf of Mexico during the fourth quarter of 2014.

Proppant-delivered technology

CARBO has pioneered the use of chemically infused proppant to provide a controlled release of production chemicals to improve well performance. We can also incorporate fracture evaluation technology into our ceramic proppant. Our proppant-delivered technology is organized into three platforms.

Production Assurance technology addresses problems that are created in the reservoir or wellbore. SCALEGUARD is the most effective scale inhibition product on the market, and the only product that provides long-term protection from deposits that frequently build up in the



wellbore and other tubing to impede or completely block the passage of hydrocarbons. Since the proppant is infused with a scale-inhibiting agent, the protection can last for months or years, reducing costly workovers and pump repairs. SCALEGUARD sales have continued to grow exponentially throughout 2014. Its performance has exceeded design parameters. Production assurance technology provides an opportunity to deliver other chemicals as well.

Flow Enhancement technology is focused on eliminating interfacial tension between proppant grains to assure the entire proppant pack is producing. RPM technology was introduced in the second quarter of 2014. By reducing the amount of water being trapped in the proppant pack, RPM technology increases the effective fracture length, drainage area and conductivity of fractures, thereby improving permeability to hydrocarbons.

Evaluation Services provides operators with precise fracture evaluation that is performed efficiently and safely throughout the life of the well. This service is made possible by using CARBONRT® inert tracer proppant technology and helps operators enhance production with the ability to identify proppant placement near the wellbore. In vertical wells, it provides an indication of propped fracture height. In horizontal wells, the presence of CARBONRT helps determine stage spacing and coverage. The inert tracer is environmentally friendly and allows measurements to be taken at any time during the life of the well. CARBONRT has been employed in numerous wells around the world.

Additional products are under development in each of the technology platforms, and we anticipate the testing of multiple new products in 2015 and beyond.

Increasing KRYPTOSPHERE capacity, distribution, efficiency, and service

In 2014, KRYPTOSPHERE HD production was ramped up to commercial levels, and we began retrofitting the plant that will manufacture KRYPTOSPHERE LD, the new ultra-conductive, low-density ceramic proppant.

Through our considerable experience at increasing production capacity, we have developed a spectrum of best practices regarding plant construction and operation. Our manufacturing process is lean, flexible and agile. The plants are the most advanced in the industry, with the capability of producing a variety of products, enabling CARBO to respond to the needs of the marketplace.

For several years, distribution of products to remote resource plays has been a challenge for the North American petroleum industry. In 2014, CARBO took important steps to enhance its distribution system. We added storage at facilities around the nation. We also added three new distribution centers to better serve the Bakken, Permian and Northeast regions.

At the heart of our distribution network is a transportation management system (TMS) that increases control and efficiency. The TMS helps CARBO reduce transportation costs. We are now able to serve customers better, faster, and at a lower cost.





Programmed for Power

FRACPRO Fracture Software

Designing fractures for ROI

FRACPRO® software is the industry standard for fracture design, analysis and monitoring. FRACPRO is used by E&Ps, service companies, consultants and universities around the world.

The powerful design features in FRACPRO software are important to our mission of enhancing production of oil and natural gas wells. The software can model limitless combinations of well configuration, proppant placement, conductivity improvements and fracture dimensions, in any type of reservoir. In addition to its design flexibility, FRACPRO can capture data and be calibrated in real time, allowing users to customize models for their specific reservoir.



Multiple wellbores and zipper fracs

In 2014, FRACPRO was expanded to handle multiple wellbores. The software can now simulate the fracturing of horizontal offset wells, or “zipper frac” operations, investigating and analyzing interference effects between all the fractures in the reservoir.

STIMPRO gets powerful new features

FRACPRO released a new version of STIMPRO™ matrix acidizing analysis software during the year. Features of the new version include modeling of multiple stimulation treatments, calculating coiled tubing reel friction, computing the optimal injection rates for wormhole

formation in carbonates, and enabling the real-time monitoring of downhole events.

FRACPRO REMOTE connects from more mobile devices

The FRACPRO REMOTE™ real-time fracture operations monitoring app is now available for all Apple® iOS devices. The app allows anyone, anywhere, to connect to the fracturing job in real time, linking FRACPRO software on location to the mobile device over the internet.

Expanding customer base

In 2014, we focused on expanding FRACPRO use with E&P operators. While pumping companies have traditionally been our strongest customer base, during the year we added numerous E&P companies, equally split between U.S. and international operators.

In-depth training

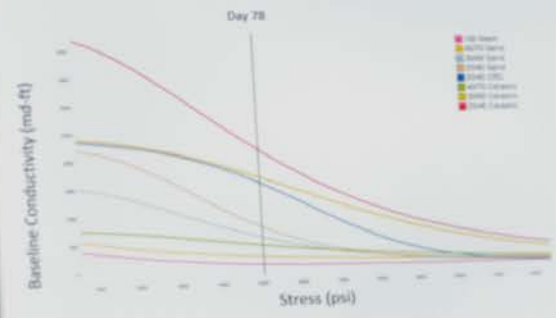
For software as sophisticated and versatile as FRACPRO, training is an important part of the user experience. During 2014, we continued to have a full schedule, conducting classes in our Houston office as well as in countries around the world.





Stress vs Proppant Conductivity

Conductivities at 1 lb/ft² concentration



Optimizing with Expertise

STRATAGEN Fracture Consulting Services

Experience and insight

STRATAGEN® is our fracture consulting business, with particular expertise in unconventional completions. STRATAGEN provides fracture design and evaluation, onsite fracture supervision and advisory services, and well performance analysis to identify the optimal balance of contact and conductivity for the reservoir, and to safeguard fracture execution.

STRATAGEN had a strong year in 2014, generating record levels of revenue while growing its number of fracturing advisors by 30%.

Unconventional opportunities

STRATAGEN consultants are well versed in industry best practices. With their broad base of experience in the field, they see the methods that are successful as well as those that aren't.

We find that many operators in unconventional resource plays are still looking for the most effective completion strategies. They come to STRATAGEN for guidance.

Contact and conductivity

Most multi-fractured horizontal shale wells are under-stimulated, leaving considerable reserves of hydrocarbons untapped. A common trait of horizontal completions in unconventional reservoirs is the need for wells to have more reservoir contact through additional fracture stages and longer laterals to generate early productivity. They also require fractures with lasting conductivity to prevent initial production levels from falling off sharply and to maximize EUR.

As oil prices fell during the second half of 2014, some E&Ps, seeking to reduce costs, began to experiment with exceptionally large quantities of sand proppant instead of ceramic proppant. We have observed and conducted



CARBO has been a partner in both design and application of fracturing technology in our Permian Basin assets. The STRATAGEN engineers brought modeling expertise and perspective to our operations. The CARBO engineers worked with us to match the proppant to our specific needs. We have experienced gains in EUR in excess of 25% over comparable sand completions in our area. We are working with their team to identify new challenges that can be overcome with new proppant technologies. They have been and continue to be an integral part of our success.

Don Ritter
CEO, Endurance Resources LLC

studies that show that in as little as six months, the effective fracture length decreases as a result of sand grains which crush under the tremendous pressure in the rock formation. Conductivity is lost, and production falls off dramatically.

Cost-neutral and production-neutral design

Clients want to know how to optimize contact area and conductivity to maximize the EUR and ROI of their wells. In an effort to utilize a higher percentage of proppant pumped, STRATAGEN consultants created several completion design scenarios utilizing more efficient ceramic proppant, resulting in 1) more production for the same completion costs (cost-neutral) or 2) the same production for less completion costs (production-neutral).

Using an engineered workflow utilizing reservoir evaluation, FRACPRO simulation software, reservoir engineering software and basin-specific knowledge,

we could demonstrate that a well completed with ceramic proppant can deliver superior production rates and long-term recovery while using up to two-thirds less proppant by weight. The higher volume of sand needed, combined with higher associated completion and logistical costs, offsets the cost of ceramic proppant.

A variation of this approach is a production-neutral design, which instead shows an operator that a given level of production can be achieved at a lower total cost by using ceramic proppant.

The client is able to choose which approach to take based on their individual objectives and goals. Most realize that high conductivity ceramic proppant is an investment that can more than pay for itself in a matter of weeks or months, as well as providing higher production over the long term.

Demand for the cost-neutral and production-neutral design service became so strong that STRATAGEN shifted a group of engineers solely to that purpose in late 2014.





Reducing environmental and financial risks

FALCON TECHNOLOGIES® provides solutions to assist clients in protecting their wellsites and their production, as well as the environment, by providing comprehensive spill prevention and containment systems.

Seamless, durable protection

FALCON has engineered a proprietary, spray-on polymer coating that provides a seamless, durable layer of protection that is virtually impervious to damage due to corrosion, common oilfield chemicals or weather. It is ideally suited for a broad range of applications, including secondary containment systems, location liners, water storage and tank bases.

Expanding the revenue stream

FALCON evolved its sales channels in 2014. Leveraging our industry-leading manufacturing efficiency and quality control, we began selling prefabricated components to

other vendors as well as to end users, thereby opening up new revenue channels for the Company. TANKGUARD™, our patented tank base, is seeing growing sales and client base.

Along with that, the Company will be striving to develop product designs that can be assembled in less time and replicated more accurately, while also building a functional infrastructure for future growth.





At CARBO, we have a better way of doing things.

We leverage the power of technology and innovation to develop products that literally redefine a category.

With world-renowned know-how and hands-on expertise, we help clients optimize their productivity, recovery, and return on investment.

Our financial strength allows us to continue moving ahead through the up-and-down cycles of the industry.

With a holistic, multi-disciplinary approach, we will continue to provide synergistic solutions that deliver unmatched production enhancement and value.

A far-reaching, forward-thinking strategic vision assures that CARBO will remain different... by design.

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 001-15903

CARBO Ceramics Inc.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

72-1100013
(I.R.S. Employer
Identification Number)

**575 North Dairy Ashford
Suite 300
Houston, Texas 77079**
(Address of principal executive offices)

(281) 921-6400
(Registrant's telephone number)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on June 30, 2014, as reported on the New York Stock Exchange, was approximately \$3,042,021,331. Shares of Common Stock held by each director and executive officer and each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 17, 2015, the Registrant had 23,276,180 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's Annual Meeting of Stockholders to be held May 19, 2015, are incorporated by reference in Part III.

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PART I

Item 1. *Business*

General

CARBO Ceramics Inc. (the “Company” or “CARBO”) is an oilfield services technology company that generates revenue primarily through the sale of products and services to the oil and gas industry for production enhancement and environmental services.

Our production enhancement businesses promote increased Exploration and Production (“E&P) Operators’ production and Estimated Ultimate Recovery (“EUR”) by providing industry leading technology to *Design, Build, and Optimize the FracTM*. Our environmental services business is intended to protect E&P Operators’ assets, minimizes environmental risk, and lowers operating costs (LOE).

CARBO is the world’s largest supplier of ceramic proppant. The Company also sells sand and resin-coated sand. Originally, the Company participated in the sale of sand as a byproduct of its resin-coating operations. However, during 2014, the Company expanded its sand sales volumes and now sells sand independent of its resin-coating operations. The Company is the provider of the industry’s most popular fracture simulation software, and a provider of fracture design and consulting services, and a broad range of technologies for spill prevention, containment and countermeasures. The Company sells the majority of its products and services to operators of oil and natural gas wells and to oilfield service companies to help increase the production rates and the amount of oil and natural gas ultimately recoverable from these wells. The Company’s products and services are primarily used in the hydraulic fracturing of natural gas and oil wells. The Company was incorporated in 1987 in Delaware. As used herein, “Company”, “CARBO”, “we”, “our” and “us” may refer to the Company and/or its consolidated subsidiaries.

Hydraulic fracturing is the most widely used method of increasing production from oil and natural gas wells. The hydraulic fracturing process consists of pumping fluids down a natural gas or oil well at pressures sufficient to create fractures in the hydrocarbon-bearing rock formation. A granular material, called proppant, is suspended and transported in the fluid and fills the fracture, “propping” it open once high-pressure pumping stops. The proppant-filled fracture creates a conductive channel through which the hydrocarbons can flow more freely from the formation to the well and then to the surface.

There are three primary types of proppant that can be utilized in the hydraulic fracturing process: sand, resin-coated sand and ceramic. Sand is the least expensive proppant, resin-coated sand is more expensive and ceramic proppant is typically the most expensive. The higher initial cost of ceramic proppant is justified by the fact that the use of these proppants in certain well conditions results in an increase in the production rate of oil and natural gas, an increase in the total oil or natural gas that can be recovered from the well and, consequently, an increase in cash flow for the operators of the well. The increased production rates are primarily attributable to the higher strength and more uniform size and shape of ceramic proppant versus alternative materials.

The Company primarily manufactures six distinct ceramic proppants. Our newest proppant, KRYPTOSPHERETM HD, is a high-performance ceramic proppant engineered to deliver increased conductivity and durability in the highest closure stress wells. Even in challenging, high-cost environments such as deep water wells, KRYPTOSPHERETM HD retains its integrity and enables greater ultimate recovery from the reservoir.

CARBOHSP[®] and CARBOPROP[®] are high strength proppants designed primarily for use in deep oil and gas wells.

CARBOLITE[®], CARBOECONOPROP[®] and CARBOHYDROPROP[®] are low-density ceramic proppants. CARBOLITE[®] is used in medium depth oil and gas wells, where higher production rates can be achieved due to the product’s uniform size and spherical shape. CARBOECONOPROP[®] was introduced to provide a lower cost ceramic to compete more directly with resin-coated sand and sand proppant, and CARBOHYDROPROP[®] was introduced to improve performance in “slickwater” fracture treatments.

During 2010, the Company began production of resin-coated ceramic (CARBOBOND® LITE®) and resin-coated sand (CARBOBOND®RCS) proppants. CARBOBOND®LITE® addresses a niche market in which oil and natural gas wells are subject to the risk of proppant flow-back. In the case of CARBOBOND®RCS, the Company made the strategic decision to offer a lower-cost, lower-conductivity alternative proppant in addition to its ceramic proppant products, thereby broadening its proppant suite of products.

CARBO NORTHERN WHITE is a frac sand that is used by operators that still value quality, but do not wish to pay the higher costs associated with ceramic or resin-coated sand proppants.

In addition, the Company manufactures CARBONRT®, a detectable proppant that utilizes a non-radioactive tracer material to assist operators in determining the locations of fractures in a natural gas or oil well. This tracer is added to the proppant granules during the manufacturing process, and can be added to most of the types of proppant that the Company sells.

In 2014, the Company also began sales of SCALEGUARD, a porous ceramic proppant that is infused with scale-inhibiting chemicals and placed throughout the fracture as part of the hydraulic fracturing process. The infused scale inhibitor in SCALEGUARD is designed to be released into the fracture only on contact with water and thereby reduce or eliminate expensive remedial maintenance programs.

The Company, through its wholly-owned subsidiary StrataGen, Inc., also sells fracture simulation software under the brand FracPro® and provides fracture design and consulting services to oil and natural gas companies under the brand StrataGen.

FracPro® provides a suite of stimulation software solutions to the industry that have marked capabilities for on-site real-time analysis. This has enabled recognition and remediation of potential stimulation problems. This stimulation software is tightly integrated with reservoir simulators, thus allowing for stimulation treatment and production optimization.

StrataGen, the specialized consulting team, consults and works with operators around the world to help optimize well placement, fracture treatment design and production enhancement. The broad range of expertise of the StrataGen consultants includes: fracture treatment design; completion support; on-site treatment supervision, quality control; post-treatment evaluation and optimization; reservoir and fracture studies; rock mechanics and software application and training.

Demand for most of the Company's products and services depends primarily upon the demand for natural gas and oil and on the number of natural gas and oil wells drilled, completed or re-completed worldwide. More specifically, the demand for the Company's products and services is dependent on the number of oil and natural gas wells that are hydraulically fractured to stimulate production.

Falcon Technologies and Services, Inc. ("Falcon Technologies"), a wholly-owned subsidiary of the Company, provides spill prevention, containment and countermeasure systems for the oil and gas industry. Falcon Technologies uses proprietary technology to provide products that are designed to enable its clients to extend the life of their storage assets, reduce the potential for hydrocarbon spills and provide containment of stored materials.

During the year ended December 31, 2014, the Company generated approximately 76% of its revenues in the United States and 24% in international markets.

Competition

As the demand for resin-coated and ceramic proppant was amplified by the large resource plays, the number of domestic and international competitors in the marketplace has increased. One of the Company's worldwide proppant competitors is Saint-Gobain Proppants ("Saint-Gobain"). Saint-Gobain is a division of Compagnie de

Saint-Gobain, a large French glass and materials company. Saint-Gobain manufactures a variety of ceramic proppants that it markets in competition with some of the Company's products. Saint-Gobain's primary manufacturing facility is located in Fort Smith, Arkansas; and Bauxite, Arkansas. Saint-Gobain also manufactures ceramic proppant in China. Mineracao Curimbaba ("Curimbaba"), based in Brazil, is also a competitor and manufactures ceramic proppants that it markets in competition with some of the Company's products. Imerys, S.A., a competitor based in France ("Imeyrs"), has begun to manufacture ceramic proppant in Andersonville, Georgia, and during 2013 acquired Wrens, Georgia-based ceramic proppant manufacturer Pyramax, LLC.

There are two major manufacturers of ceramic proppant in Russia. Borovichi Refractory Plant ("Borovichi") located in Borovichi, Russia, and FORES Refractory Plant ("FORES") located in Ekaterinburg, Russia. Although the Company has limited information about Borovichi and FORES, the Company believes that Borovichi primarily manufactures intermediate-density ceramic proppants and markets its products principally within Russia, and that FORES manufactures intermediate-density and low-density ceramic proppant lines and markets its products both inside and outside of Russia. The Company further believes that these companies have added manufacturing capacity in recent years and now provide a majority of the ceramic proppant used in Russia. The Company is also aware of an increasing number of manufacturers in China. Most of these companies produce intermediate-density ceramic proppants that are marketed both inside and outside of China. Chinese proppant imports into the United States increased beginning in 2010 and 2011, which contributed to an over-supply of ceramic proppant in 2012, 2013 and 2014.

Competition for CARBOHSP® and CARBOPROP® principally includes ceramic proppant manufactured by Saint-Gobain, Curimbaba and various producers located in China. The Company's CARBOLITE®, CARBOECONOPROP® and CARBOHYDROPROP® products compete primarily with ceramic proppant produced by Saint-Gobain, Curimbaba and Imerys and with sand-based proppant for use in the hydraulic fracturing of medium depth natural gas and oil wells. At this time, there is not a comparable competitor's product to the Company's KRYPTOSPHERE HD.

The leading suppliers of mined sand are Unimin Corp., U.S. Silica Company, Fairmount Minerals Limited, Inc., Hi-Crush Partners LP, and Badger Mining Corp. The leading suppliers of resin-coated sand are Hexion (formerly known as Momentive Specialty Chemicals) and Santrol, a subsidiary of Fairmount Minerals.

The Company believes that some of the significant factors that influence a customer's decision to purchase the Company's ceramic proppant are (i) price/performance ratio, (ii) on-time delivery performance, (iii) technical support and (iv) proppant availability. The Company believes that its products are competitively priced and that its delivery performance is good. The Company also believes that its superior technical support has enabled it to persuade customers to use ceramic proppant in an increasingly broad range of applications and thus increased the overall market for the Company's products. Over the past five years, the Company has increased its manufacturing and resin-coating capacity by 86% and plans to continue its strategy of adding capacity, as needed and as market conditions warrant, to meet anticipated future increases in sales demand.

Product Development

The Company continually conducts testing and development activities with respect to alternative raw materials to be used in the Company's existing and alternative production methods. During 2013, the Company introduced a new ceramic proppant, KRYPTOSPHERE™ HD, with increased strength and conductivity when compared to its traditional products. This new product is intended for use in ultra-high stress wells. The next phase for KRYPTOSPHERE™ is applying this technology to the Company's existing manufacturing footprint. Currently, the Company is retrofitting an existing plant with KRYPTOSPHERE™ technology. For information regarding the Company's research and development expenditures, see Note 1 to the "Notes to Consolidated Financial Statements."

The Company is actively involved in the development of alternative products for use as proppant in the hydraulic fracturing process and is aware of others engaged in similar development activities. The Company believes that while there are potential specialty applications for these products, they will not significantly impact the use of ceramic proppants. The Company believes that the “know-how” and trade secrets necessary to efficiently manufacture a product of consistently high quality are difficult barriers to entry to overcome.

Customers and Marketing

The Company’s largest customers are participants in the petroleum pressure pumping industry. Specifically, Halliburton Energy Services, Inc. and Schlumberger Limited each accounted for more than 10% of the Company’s 2014 and 2013 revenues. However, the end users of the Company’s products are the operators of natural gas and oil wells that hire the pressure pumping service companies to hydraulically fracture wells. The Company works both with the pressure pumping service companies and with the operators of natural gas and oil wells to present the technical and economic advantages of using ceramic proppant. The Company generally supplies its customers with products on a just-in-time basis, as specified in individual purchase orders. Continuing sales of product depend on the Company’s direct customers and the well operators being satisfied with product quality, availability and delivery performance. In addition, continuing sales of product depend on a favorable level of activity in the natural gas and oil industries. The Company provides its software simulation products and consulting services directly to owners and/or operators of oil and gas wells and service companies.

The Company recognizes the importance of a technical marketing program in demonstrating long-term economic advantages when selling products and services that offer financial benefits over time. The Company has a broad technical sales force to advise end users on the benefits of using ceramic proppant and performing fracture simulation and consultation services.

Although the Company’s initial products were originally intended for use in deep, high-stress wells that require high-strength proppant, the Company believes that there is economic benefit to well operators of using ceramic proppant in shallower, lower-stress wells. The Company believes that its new product introductions and education-based technical marketing efforts have allowed it to expand sales in recent years and will continue to do so in the future.

The Company provides a variety of technical support services and has developed computer software that models the return on investment achievable by using the Company’s ceramic proppant versus alternatives in the hydraulic fracturing of a natural gas or oil well. In addition to the technical marketing effort, the Company from time to time engages in field trials to demonstrate the economic benefits of its products and validate the findings of its computer simulations. Periodically, the Company provides proppant to production companies for field trials, on a discounted basis, in exchange for a production company’s agreement to provide production data for direct comparison of the results of fracturing with ceramic proppant as compared to alternative proppants.

The Company’s international marketing efforts are conducted primarily through its sales offices in Dubai, United Arab Emirates; Alberta, Canada; Beijing, China; and Moscow, Russia, and through commissioned sales agents located in South America. The Company’s products and services are used worldwide by U.S. customers operating domestically and abroad, and by foreign customers. Sales outside the United States accounted for 24%, 21% and 23% of the Company’s sales for 2014, 2013 and 2012, respectively. The distribution of the Company’s international and domestic revenues is shown below, based upon the region in which the customer used the products and services:

	<u>For the years ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(\$ in millions)		
Location			
United States	\$491.0	\$529.6	\$500.1
International	<u>157.3</u>	<u>137.8</u>	<u>145.4</u>
Total	<u>\$648.3</u>	<u>\$667.4</u>	<u>\$645.5</u>

Production Capacity

The Company believes that constructing adequate capacity ahead of demand while incorporating new technology to reduce manufacturing costs are important competitive strategies to increase its overall share of the market for proppant.

Between 2006 and 2011, the Company, in successive phases, completed construction of four ceramic proppant production lines at its manufacturing facility in Toombsboro, Georgia. The stated annual production capacity at this facility is 1.0 billion pounds per year.

During 2010, the Company began production from a resin-coating plant that was built within the existing manufacturing infrastructure of its New Iberia, Louisiana facility. The resin-coating plant is utilized to coat both ceramic proppant manufactured at other Company locations and raw frac sand. A second resin-coating production line at the facility was completed in 2012. The facility also functions as a distribution center. During 2012, the Company began to utilize its own CARBO Northern White sand in its sand processing facility in Marshfield, Wisconsin. This facility currently supplies raw frac sand to the proppant market. During 2014, the Company made a decision that it will not move forward with construction of a resin coating plant in Marshfield, Wisconsin.

During 2014, the Company completed construction of the first 250 million pound ceramic proppant production line in Millen, Georgia and the plant commenced operations. In addition, the Company began the construction on a second 250 million pound production line in Millen. However, due to current market conditions, the construction and completion of this second line has been temporarily suspended.

The following table sets forth the current stated capacity of each of the Company's existing manufacturing and resin-coating facilities:

<u>Location</u>	<u>Annual Capacity</u> (millions of pounds)
Eufaula, Alabama	275
McIntyre, Georgia	275
Toombsboro, Georgia	1,000
Millen, Georgia	250
Luoyang, China	100*
Kopeysk, Russia	100
Total manufacturing capacity	2,000
New Iberia, Louisiana – resin-coating	400**
Total current capacity	2,400

* Given current business conditions, the Company expects to idle its plant in China during the first quarter of 2015.

** Processing activities at the New Iberia facility involve resin-coating of previously manufactured ceramic proppant substrate and raw frac sand. During 2013, the Company began manufacturing KRYPTOSPHERE™ HD at its New Iberia facility.

Once the second line at the Millen, Georgia facility has been completed, the Company's ceramic manufacturing capacity will total 2.25 billion pounds. The construction of additional manufacturing capacity beyond these new facilities will be dependent on the expected future demand for the Company's products, access to needed capital and the ability to obtain necessary environmental permits.

Long-Lived Assets By Geographic Area

Long-lived assets, consisting of net property, plant and equipment, goodwill, intangibles, and other long-term assets as of December 31 in the United States and other countries are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(\$ in millions)		
Long-lived assets:			
United States	\$578.5	\$472.1	\$422.3
International (primarily China and Russia)	18.1	35.5	36.7
Total	<u>\$596.6</u>	<u>\$507.6</u>	<u>\$459.0</u>

Distribution

The Company maintains finished goods inventories at each of its manufacturing facilities and at remote stocking facilities. The North American remote stocking facilities consist of bulk storage silos with truck trailer loading facilities, as well as rail yards for direct transloading from rail car to tank trucks. International remote stocking sites are duty-free warehouses operated by independent owners. North American sites are typically supplied by rail, and international sites are typically supplied by container ship. In total, the Company leases approximately 1,950 rail cars for use in the distribution of its products and is under contract to add approximately 200 more railcars by the end of 2015. The price of the Company's products sold for delivery in the lower 48 United States and Canada typically includes just-in-time delivery of proppant to the operator's well site, which eliminates the need for customers to maintain an inventory of ceramic proppant. The Company expands its distribution network as needed, including rail car additions as well as increasing finished goods storage capacity at stocking locations. During the fourth quarter of 2012, the Company completed an expansion of its distribution facility in South Texas. Additionally, the Company is rationalizing its rail fleet to reduce reliance on the fleet as a form of storage, and expects to sublease or otherwise transfer railcars during 2015 to avoid the expansion of its fleet.

Raw Materials

Ceramic proppant is made from alumina-bearing ores (commonly referred to as clay, bauxite, bauxitic clay or kaolin, depending on the alumina content) that are readily available on the world market. Bauxite is largely used in the production of aluminum metal, refractory material and abrasives. The main known deposits of alumina-bearing ores in the United States are in Arkansas, Alabama and Georgia; other economically mineable known deposits are located in Australia, Brazil, China, Gabon, Guyana, India, Jamaica, Russia and Surinam.

For the production of CARBOHSP® and CARBOPROP® in the United States the Company uses bauxite, and has historically purchased its annual requirements at the seller's current prices. The Company believes that its ability to purchase bauxite on the open market and current bauxite inventories will sufficiently provide for its bauxite needs in the United States during 2015.

The Company's Eufaula, McIntyre, Toombsboro and Millen facilities primarily use locally mined kaolin for the production of CARBOLITE®, CARBOECONOPROP® and CARBOHYDROPROP®. The Company has entered into bi-lateral contracts that require a supplier to sell to the Company, and the Company to purchase from the supplier, at least fifty percent of the Eufaula facility's and Millen facility's annual kaolin requirements. The Eufaula contract runs through 2017, with options to extend this agreement for additional three year terms. The Millen contract, which commenced in July 2014, has an initial term of five years with options to extend the agreement for an additional five years. The Company has obtained ownership rights in acreage in Wilkinson County, Georgia, which contains in excess of a twelve year supply of kaolin for its Georgia facilities based on full capacity production rates. The Company has entered into a long-term agreement with a third party to mine and transport this material at a fixed price subject to annual adjustment. The agreement requires the Company to

utilize the third party to mine and transport a majority of the McIntyre and Toombsboro facility's annual kaolin requirement. Overall, the Company estimates that its fee simple and leasehold mineral rights in the states of Alabama and Georgia contain approximately 19.1 million tons of kaolin suitable for use in production of the Company's kaolin-based proppants.

The Company's production facility in Luoyang, China, uses both kaolin and bauxite for the production of CARBOPROP® and CARBOLITE®. Certain of these materials are purchased under a short-term contract that stipulates fixed prices.

The Company's production facility in Kopeysk, Russia currently uses bauxite for the production of CARBOPROP®. Bauxite is purchased under annual agreements that stipulate fixed prices for up to a specified quantity of material.

The Company continues to explore options for the purchase of high-quality raw materials for its sand business. In 2011, the Company secured a five-year contract with a supplier and consummated the purchase of two parcels of property containing sand reserves. During 2012, the Company began to utilize its own CARBO Northern White sand in its sand processing facility in Marshfield, Wisconsin, which supplies the Company's resin-coating facility in New Iberia, Louisiana, as well as raw frac sand to the proppant market.

Ceramic Production Process

Ceramic proppants are made by grinding or dispersing ore to a fine powder, combining the powder into small pellets and firing the pellets in a rotary kiln. The Company uses three different methods to produce ceramic proppant.

The Company's plants in McIntyre, Georgia; Kopeysk, Russia and Luoyang, China use a dry process, which utilizes clay, bauxite, bauxitic clay or kaolin. The raw material is ground, pelletized and screened. The manufacturing process is completed by firing the product in a rotary kiln.

The Company's plants in Eufaula, Alabama, Toombsboro, Georgia, and Millen, Georgia, use a wet process, which starts with kaolin that is formed into slurry. The slurry is then pelletized in a dryer and the pellets are then fired in a rotary kiln.

The portion of the Company's plant in New Iberia, Louisiana that manufactures ceramic proppant uses a new manufacturing process associated with the Company's KRYPTOSPHERE product line. In addition, construction has begun to retrofit another of the Company's plants with this new process.

The Company's rotary kilns are primarily heated by the use of natural gas.

Patent Protection and Intellectual Property

The Company makes ceramic proppant and ceramic media used in foundry and scouring processes (the latter two items comprising a minimal volume of overall sales) by processes and techniques that involve a high degree of proprietary technology, some of which is protected by patents.

The Company owns multiple patents in the United States and various foreign countries that relate to different types of ceramic proppant and production methods used for ceramic proppant and media; however, production of products pursuant to these patents does not currently constitute a material portion of the Company's output. The Company also owns multiple U.S. and foreign patents that relate to methods for the detection of subterranean fractures.

During 2014, the Company obtained two U.S. patents relating to its KRYPTOSPHERE manufacturing process, and expects these patents to provide assistance in the future sales of this product line.

The Company owns multiple U.S. patent applications (together with a number of counterpart applications pending in foreign jurisdictions). Each of the U.S. patent applications cover ceramic proppant, processes for making ceramic proppant, and detection of subterranean fractures. The applications are in various stages of the patent prosecution process, and patents may not issue on such applications in any jurisdiction for some time, if they issue at all.

Falcon Technologies owns two U.S. patents, which expire in 2026 and 2027 and relate to construction of secondary containment areas. In addition, Falcon Technologies owns a U.S. patent which expires in 2031 and relates to the construction of a polyurea-coated tank base. Falcon Technologies also owns multiple U.S. patent applications (together with a number of counterpart applications pending in foreign jurisdictions), each of which relates to tank bases or methods of constructing secondary containment areas.

The Company believes that its patents have historically been important in enabling the Company to compete in the market to supply proppant to the natural gas and oil industry. The Company intends to enforce, and has in the past vigorously enforced, its patents. The Company may from time to time in the future be involved in litigation to determine the enforceability, scope and validity of its patent rights. In addition to patent rights, and perhaps more notably, the Company uses a significant amount of trade secrets, or “know-how,” and other proprietary information and technology in the conduct of its business. None of this “know-how” and technology is licensed from third parties.

Seasonality

Historically, the Company’s business has not been subject to regular material seasonality fluctuations. However, with the activity increase in resource plays in the northern and eastern United States, the Company has recently experienced higher levels of proppant sales activities during warmer weather periods and less during colder weather months. In addition, sales activities can be decreased by the spring snow and ice “break-up” in Canada, North Dakota, Montana, and the Northeast U.S., as well as the winter holidays in December and January.

Environmental and Other Governmental Regulations

The Company believes that its operations are in substantial compliance with applicable domestic and foreign federal, state and local environmental and safety laws and regulations.

Existing federal environmental requirements such as the Clean Air Act and the Clean Water Act, as amended, impose certain restrictions on air and water pollutants from the Company’s operations via permits and regulations. Those pollutants include volatile organic compounds, nitrogen oxides, sulfur dioxide, particulate matter, storm water and wastewater discharges and other by-products. In addition to meeting environmental requirements for existing operations, the Company must also demonstrate compliance with environmental regulations in order to obtain permits prior to any future expansion. The United States Environmental Protection Agency (“EPA”) and state programs require covered facilities to obtain individual permits or have coverage under an EPA general permit issued to groups of facilities. A number of federal and state agencies, including but not limited to, the EPA, the Texas Commission of Environmental Quality, the Louisiana Department of Environmental Quality, the Alabama Department of Environmental Management, the Wisconsin Department of Natural Resources, and the Georgia Environmental Protection Division, in states in which we do business, have environmental regulations applicable to our operations. Historically we have been able to obtain permits, where necessary, to build new facilities and modify existing facilities that allow us to continue compliant operations and obtaining these permits in a timely manner will continue to be an important factor in the Company’s ability to do so in the future.

Employees

As of December 31, 2014, the Company had 1,048 employees worldwide. In addition to the services of its employees, the Company employs the services of consultants as required. The Company's employees are not represented by labor unions. There have been no work stoppages or strikes during the last three years that have resulted in the loss of production or production delays. The Company believes its relations with its employees are satisfactory.

Executive Officers of the Registrant

Gary A. Kolstad (age 56) was elected in June 2006, by the Company's Board of Directors to serve as President and Chief Executive Officer and a Director of the Company. Mr. Kolstad previously served in a variety of positions over 21 years with Schlumberger. Mr. Kolstad became a Vice President of Schlumberger in 2001, where he last held the positions of Vice President, Oilfield Services – U.S. Onshore and Vice President, Global Accounts.

Ernesto Bautista III (age 43) joined the Company as a Vice President and Chief Financial Officer in January 2009. From July 2006 until joining the Company, Mr. Bautista served as Vice President and Chief Financial Officer of W-H Energy Services, Inc., a Houston, Texas based diversified oilfield services company ("W-H Energy"). From July 2000 to July 2006, he served as Vice President and Corporate Controller of W-H Energy. From September 1994 to May 2000, Mr. Bautista served in various positions at Arthur Andersen LLP, most recently as a manager in the assurance practice, specializing in emerging, high growth companies. Mr. Bautista is a certified public accountant in the State of Texas.

Don P. Conkle (age 50) was appointed Vice President, Marketing and Sales in October 2012. Mr. Conkle previously held a variety of domestic and international managerial positions in engineering, marketing and sales, and technology development over a 26 year period with Schlumberger. He served in the positions of Vice President of Stimulation Services from 2007 until 2009, as GeoMarket Manager (Qatar & Yemen) from 2009 until 2011 and as Production Group Marketing and Technology Director from 2011 until he joined the Company.

Roger Riffey (age 56) joined the Company in July 2006 as Director of Logistics and Customer Service. He was appointed Plant Manager of the Toombsboro, Georgia, facility in July 2010, and was named Vice President, Manufacturing in May 2013. Previously, Mr. Riffey held positions with Rio Tinto Energy in Special Projects, U.S. Borax as Global Logistics Manager and Kerr-McGee Coal Corporation as Manager of Marketing.

R. Sean Elliott (age 40) joined the Company in November 2007 as General Counsel, and was appointed as Corporate Secretary and Chief Compliance Officer in January 2008 and as a Vice President of the Company in May 2011. Previously, Mr. Elliott served as legal counsel to Aviall, Inc. (an international aviation company) from 2004 to 2007, where he last held the positions of Assistant General Counsel and Assistant Secretary. From 1999 until 2004, Mr. Elliott practiced law with Haynes and Boone, LLP, a Dallas, Texas-based law firm.

All officers are elected for one-year terms or until their successors are duly elected. There are no arrangements between any officer and any other person pursuant to which he was selected as an officer. There is no family relationship between any of the named executive officers or between any of them and the Company's directors.

Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This Form 10-K, the Company's Annual Report to Shareholders, any Form 10-Q or any Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. The words "believe", "expect", "anticipate", "project", "estimate", "forecast", "plan" or "intend"

and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, each of which speaks only as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The Company's forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. All of the Company's forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors discussed below.

The Company's results of operations could be adversely affected if its business assumptions do not prove to be accurate or if adverse changes occur in the Company's business environment, including but not limited to:

- a potential decline in the demand for oil and natural gas;
- potential declines or increased volatility in oil and natural gas prices that would adversely affect our customers, the energy industry or our production costs;
- potential reductions in spending on exploration and development drilling in the oil and natural gas industry that would reduce demand for our products and services;
- seasonal sales fluctuations;
- an increase in competition in the proppant market, including imports from foreign countries;
- logistical and distribution challenges relating to certain resource plays that do not have the type of infrastructure systems that are needed to efficiently support oilfield services activities;
- the development of alternative stimulation techniques, such as extraction of oil or gas without fracturing;
- increased governmental regulation of hydraulic fracturing;
- increased regulation of emissions from our manufacturing facilities;
- the development of alternative proppants for use in hydraulic fracturing;
- general global economic and business conditions;
- an increase in raw materials costs;
- fluctuations in foreign currency exchange rates; and
- the potential expropriation of assets by foreign governments.

The Company's results of operations could also be adversely affected as a result of worldwide economic, political and military events, including, but not limited to, war, terrorist activity or initiatives by the Organization of the Petroleum Exporting Countries ("OPEC"). For further information, see "Item 1A. Risk Factors."

Available Information

The Company's annual reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") are made available free of charge on the Company's internet website at <http://www.carboceramics.com> as soon as reasonably practicable after such material is filed with, or furnished to, the Securities and Exchange Commission ("SEC").

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, Room 1580, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at <http://www.sec.gov>.

Item 1A. Risk Factors

You should consider carefully the trends, risks and uncertainties described below and other information in this Form 10-K and subsequent reports filed with the SEC before making any investment decision with respect to our securities. If any of the following trends, risks or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline, and you could lose all or part of your investment.

Our business and financial performance depend on the level of activity in the natural gas and oil industries.

Our operations are materially dependent upon the levels of activity in natural gas and oil exploration, development and production. More specifically, the demand for our products is closely related to the number of natural gas and oil wells completed in geologic formations where ceramic or resin-coated sand proppants are used in fracture treatments. These activity levels are affected by both short-term and long-term trends in natural gas and oil prices. In recent years, natural gas and oil prices and, therefore, the level of exploration, development and production activity, have experienced significant fluctuations. Worldwide economic, political and military events, including war, terrorist activity, events in the Middle East and initiatives by OPEC, have contributed, and are likely to continue to contribute, to price volatility. Additionally, warmer than normal winters in North America and other weather patterns may adversely impact the short-term demand for natural gas and, therefore, demand for our products and services. Natural gas prices experienced a significant decline during 2012 and remained low throughout 2013 and 2014, which resulted in a decline in the United States drilling rig count. Further, the price of oil declined significantly during the second half of 2014, and currently remains low. This reduction in natural gas and oil prices has depressed the level of natural gas and oil exploration, development, production and well completions activity and resulting demand for our products. This decline has had an adverse impact on our results of operations and could have a material adverse effect on our financial condition if natural gas and oil prices and well completion activity do not improve.

Our business and financial performance could suffer if the levels of hydraulic fracturing decrease or cease as a result of the development of new processes, increased regulation or a decrease in horizontal drilling activity.

Substantially all of our products are proppants used in the completion and re-completion of natural gas and oil wells through the process of hydraulic fracturing. In addition, demand for our proppants is substantially higher in the case of horizontally drilled wells, which allow for multiple hydraulic fractures within the same well bore but are more expensive to develop than vertically drilled wells. A reduction in horizontal drilling or the development of new processes for the completion of natural gas and oil wells leading to a reduction in, or discontinuation of the use of, hydraulic fracturing could cause a decline in demand for our products. Additionally, increased regulation or environmental restrictions on hydraulic fracturing or the materials used in this process could negatively affect our business by increasing the costs of compliance or resulting in operational delays, which could cause operators to abandon the process due to commercial impracticability. Moreover, future federal, state local or foreign laws or regulations could otherwise limit or ban hydraulic fracturing. Several states in which our customers operate have adopted, or are considering adopting, regulations that have imposed, or could impose, more stringent permitting, transparency, disposal and well construction requirements on hydraulic fracturing operations. Some states, such as New York, have banned the process of hydraulic fracturing altogether. Similar efforts have been proposed in other states. Any of these events could have a material adverse effect on our results of operations and financial condition.

We face distribution and logistical challenges in our business

As oil and natural gas prices fluctuate, our customers may shift their focus back and forth between different resource plays, some of which can be located in geographic areas that do not have well-developed transportation and distribution infrastructure systems. Transportation and logistical operating expenses continue to comprise a significant portion of our total delivered cost of sales. Therefore, serving our clients in these less-developed areas

presents distribution and other operational challenges that affect our sales and negatively impact our operating costs. Disruptions in transportation services, including shortages of rail cars or a lack of rail transportation services or developed infrastructure, could affect our ability to timely and cost effectively deliver to our customers and could provide a competitive advantage to competitors located in closer proximity to customers. Additionally, increases in the price of diesel fuel could negatively impact operating costs if we are unable to pass those increased costs along to our customers. Failure to find long-term solutions to these logistical challenges could adversely affect our ability to respond quickly to the needs of our customers or result in additional increased costs, and thus could negatively impact our results of operations and financial condition.

We operate in an increasingly competitive market.

The proppant market is highly competitive and no one supplier is dominant. We compete with other domestic and international suppliers of ceramic proppant, as well as with suppliers of sand for use as proppant, in the hydraulic fracturing of natural gas and oil wells. The expiration of key patents owned by the Company has resulted in additional competition in the market for ceramic proppant. Specifically, Chinese manufacturers now import ceramic proppant of varying quality into North America, which has led to an oversupply of product in the marketplace. While we believe our ceramic proppant can be differentiated from low quality imports, the oversupply in the marketplace had resulted in pricing and margin pressures. In 2014 and 2013, ceramic proppant imports from China decreased somewhat when compared to early 2012, but these imports were still present in the market. The entry of additional competitors into the market to supply ceramic proppant or a surge in the level of ceramic proppant imports into North America could have a material adverse effect on our results of operations and financial condition.

We may be adversely affected by decreased demand for our proppant or the development by our competitors of effective alternative proppants.

Ceramic proppant is a premium product capable of withstanding higher pressure and providing more highly conductive fractures than mined sand, which is the most commonly used proppant type. During the second half of 2014, we saw some E&P operators that have traditionally used ceramic proppant experiment with the use of mined sand in its place. Although we believe that the use of ceramic proppant or resin-coated sand generates higher production rates and more favorable production economics than mined sand, a significant shift in demand from ceramic proppant to resin-coated sand or mined sand could have a material adverse effect on our results of operations and financial condition. The development and use of effective alternative proppant could also cause a decline in demand for our products, and could have a material adverse effect on our results of operations and financial condition.

We rely upon, and receive a significant percentage of our revenues from, a limited number of key customers and end users.

During 2014, our key customers included several of the largest participants in the worldwide petroleum pressure pumping industry. Two of these customers accounted collectively for approximately 52% of our 2014 revenues. However, the end users of our products are numerous operators of natural gas and oil wells that hire pressure pumping service companies to hydraulically fracture wells. During 2014, a majority of our ceramic proppant sales were directed to a concentrated number of end users. We generally supply our domestic pumping service customers with products on a just-in-time basis, with transactions governed by individual purchase orders. Continuing sales of product depend on our direct customers and the end user well operators being satisfied with product quality, pricing, availability and delivery performance. While we believe our relations with our customers and our end users are satisfactory, a material decline in the level of sales to any one of our major customers or loss of a key end user due to unsatisfactory product performance, pricing, delivery delays or any other reason could have a material adverse effect on our results of operations and financial condition.

The operations of our customers, and thus the results of our operations, are subject to a number of operational risks, interruptions and seasonal trends.

As hydraulic fracturing jobs have increased in size and intensity, common issues such as weather, equipment delays or changes in the location and types of oil and natural gas plays can result in increased variability in proppant sales volumes. Our business operations and those of our customers involve a high degree of operational risk. Natural disasters, adverse weather conditions, collisions and operator error could cause personal injury or loss of life, severe damage to and destruction of property, equipment and the environment, and suspension of operations. Our customers perform work that is subject to unexpected or arbitrary interruption or termination. The occurrence of any of these events could result in work stoppage, loss of revenue, casualty loss, increased costs and significant liability to third parties. We have not historically considered seasonality to be a significant risk, but with the increase in resource plays in the northern and eastern United States as well as our operations in Marshfield, Wisconsin, our results of operations are exposed to seasonal variations and inclement weather. Operations in certain regions involve more seasonal risk in the winter months, and work is hindered during other inclement weather events. This variability makes it more difficult to predict sales and can result in greater fluctuations to our quarterly financial results. These quarterly fluctuations could result in operating results that are below the expectations of public market analysts and investors, and therefore may adversely affect the market price for our common stock.

The ability of our customers to complete work, as well as our ability to mine sand from cold climate areas, could be affected during the winter months. Our revenue and profitability could decrease during these periods and in other severe weather conditions because work is either prevented or more costly to complete. If a substantial amount of production is interrupted, our cash flow and, in turn, our results of operations could be materially and adversely affected.

We will require a significant amount of cash to meet our needs, which depends on many factors beyond our control.

Our primary source of liquidity is cash on hand, cash flow from operations and borrowing capacity under our revolving credit facility, subject to certain limitations contained in the agreement for that facility. Based on our current and anticipated levels of operations and conditions in our markets, we believe that cash on hand, cash flow from operations, borrowing capacity under our credit facility and cash flow from other liquidity-generating transactions will enable us to meet our working capital, capital expenditure, debt service and other funding requirements for at least the next twelve months. However, our ability to fund our working capital, capital expenditures, debt service and other obligations and to comply with the financial covenants under our credit facility depends on our future operating performance and cash from operations and other liquidity-generating transactions, which are in turn subject to prevailing oil and gas prices, economic conditions and other factors, many of which are beyond our control. If our future operating performance does not meet our expectation or our plans materially change in an adverse manner or prove to be materially inaccurate, we may need additional financing. Adverse securities and credit market conditions could significantly affect the availability of equity or debt financing. Future financing transactions may further increase interest expense, which could in turn reduce our financial flexibility and our ability to fund other activities and make us more vulnerable to changes in operating performance or economic downturns generally. There can be no assurance that additional financing, if permitted under the terms of our credit facility, will be available on terms acceptable to us or at all. The inability to generate sufficient cash or obtain additional financing could have a material adverse effect on our financial condition and on our ability to meet our obligations or pursue strategic initiatives.

A significant portion of our ceramic proppant is manufactured at one of our plants. All of our mined sand is processed at another plant. Any adverse developments at those plants could have a material adverse effect on our financial condition and results of operations.

Our Toombsboro, Georgia plant currently represents approximately 42% of our total annual capacity at our existing ceramic proppant manufacturing facilities. Our Marshfield, Wisconsin plant represents 100% of our

annual mined sand processing capacity. Any adverse developments at these plants, including a material disruption in production, an inability to supply the plant with raw materials at a competitive cost, or adverse developments due to catastrophic events, could have a material adverse effect on our financial condition and results of operations.

We provide environmental warranties on certain of our containment and spill prevention products.

Falcon Technologies' tank liners, secondary containments and related products and services are designed to contain or avoid spills of hydrocarbons and other materials. If a release of these materials occurs, it could be harmful to the environment. Although we attempt to negotiate appropriate limitations of liability in the applicable terms of sale, some customers have required expanded warranties, indemnifications or other terms that could hold Falcon Technologies responsible in the event of a spill or release under particular circumstances. If Falcon Technologies is held responsible for a spill or release of materials from one of its customer's facilities, it could have a material adverse effect on our results of operations and financial condition.

We rely upon intellectual property to protect our proprietary rights. Failure to protect our intellectual property rights may affect our competitive position, and protecting our rights or defending against third-party allegations of infringement may be costly.

The Company uses a significant amount of trade secrets, or "know-how," and other proprietary information and technology in the conduct of its business. In some cases, we rely on trade secrets, trademarks or contractual restrictions to protect intellectual property rights that are not patented. The steps we take to protect the non-patented intellectual property may not be sufficient to protect it and any loss or diminishment of such intellectual property rights could negatively impact our competitive advantage. Additionally, our competitors could independently develop the same or similar technologies that are only protected by trade secret and thus do not prevent third parties from competing with us. Furthermore, even protected intellectual property rights can be infringed upon by third parties. Monitoring unauthorized use of Company intellectual property can be difficult and expensive, and adequate remedies may not be available.

Although the Company does not believe that it is infringing upon the intellectual property rights of others by using such proprietary information and technology, it is possible that such a claim might be asserted against the Company in the future. In the event any third party makes a claim against us for infringement of patents or other intellectual property rights of a third party, such claims, with or without merit, could be time-consuming and result in costly litigation. In addition, the Company could experience loss or cancellation of customer orders, experience product shipment delays, or be subject to significant liabilities to third parties. If our products or services were found to infringe on a third party's proprietary rights, the Company could be required to enter into royalty or licensing agreements to continue selling its products or services. Royalty or licensing agreements, if required, may not be available on acceptable terms, if at all, which could seriously harm our business. Involvement in any patent dispute or other intellectual property dispute or action to protect trade secrets and expertise could have a material adverse effect on the Company's business.

Significant increases in fuel prices for any extended periods of time will increase our operating expenses.

The price and supply of natural gas are unpredictable, and can fluctuate significantly based on international, political and economic circumstances, as well as other events outside of our control, such as changes in supply and demand due to weather conditions, actions by OPEC and other oil and gas producers, regional production patterns and environmental concerns. Natural gas is a significant component of our direct manufacturing costs and price escalations will likely increase our operating expenses and can have a negative impact on income from operations and cash flows. We operate in a competitive marketplace and may not be able to pass through all of the increased costs that could result from an increase in the cost of natural gas.

Environmental compliance costs and liabilities could reduce our earnings and cash available for operations.

We are subject to increasingly stringent laws and regulations relating to environmental protection, including laws and regulations governing air emissions, water discharges and waste management. The technical requirements of complying with these environmental laws and regulations are becoming increasingly expensive and complex, and may affect the Company's ability to expand its operations. Our ability to continue the expansion of our manufacturing capacity to meet market demand is contingent upon obtaining required environmental permits and compliance with their terms, which continue to be more restrictive and require longer lead times to obtain in anticipation of any efforts to expand and increase capacity. We incur, and expect to continue to incur, capital and operating costs to comply with environmental laws and regulations.

In addition, we use some hazardous substances and generate certain industrial wastes in our operations. Many of our current and former properties are or have been used for industrial purposes. Accordingly, we could become subject to potentially material liabilities relating to the investigation and cleanup of contaminated properties, and to claims alleging personal injury or property damage as the result of exposures to, or releases of, hazardous substances. These laws also may provide for "strict liability" for damages to natural resources or threats to public health and safety. Strict liability can render a party liable for environmental damage without regard to negligence or fault on the part of the party. Some environmental laws provide for joint and several strict liability for remediation of spills and releases of hazardous substances.

Stricter enforcement of existing laws and regulations, new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could restrict our expansion efforts, require us to incur costs, or become the basis of new or increased liabilities. Any of these events could reduce our earnings and our cash available for operations.

Our international operations subject us to risks inherent in doing business on an international level that could adversely impact our results of operations.

International revenues accounted for approximately 24%, 21% and 23% of our total revenues in 2014, 2013 and 2012, respectively. We may not succeed in overcoming the risks that relate to or arise from operating in international markets. Risks inherent in doing business on an international level include, among others, the following:

- economic and political instability (including as a result of the threat or occurrence of armed international conflict or terrorist attacks);
- changes in regulatory requirements, tariffs, customs, duties and other trade barriers;
- transportation delays and costs;
- power supply shortages and shutdowns;
- difficulties in staffing and managing foreign operations and other labor problems;
- currency rate fluctuations, convertibility and repatriation;
- taxation of our earnings and the earnings of our personnel;
- potential expropriation of assets by foreign governments; and
- other risks relating to the administration of or changes in, or new interpretations of, the laws, regulations and policies of the jurisdictions in which we conduct our business.

In particular, we are subject to risks associated with our production facilities in Luoyang, China, and Kopeysk, Russia. For example, during 2014, we recognized an impairment in the value of our production facility in China. The legal systems in both China and Russia are still developing and are subject to change. Accordingly, our operations and orders for products in both countries could be adversely impacted by changes to or interpretation of each country's law. Moreover, during 2014, some parts of our Russian operations were impacted

by the imposition of trade sanctions enacted by the U.S. government in response to the ongoing conflict in The Ukraine. Further, if manufacturing in either region is disrupted, our overall capacity could be significantly reduced and sales and/or profitability could be negatively impacted.

Undetected defects in our fracture simulation software could adversely affect our business.

Despite extensive testing, our software could contain defects, bugs or performance problems. If any of these problems are not detected, the Company could be required to incur extensive development costs or costs related to product recalls or replacements. The existence of any defects, errors or failures in our software products may subject us to liability for damages, delay the development or release of new products and adversely affect market acceptance or perception of our software products or related services, any one of which could materially and adversely affect the Company's business, results of operations and financial condition.

The market price of our common stock will fluctuate, and could fluctuate significantly.

The market price of the Company's common stock will fluctuate, and could fluctuate significantly, in response to various factors and events, including the following:

- the liquidity of the market for our common stock;
- seasonal or quarterly sales fluctuations;
- differences between our actual financial or operating results and those expected by investors and analysts;
- changes in analysts' recommendations or projections;
- new statutes or regulations or changes in interpretations of existing statutes and regulations affecting our business;
- changes in general economic or market conditions; and
- broad market fluctuations.

Our actual results could differ materially from results anticipated in forward-looking statements we make.

Some of the statements included or incorporated by reference in this Form 10-K are forward-looking statements. These forward-looking statements include statements relating to trends in the natural gas and oil industries, the demand for ceramic proppant and our performance in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" sections of this Form 10-K. In addition, we have made and may continue to make forward-looking statements in other filings with the SEC, and in written material, press releases and oral statements issued by us or on our behalf. Forward-looking statements include statements regarding the intent, belief or current expectations of the Company or its officers. Our actual results could differ materially from those anticipated in these forward-looking statements. See "Business-Forward-Looking Information."

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

The Company maintains its corporate headquarters in leased office space in Houston, Texas and also leases space for its technology center in Houston. The Company owns its manufacturing facilities, land and substantially all of the related production equipment in New Iberia, Louisiana, Eufaula, Alabama, and Kopeysk, Russia and leases its McIntyre, Toombsboro, and Millen, Georgia, facilities. The Company owns the buildings and

production equipment at its facility in Luoyang, China, and has been granted use of the land on which the facility is located through 2051 under the terms of a land use agreement with the People's Republic of China.

The facilities in McIntyre and Toombsboro, Georgia, include real property, plant and equipment that are leased by the Company from the Development Authority of Wilkinson County. The original lease was executed in 1997 and was last amended in 2008. The term of the current lease, which covers both locations, terminates on November 1, 2017, subject to the Company's ability to renew the lease through November 2022. Under the terms of the lease, the Company is responsible for all costs incurred in connection with the premises, including costs of construction of the plant and equipment. At the termination of the lease, title to all of the real property, plant and equipment is to be conveyed to the Company in exchange for nominal consideration. The Company has the right to purchase the property, plant and equipment at any time during the term of the lease for a nominal price.

In November 2012, the Company entered into a lease for the land and improvements associated with the construction of a plant in Millen, Georgia. The lease term continues until the tenth anniversary of the completion of the last phase of the facility. Similar to lease terms of the two other Georgia facilities, the Millen lease requires the Company to be responsible for all costs (including construction costs) incurred in connection with the premises. Moreover, title to the real property, plant and equipment of the facility is to be conveyed to the Company at the end of the lease term for nominal consideration, and may be purchased by the Company at any time for a nominal price. The Company completed construction and commenced operations of the first 250 million pound ceramic production line in Millen during 2014. In addition, the Company began the construction on a second 250 million pound production line in Millen. However, due to current market conditions, the construction and completion of this second line has been temporarily suspended.

The Marshfield, Wisconsin sand processing plant, which became operational during 2012, is located on land owned by the Company. The Company made a decision that it will not move forward with construction of a resin coating plant in Marshfield, Wisconsin for which the Company had previously developed engineering plans and procured certain equipment that had long-lead delivery times.

The Company owns or otherwise utilizes distribution facilities in multiple locations around the world. See "Item 1. Business – Distribution."

The Company owns approximately 4,235 acres of land and leasehold interests near its plants in Georgia and Alabama. The land contains raw material for use in the production of the Company's lightweight ceramic proppants. The Company also holds approximately 490 acres of land and leasehold interests in Wisconsin near its resin-coating facility under construction in Marshfield, Wisconsin.

Falcon Technologies owns its service facility located in Decatur, Texas, and leases other regional service facilities within the United States.

Item 3. *Legal Proceedings*

From time to time, the Company is the subject of legal proceedings arising in the ordinary course of business. The Company does not believe that any of these proceedings will have a material adverse effect on its business or its results of operations.

Item 4. *Mine Safety Disclosure*

Several of our U.S. manufacturing facilities process mined minerals, and therefore are viewed as mine operations subject to regulation by the federal Mine Safety and Health Administration under the Federal Mine Safety and Health Act of 1977. Information concerning mine safety violations or other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the recently proposed Item 106 of Regulation S-K (17 CFR 229.106) is included in Exhibit 95 to this annual report.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Common Stock Market Prices, Dividends and Stock Repurchases

The Company's common stock is traded on the New York Stock Exchange (ticker symbol CRR). The number of record and beneficial holders of the Company's common stock as of February 1, 2015 was approximately 22,316.

The following table sets forth the high and low sales prices of the Company's common stock on the New York Stock Exchange and dividends for the last two fiscal years:

Quarter Ended	2014			2013		
	Sales Price		Cash Dividends Declared (1)	Sales Price		Cash Dividends Declared (2)
	High	Low		High	Low	
March 31	\$137.99	\$105.78	\$0.60	\$ 97.53	\$75.03	\$0.54
June 30	154.12	131.23	—	92.74	65.64	—
September 30	150.22	59.23	0.66	104.95	65.63	0.60
December 31	57.16	34.10	—	126.00	97.68	—

- (1) Represents quarters during which dividends were declared. The payment months for cash dividends were February 2014 (\$0.30), May 2014 (\$0.30), August 2014 (\$0.33) and November 2014 (\$0.33).
- (2) Represents quarters during which dividends were declared. The payment months for cash dividends were February 2013 (\$0.27), May 2013 (\$0.27), August 2013 (\$0.30) and November 2013 (\$0.30).

The Company currently expects to continue its policy of paying quarterly cash dividends, although there can be no assurance as to future dividends because they depend on future earnings, capital requirements and financial condition.

On August 28, 2008, the Company's Board of Directors authorized the repurchase of up to two million shares of the Company's common stock. Shares are effectively retired at the time of purchase. The Company completed the repurchase of all of the shares authorized by this plan by the end of the third quarter of 2014.

On January 28, 2015, the Company's Board of Directors authorized the repurchase of up to an additional two million shares of the Company's common stock. Shares are effectively retired at the time of purchase. As of February 17, 2015, the Company had not yet repurchased any shares under the plan.

The following table provides information about the Company's repurchases of common stock during the quarter ended December 31, 2014, all of which represent shares surrendered to the Company for tax withholding obligations upon the vesting of restricted stock:

ISSUER PURCHASES OF EQUITY SECURITIES

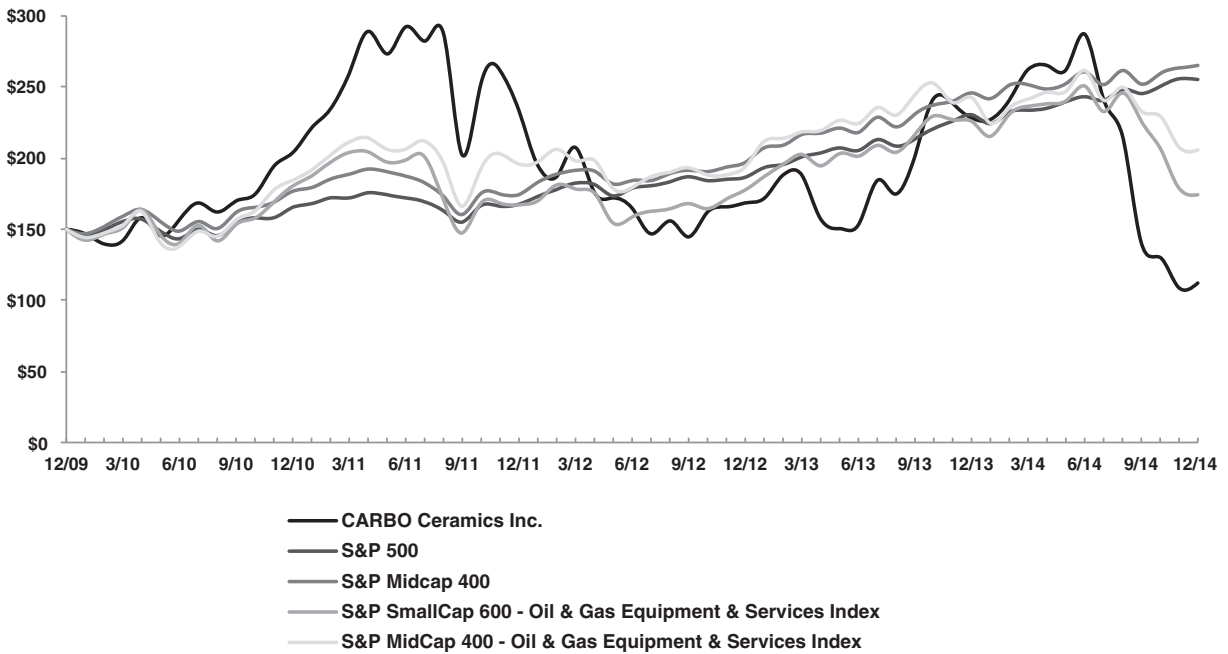
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum Number of Shares that May Yet be Purchased Under the Plan (2)
10/01/14 to 10/31/14	1,445(3)	\$57.11	—	0
11/01/14 to 11/30/14	91(3)	\$49.70	—	0
12/01/14 to 12/31/14	—	\$ —	—	0
Total	1,536(3)		—	

- (1) On August 28, 2008, the Company announced the authorization by its Board of Directors for the repurchase of up to two million shares of its Common Stock.
- (2) Represents the maximum number of shares that may be repurchased under the 2008 plan as of period end. As of February 17, 2015, a maximum of 2,000,000 shares may be repurchased under the 2015 plan.
- (3) Represents shares of stock withheld for the payment of withholding taxes upon the vesting of restricted stock.

Stock Performance Graph

The graph below compares the cumulative shareholder return on the Company’s common stock with the cumulative returns of the the S&P 500 index, the S&P Midcap 400 index, the S&P SmallCap 600 – Oil & Gas Equipment & Services index, and the S&P MidCap 400 – Oil & Gas Equipment & Services index. As of February 10, 2015, the Company has moved from being listed on the S&P MidCap 400 – Oil & Gas Equipment & Services Index to the S&P SmallCap 600 – Oil & Gas Equipment & Services Index. The graph tracks the performance of a \$100 investment in the Company’s common stock and in each of the indexes (with the reinvestment of all dividends) from December 31, 2009 to December 31, 2014.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
 Among CARBO Ceramics Inc., the S&P 500 Index, the S&P Midcap 400 Index,
 S&P SmallCap 600 - Oil & Gas Equipment & Services Index
 and S&P MidCap 400 – Oil & Gas Equipment & Services Index



*\$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.
 Fiscal year ending December 31.

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Item 6. Selected Financial Data

The following selected financial data are derived from the audited consolidated financial statements of the Company. The data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

	Years ended December 31,				
	2014	2013	2012	2011	2010
	(\$ in thousands, except per share data)				
Statement of Income Data:					
Revenues	\$648,325	\$667,398	\$645,536	\$625,705	\$473,082
Cost of sales	467,045	474,403	422,031	363,990	298,411
Gross profit	181,280	192,995	223,505	261,715	174,671
Selling, general, & administrative expenses	72,535	68,447	64,033	62,381	52,635
Other operating expenses (1)	15,890	(43)	586	1,732	2,426
Operating profit	92,855	124,591	158,886	197,602	119,610
Other income (expense), net	16	610	(296)	(152)	(261)
Income before income taxes	92,871	125,201	158,590	197,450	119,349
Income taxes	37,283	40,315	52,657	67,314	40,633
Net income	<u>\$ 55,588</u>	<u>\$ 84,886</u>	<u>\$105,933</u>	<u>\$130,136</u>	<u>\$ 78,716</u>
Earnings per share:					
Basic	<u>\$ 2.41</u>	<u>\$ 3.67</u>	<u>\$ 4.59</u>	<u>\$ 5.62</u>	<u>\$ 3.41</u>
Diluted	<u>\$ 2.41</u>	<u>\$ 3.67</u>	<u>\$ 4.59</u>	<u>\$ 5.62</u>	<u>\$ 3.40</u>

	December 31,				
	2014	2013	2012	2011	2010
	(\$ in thousands, except per share data)				
Balance Sheet Data:					
Current assets	\$337,611	\$371,382	\$349,917	\$302,565	\$237,655
Current liabilities	77,415	56,688	50,830	79,066	51,247
Property, plant and equipment, net	568,716	478,535	426,232	392,659	338,483
Total assets	934,226	878,951	808,878	740,865	599,571
Total shareholders' equity	776,057	768,587	713,078	630,158	521,979
Cash dividends per share	\$ 1.26	\$ 1.14	\$ 1.02	\$ 0.88	\$ 0.76

- (1) Other operating expenses include costs of start-up activities and gains/losses on disposal or impairment of assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Level Overview

CARBO Ceramics Inc. is an oilfield service technology company that generates revenue primarily through the sale of products and services to the oil and gas industry for production enhancement and environmental services.

Our production enhancement businesses promote increased E&P Operators' production and EUR by providing industry leading technology to *Design, Build, and Optimize the Frac™*. Our environmental services business is intended to protect E&P Operators' assets, minimizes environmental risk, and lowers operating costs (LOE).

The Company's principal business consists of manufacturing and selling proppant products for use primarily in the hydraulic fracturing of oil and natural gas wells. These proppant products include ceramic, resin-coated sand and raw sand. The Company, through its wholly-owned subsidiary StrataGen, Inc., also provides the industry's most widely used hydraulic fracture simulation software under the brand FracPro®, as well as hydraulic fracture design and consulting services under the brand StrataGen. Falcon Technologies, a wholly-owned subsidiary of the Company, uses proprietary technology to provide products that are designed to enable its clients to extend the life of their storage assets, reduce the potential for hydrocarbon spills and provide containment of stored materials.

The Company's products and services help oil and gas producers increase production and recovery rates from their wells, thereby lowering overall finding and development ("F&D") costs. As a result, the Company's business is dependent to a large extent on the level of drilling and hydraulic fracturing activity in the oil and gas industry worldwide. Although the Company's ceramic proppants are more expensive than alternative non-ceramic proppants, the Company has been able to demonstrate the cost-effectiveness of its products to numerous operators of oil and gas wells through increased technical marketing activity. The Company believes its future prospects benefit from both an increase in drilling and hydraulic fracturing activity worldwide and the desire of industry participants to improve production results and lower their overall development costs.

The Company believes international sales will continue to represent an important role in its business. International revenues represented 24%, 21% and 23% of total revenues in 2014, 2013 and 2012, respectively.

Management believes the addition of new manufacturing capacity is critical to the Company's ability to continue its long-term growth in sales volume and revenue for ceramic proppant and resin-coated ceramic proppant. The Company completed construction and commenced operations on the first 250 million pound line in Millen, Georgia during 2014. The Company also began construction on a second 250 million pound line in Millen during 2014. However, due to current market conditions, the construction and completion of this second line has been temporarily suspended. Once the second line at the Millen, Georgia facility is completed, the Company's ceramic manufacturing capacity will total 2.25 billion pounds per year. Although the Company has operated near or at full capacity at times during the previous ten years, the addition of significant new capacity, as well as the addition of resin-coating capacity, could adversely impact operating profit margins if the timing of this new capacity does not match increases in demand for the Company's products. In addition, the ability to construct new capacity will be contingent upon the receipt of all needed environmental emission permits. See "Item 1 – Business" and "Item 1A – Risk Factors".

Operating profit margin for the Company's ceramic proppant business is principally impacted by sales volume, product mix, sales price, distribution costs, manufacturing costs, including natural gas, and the Company's production levels as a percentage of its capacity. The level of selling, general and administrative spending, as well as other operating expenses, can also impact operating profit margins. In 2013 and 2014, operating profit margin was also impacted by spending to bring the Company's new KRYPTOSPHERE™ proppant technology to a commercial state. And, in 2014, the Company recognized asset impairment charges related to certain long-lived assets.

Although most direct manufacturing expenses have been relatively stable or predictable over time, the Company has experienced volatility in the cost of natural gas, which is used in production by the Company's domestic manufacturing facilities. The cost of natural gas has been a significant component of total monthly domestic direct production expense. In recent years, the price of natural gas has been low compared to historical prices, as well as fairly stable from period to period. However, in an effort to mitigate volatility in the cost of natural gas purchases and reduce exposure to short term spikes in the price of this commodity, the Company contracts in advance for portions of its future natural gas requirements. Despite the efforts to reduce exposure to changes in natural gas prices, it is possible that, given the significant portion of manufacturing costs represented by this item, gross margins as a percentage of sales may decline and changes in net income may not directly correlate to changes in revenue.

As a result of the decline in North American activity in natural gas basins experienced in 2012, the oil and natural gas industry experienced an increased amount of activity in infrastructure-limited, liquids-rich basins, which introduced supply chain challenges to the industry. These challenges resulted in higher supply chain costs for the Company. As a result, the Company has invested in strategic projects to enhance its distribution network in order to meet the present and future demands of its clients. The Company believes these investments should help address the quarterly fluctuations in industry activity and the increased amount of proppant being used per well. These enhancements are important as the tight supply of available trucks in certain areas can create additional challenges with transporting proppants to the well site throughout the industry.

In 2012, the Company expanded its resin coating operations and also began processing raw sand for use in resin coating operations. In 2013, the Company began selling raw frac sand. Resin coated sand and raw frac sand products sell at much lower prices and with lower gross profit margins than the Company's ceramic proppant. While gross profit is generally not meaningfully impacted by the sale of these products, given the current sales volumes, the Company's overall gross profit margin as a percent of revenues can be affected as can the overall average selling price of all proppants sold.

During the second half of 2013, the Company introduced KRYPTOSPHERE™ HD, a new ultra-high conductivity, ultra-high strength proppant. Product testing and qualifications with the Company's clients is ongoing, and the first KRYPTOSPHERE HD sale was made during the fourth quarter of 2014. The next phase of KRYPTOSPHERE™ product development will be to apply this technology to the Company's existing manufacturing footprint.

As the Company has expanded its operations in both domestic and international markets, there has been an increase in activities and expenses related to marketing, research and development, and finance and administration. As a result, selling, general and administrative expenses have increased in recent years. However, the Company intends to reduce its cost base to better match anticipated activity in 2015, including a reduction in SG&A costs from 2014 levels.

General Business Conditions

The Company's proppant business is impacted by the number of natural gas and oil wells drilled in North America, and the need to hydraulically fracture these wells. In markets outside North America, sales of the Company's products are also influenced by the overall level of drilling and hydraulic fracturing activity. Furthermore, because the decision to use ceramic proppant is based on comparing the higher initial costs to the future value derived from increased production and recovery rates, the Company's business is influenced by the current and expected prices of natural gas and oil.

During 2012, the Company experienced lower pricing for its proppant products due to market conditions resulting from a decline in North American activity in the natural gas industry caused by a drop in natural gas prices and an over-supply of imported ceramic proppant. The lingering effects of the conditions driving these pricing pressures have continued into 2014.

Late in 2014, a severe decline in oil prices led some customers to reduce drilling activities and capital spending. These low oil prices are expected to continue for the foreseeable future and will likely negatively impact both pricing and demand for ceramic proppants. Entering 2015, the Company has significantly lowered production output levels in order to match this lower level of demand.

Furthermore, conditions in the North American oil and natural gas market also negatively impacted the proppant market inside China. Proppant manufacturers in China experienced excess production capacity as a result of market conditions in North America. As a result, during the fourth quarter of 2014, the Company evaluated its China operation, concluded that its long-term assets inside China were not fully recoverable, and recorded an impairment charge of \$10.2 million. The Company also reduced the value of certain of its finished goods and raw materials in China down to lower market prices. The Company expects to idle its plant in China during the first quarter of 2015.

Critical Accounting Policies

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions (see Note 1 to the Consolidated Financial Statements). The Company believes that, of its significant accounting policies, the following may involve a higher degree of judgment and complexity.

Revenue is recognized when title passes to the customer (generally upon delivery of products) or at the time services are performed. The Company generates a significant portion of its revenues and corresponding accounts receivable from sales to the petroleum pressure pumping industry. In addition, the Company generates a significant portion of its revenues and corresponding accounts receivable from sales to two major customers, both of which are in the petroleum pressure pumping industry. As of December 31, 2014, approximately 40% of the balance in trade accounts receivable was attributable to those two customers. The Company records an allowance for doubtful accounts based on its assessment of collectability risk and periodically evaluates the allowance based on a review of trade accounts receivable. Trade accounts receivable are periodically reviewed for collectability based on customers' past credit history and current financial condition, and the allowance is adjusted, if necessary. If a prolonged economic downturn in the petroleum pressure pumping industry were to occur or, for some other reason, any of the Company's primary customers were to experience significant adverse conditions, the Company's estimates of the recoverability of accounts receivable could be reduced by a material amount and the allowance for doubtful accounts could be increased by a material amount. At December 31, 2014, the allowance for doubtful accounts totaled \$1.8 million.

The Company values inventory using the weighted average cost method. Assessing the ultimate realization of inventories requires judgments about future demand and market conditions. The Company regularly reviews inventories to determine if the carrying value of the inventory exceeds market value and the Company records an adjustment to reduce the carrying value to market value, as necessary. Future changes in demand and market conditions could cause the Company to be exposed to additional obsolescence or slow moving inventory. If actual market conditions are less favorable than those projected by management, lower of cost or market adjustments may be required.

Income taxes are provided for in accordance with ASC Topic 740, "*Income Taxes*". This standard takes into account the differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. This calculation requires the Company to make certain estimates about its future operations. Changes in state, federal and foreign tax laws, as well as changes in the Company's financial condition, could affect these estimates.

Long-lived assets, which include net property, plant and equipment, goodwill, intangibles and other long-term assets, comprise a significant amount of the Company's total assets. The Company makes judgments and estimates in conjunction with the carrying values of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, the carrying values of these assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the carrying amount is not recoverable. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. These forecasts require assumptions about demand for the Company's products and services, future market conditions and technological developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period.

Results of Operations

Net Income

<u>(\$ in thousands)</u>	<u>2014</u>	<u>Percent Change</u>	<u>2013</u>	<u>Percent Change</u>	<u>2012</u>
Net Income	\$55,588	(35)%	\$84,886	(20)%	\$105,933

For the year ended December 31, 2014, the Company reported net income of \$55.6 million, a decrease of 35% compared to the \$84.9 million reported in the previous year. Operations in 2014 continued to be impacted by the shift in drilling activity away from natural gas basins due to the severe decline in natural gas prices in late 2011. In late 2014, the industry experienced a severe decline in oil prices, which has caused drilling activity to be further reduced. In addition, operations were impacted by a growing number of E&P operators experimenting with the use of raw frac sand and delays in some well completions during the third and fourth quarters of 2014. While the Company achieved record sales volume of nearly 2.9 billion pounds, net income in 2014 decreased primarily as a result of lower ceramic proppant sales volumes, a \$15.1 million impairment of long-lived assets, \$5.4 million lower of cost or market adjustments to reduce China finished goods and raw materials carrying values to their lower market prices and higher SG&A expenses. Income tax expense in 2014 decreased primarily due to lower pretax income but was negatively impacted by valuation allowances recorded against certain deferred tax assets.

For the year ended December 31, 2013, the Company reported net income of \$84.9 million, a decrease of 20% compared to the \$105.9 million reported in the previous year. Operations in 2013 continued to be impacted by the shift in drilling activity away from natural gas basins due to the severe decline in natural gas prices in late 2011. While the Company achieved record sales volume of nearly 2.1 billion pounds, net income in 2013 decreased primarily as a result of a decrease in the average proppant selling price, spending to bring the Company's new KRYPTOSPHERE™ proppant technology to a commercial state and higher selling, general and administrative costs. Income tax expense in 2013 decreased primarily due to lower pretax income.

Individual components of financial results are discussed below.

Revenues

<u>(\$ in thousands)</u>	<u>2014</u>	<u>Percent Change</u>	<u>2013</u>	<u>Percent Change</u>	<u>2012</u>
Consolidated revenues	\$648,325	(3)%	\$667,398	3%	\$645,536

Revenues of \$648.3 million for the year ended December 31, 2014 decreased 3% compared to \$667.4 million in 2013. Revenues decreased primarily due to a 6% decrease in ceramic proppant sales volume, a 33% decrease in resin-coated sand sales volumes, and a decrease in Falcon revenues. These decreases were partially offset by an increase in Northern White Sand sales volumes.

Revenues of \$667.4 million for the year ended December 31, 2013 increased 3% compared to \$645.5 million in 2012. Revenues increased primarily due to a 20% increase in proppant sales volume, partially offset by

a 13% decrease in the average proppant selling price in response to market conditions during mid-2012 and higher volumes of sand-based products, which have a lower average selling price than ceramic proppants.

Worldwide proppant sales volumes were as follows.

Proppant Sales Volumes (in million pounds)	For the years ended December 31,		
	2014	2013	2012
Ceramic	1,618	1,718	1,649
Resin Coated Sand	162	241	57
Northern White Sand	1,131	101	6
Total	<u>2,911</u>	<u>2,060</u>	<u>1,712</u>

North American (defined as Canada and the U.S.) proppant sales volume increased 46% in 2014 compared to 2013 on higher sales of Northern White Sand. North American ceramic proppant sales volume decreased 10% in 2014 compared to 2013, partly as a result of some customers experimenting with more sand proppant and delays in some well completions during the third and fourth quarters of 2014, partly due to falling oil prices. International (excluding Canada) proppant sales volume increased 6% in 2014 compared to 2013 primarily due to increases in Mexico, partially offset by a decrease in China.

North American (defined as Canada and the U.S.) sales volume increased 29% in 2013 compared to 2012 due to continued success of the Company's products in oily, liquids-rich basins and despite a decrease in the North America rig count. International (excluding Canada) sales volume decreased 17% in 2013 compared to 2012 primarily due to decreases in China, Mexico, and Africa, partially offset by an increase in Europe.

Average selling prices per pound for proppants sold during 2014 were as follows: Ceramic \$0.33; Resin Coated Sand \$0.22; and Northern White Sand \$0.03. Primarily due to the change in product mix, the average selling price per pound of all proppant was \$0.21 during 2014 compared to \$0.30 during 2013 and \$0.34 in 2012. In addition to product mix, average selling prices can be impacted by sales prices, geographic areas of sale, customer requirements and delivery methods.

Gross Profit

(\$ in thousands)	2014	Percent Change	2013	Percent Change	2012
Consolidated gross profit	\$181,280	(6)%	\$192,995	(14)%	\$223,505
As a % of revenues	28%		29%		35%

The Company's cost of sales related to proppant manufacturing consists of manufacturing costs, packaging and transportation expenses associated with the delivery of the Company's products to its customers and handling costs related to maintaining finished goods inventory and operating the Company's remote stocking facilities. Variable manufacturing costs include raw materials, labor, utilities and repair and maintenance supplies. Fixed manufacturing costs include depreciation, property taxes on production facilities, insurance and factory overhead.

Gross profit for the year ended December 31, 2014 was \$181.3 million, or 28% of revenues, compared to \$193.0 million, or 29% of revenues, for 2013. The decrease in gross profit was primarily the result of lower ceramic proppant sales volumes and a decrease in Falcon gross profit, partially offset by a favorable change in ceramic sales mix to higher margin lightweight ceramic proppants and improved margins on sand proppants. In addition, due to increasing competition in the China proppant market, the Company recorded \$5.4 million lower of cost or market adjustments in 2014 to reduce finished goods and raw materials carrying values to their lower market prices.

Gross profit for the year ended December 31, 2013 was \$193.0 million, or 29% of revenues, compared to \$223.5 million, or 35% of revenues, for 2012. The decrease in gross profit was primarily the result of a decrease

in average selling price and spending to bring the Company's new proppant technology to a commercial state, partially offset by higher proppant sales volumes. The gross profit margin as a percentage of revenues also declined due to the change in the product sales mix resulting from volume gains of the Company's lower-priced and lower-margin sand-based products. The increase in sales volumes for Northern White Sand did not materially impact gross profit.

Selling, General & Administrative (SG&A) and Other Operating Expenses

<u>(\$ in thousands)</u>	<u>2014</u>	<u>Percent Change</u>	<u>2013</u>	<u>Percent Change</u>	<u>2012</u>
Consolidated SG&A and other	\$88,425	29%	\$68,404	6%	\$64,619
As a % of revenues	14%		10%		10%

Operating expenses consisted of \$72.5 million of SG&A expenses and \$15.9 million of other operating expenses for the year ended December 31, 2014 compared to \$68.4 million of SG&A expenses and \$43.0 thousand of other operating income for 2013. The increase in SG&A expenses primarily resulted from higher research and development spending, higher compensation costs, and increased marketing spending. Other operating expenses in 2014 consisted primarily of \$15.1 million of impairment charges associated with certain long-lived assets at the Company's manufacturing facility in China, as a result of deteriorating market conditions inside China, and its resin coating business, as a result of the Company's decision that it will not move forward with construction of a resin coating plant in Marshfield, Wisconsin for which the Company had previously developed engineering plans and procured certain equipment that had long-lead delivery times. The resin coating assets were classified as available for sale. Other operating expenses also included \$0.8 million of start-up costs related to the start-up of the new manufacturing facility in Millen, Georgia. Other operating expenses in 2013 consisted of asset disposals. As a percentage of revenues, SG&A and other operating expenses for 2014 increased to 14% in 2014 compared to 10% in 2013, primarily due to the impairment of assets.

Operating expenses consisted of \$68.4 million of SG&A expenses and \$43.0 thousand of other operating income for the year ended December 31, 2013 compared to \$64.0 million of SG&A expenses and \$0.6 million of other operating expenses for 2012. The increase in SG&A expenses primarily resulted from higher marketing and research and development spending. Other operating expenses in 2013 decreased \$0.5 million compared to 2012 due primarily to a loss on disposal of assets in 2012 related to the wind down of the geotechnical monitoring business. As a percentage of revenues, SG&A and other operating expenses for 2013 remained consistent to 2012.

Income Tax Expense

<u>(\$ in thousands)</u>	<u>2014</u>	<u>Percent Change</u>	<u>2013</u>	<u>Percent Change</u>	<u>2012</u>
Income Tax Expense	\$37,283	(8)%	\$40,315	(23)%	\$52,657
Effective Income Tax Rate	40.1%		32.2%		33.2%

Consolidated income tax expense was \$37.3 million, or 40.1% of pretax income, for the year ended December 31, 2014 compared to \$40.3 million, or 32.2% of pretax income for 2012. The \$3.0 million decrease is primarily due to lower pre-tax income partially offset by a higher effective tax rate. The higher effective tax rate is primarily associated with the Company recording a valuation allowance on foreign deferred tax assets for which recoverability was not certain.

Consolidated income tax expense was \$40.3 million, or 32.2% of pretax income, for the year ended December 31, 2013 compared to \$52.7 million, or 33.2% of pretax income for 2012. The \$12.3 million decrease is due to lower pre-tax income and a lower effective tax rate primarily associated with additional R&D tax credits and the final preparation and filing of the Company's prior year income tax returns.

Outlook

Given the cyclical nature of the industry, the Company believes that market conditions will continue to fluctuate, driven by several factors, including oil and natural gas commodity prices and quarterly seasonality trends. The 2014 ceramic proppant market was impacted by two main factors. First, a number of exploration and production (E&P) operators experimented with increased use of raw frac sand in place of ceramic proppant. Second, with an oversupplied ceramic proppant market, cheaper Chinese products of inferior quality remained a market force. These events drove both domestic and international competitors to reduce prices. As a result of these market conditions, our ceramic proppant sales volumes and revenues declined from the previous year. These conditions are expected to continue during 2015.

Industry activity late in 2014 was also influenced by the significantly depressed commodity price for oil. Entering 2015, E&P budget cuts have been significant. The duration and associated impact of a lower commodity price environment is difficult to determine. Managing through this environment will continue to be challenging.

Historically, depressed commodity prices such as those found in today's environment drive a focused effort to reduce cost, often at the sacrifice of production. While that driver may be out of the Company's control, the Company will continue to work closely with its clients to deliver technologies that increase net present value of their wells, and achieve the goal of reducing costs while optimizing production results. To that end, the Company has presented production-neutral frac designs to a number of clients. These frac designs substitute large amounts of sand volumes with smaller ceramic proppant volumes. Total oil and gas production from both completions are modeled to be the same, yet overall total completion costs are lower in the case of the ceramic proppant well. The Company believes this is an advantage for the E&P operator as it addresses their immediate concern of reducing costs while making the best wells possible.

The duration of this cycle is unknown today, and rig activity is declining rapidly. This introduces a lack of visibility into the Company's operations. The Company has seen a shift in E&P behavior resulting in lower demand for ceramic proppant. As a result, the company expects to see continued pricing pressure for ceramic proppant.

The Company currently anticipates that its capital expenditures in 2015 will be reduced to less than half of 2014 capital expenditures and will primarily focus on the retrofit of one of its plants with the new KRYPTOSPHERE proppant technology. As part of its capital expenditure reduction plan, the Company has deferred the completion of the second ceramic proppant manufacturing line at its Millen, Georgia facility.

The Company is reducing its cost base to better match anticipated activity in 2015.

The amount of activity in infrastructure-limited, liquids-rich basins introduced supply chain challenges to the industry and resulted in higher distribution costs during 2012 and the first part of 2013. The Company has continued addressing distribution costs with a number of initiatives. One initiative is rationalizing the Company's rail fleet to reduce reliance on the fleet as a form of storage. Other initiatives include increasing storage capacity at new and existing stocking locations and reducing transportation costs.

Commercialization of KRYPTOSPHERE™ HD, the Company's new ultra-high conductivity, ultra-high strength proppant technology, is progressing well. During the fourth quarter of 2014, KRYPTOSPHERE HD was successfully pumped in its first deep-water Gulf of Mexico well. The technology was employed in a completion by a multinational E&P company. The next phase in the Company's KRYPTOSPHERE™ product development will be to apply this technology to the Company's existing manufacturing footprint. The retrofit of an existing plant with this technology is underway. Once the retrofit is complete, KRYPTOSPHERE™ will expand the Company's technology position in the industry and further assist in increasing the production and EUR of its clients' oil and natural gas wells.

During 2014, sales for new products across the Company's proppant-delivered technology platforms grew. For example, in the United States and Canada, SCALEGUARD was pumped in numerous wells for multiple operators. This scale-inhibiting technology, which is released into the fracture only on contact with water, is on track to meet or exceed projected treatment life thereby reducing or eliminating expensive remedial maintenance programs.

Liquidity and Capital Resources

At December 31, 2014, the Company had cash and cash equivalents of \$24.3 million compared to cash and cash equivalents of \$94.3 million at December 31, 2013. During 2014, the Company generated \$105.8 million of cash from operating activities, \$25.0 million from bank borrowings, and retained \$0.4 million from excess tax benefits relating to stock based compensation. Uses of cash included \$161.5 million for capital expenditures, \$29.1 million for the payment of cash dividends, \$7.0 million for repurchases of the Company's common stock, and \$3.5 million for the effect of exchange rate changes on cash. Major capital spending in 2014 included engineering, procurement and construction activities related to the first two production lines at the new manufacturing facility in Millen, Georgia, retrofitting an existing plant with the new KRYPTOSPHERE proppant technology, expansion of the Company's distribution infrastructure, as well as upgrades and improvements at existing manufacturing facilities.

Subject to its financial condition, the amount of funds generated from operations and the level of capital expenditures, the Company's current intention is to continue to pay quarterly dividends to holders of its common stock. On January 20, 2015, the Company's Board of Directors approved the payment of a quarterly cash dividend of \$0.33 per share to shareholders of the Company's common stock on February 2, 2015. The dividend was paid on February 16, 2015. The Company estimates its total capital expenditures in 2015 will be between \$30.0 million and \$50.0 million, which primarily include costs associated with retrofitting an existing plant with the new KRYPTOSPHERE proppant technology. Due to current market conditions, the completion of the second line at the manufacturing facility in the Millen, Georgia area has been temporarily suspended.

The Company maintains an unsecured line of credit with a bank. On October 31, 2014, this line of credit was increased from \$50.0 million to \$100.0 million, and the expiration date of the facility was extended to October 31, 2019. As of December 31, 2014, the Company's outstanding debt under the credit agreement was \$25.0 million. As of February 26, 2015, the Company's outstanding debt under the agreement was \$35.0 million. The Company anticipates that cash on hand, cash provided by operating activities and funds provided by its line of credit will be sufficient to meet planned operating expenses, tax obligations, capital expenditures and other cash needs for the next 12 months. While the Company plans to make draws under its credit facility during 2015 for liquidity needs, the use of this line of credit is subject to compliance with the financial covenants in the underlying credit agreement, which depends on our future operating performance and cash flow. These factors are in turn subject to prevailing oil and gas prices, economic conditions and other factors, many of which are beyond our control. The Company also believes that it could acquire additional debt or equity financing, if needed.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as of December 31, 2014.

Contractual Obligations

The following table summarizes the Company's contractual obligations as of December 31, 2014:

(\$ in thousands)	Payments due in period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations	\$ —	\$ —	\$ —	\$ —	\$ —
Capital lease obligations	—	—	—	—	—
Operating lease obligations:					
—Primarily railroad equipment (net of subleases) . . .	140,565	17,682	39,080	29,937	53,866
Purchase obligations:					
—Natural gas contracts	68,657	25,119	33,615	9,923	—
—Raw materials contracts	—	—	—	—	—
Other long-term obligations	—	—	—	—	—
Total contractual obligations	<u>\$209,222</u>	<u>\$42,801</u>	<u>\$72,695</u>	<u>\$39,860</u>	<u>\$53,866</u>

See Note 4 and Note 13 to the Notes to the Consolidated Financial Statements.

Operating lease obligations relate primarily to railroad equipment leases and include leases of other property, plant and equipment.

The Company uses natural gas to power its domestic manufacturing plants. From time to time, the Company enters into contracts to purchase a portion of the anticipated natural gas requirements at specified prices. As of December 31, 2014, the last such contract was due to expire in December 2018.

The Company has entered into contracts to supply raw materials, primarily kaolin, bauxite and hydro sized sand, to each of its manufacturing plants. Each of the contracts is described in Note 13 to the Notes to the Consolidated Financial Statements. Three outstanding contracts do not require the Company to purchase minimum annual quantities, but do require the purchase of minimum annual percentages, ranging from 50% to 80% of the respective plants' requirements for the specified raw materials. One outstanding contract, which required the Company to purchase a minimum annual quantity of material, has no further minimum requirements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's major market risk exposure is to foreign currency fluctuations that could impact its investments in China and Russia. As of December 31, 2014, the Company's net investment that is subject to foreign currency fluctuations totaled \$45.8 million, and the Company has recorded a cumulative foreign currency translation loss of \$23.0 million. This cumulative translation loss is included in Accumulated Other Comprehensive Loss. From time to time, the Company may enter into forward foreign exchange contracts to hedge the impact of foreign currency fluctuations. There were no such foreign exchange contracts outstanding at December 31, 2014. During 2014, the value of the Russian Ruble significantly declined relative to the U.S. dollar for which the financial impact on the Company's net assets in Russia is included in Other Comprehensive Income and the cumulative foreign currency translation loss noted above. No income tax benefits have been recorded on these losses as a result of the uncertainty about recoverability of the related deferred income tax benefits.

The Company has a \$100.0 million revolving credit agreement with a bank. Under the terms of the agreement, the Company has the option of choosing either the bank's fluctuating Base Rate or LIBOR Fixed Rate, plus an Applicable Margin, all as defined in the credit agreement. The Company's outstanding debt under the credit agreement was \$25.0 million at December 31, 2014. The Company does not believe that it has any material exposure to market risk associated with interest rates.

The Company is subject to the risk of market price fluctuations of certain commodities, such as natural gas, and utilizes forward purchase contracts to manage or reduce market risks relating to these costs. The Company does not enter into these transactions for speculative or trading purposes. The Company expects to take delivery of the underlying natural gas and, as such, does not currently believe the market risk exposure on these instruments to be material. As of December 31, 2014, \$68.7 million of natural gas forward contracts were outstanding for delivery of gas through 2018.

Item 8. *Financial Statements and Supplementary Data*

The information required by this Item is contained in pages F-3 through F-23 of this Report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As of December 31, 2014, management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurances of achieving their control objectives. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control Over Financial Reporting

For Management's Report on Internal Control Over Financial Reporting, see page F-1 of this Report.

(c) Report of Independent Registered Public Accounting Firm

For the Report of Independent Registered Public Accounting Firm on the Company's internal control over financial reporting, see page F-2 of this Report.

(d) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2014, that materially affected, or are reasonably likely to materially affect, those controls.

Item 9B. *Other Information*

Not applicable.

PART III

Certain information required by Part III is omitted from this Report. The Company will file a definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference. Such incorporation does not include the Compensation Committee Report included in the Proxy Statement.

Item 10. *Directors, Executive Officers and Corporate Governance*

Information concerning executive officers under Item 401 of Regulation S-K is set forth in Part I of this Form 10-K. The other information required by this Item is incorporated by reference to the portions of the Company's Proxy Statement entitled "Security Ownership of Certain Beneficial Owners and Management," "Election of Directors," "Board of Directors, Committees of the Board of Directors and Meeting Attendance," "Code of Business Conduct and Ethics," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Report of the Audit Committee."

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to the portions of the Company's Proxy Statement entitled "Compensation of Executive Officers," "Director Compensation" and "Potential Termination and Change in Control Payments."

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is incorporated by reference from the Company's Proxy Statement under the captions "Securities Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to the portion of the Company's Proxy Statement entitled "Election of Directors."

Item 14. *Principal Accounting Fees and Services*

The information required by this Item is incorporated by reference to the portion of the Company's Proxy Statement entitled "Ratification of Appointment of the Company's Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Exhibits, Financial Statements and Financial Statement Schedules:

1. Consolidated Financial Statements

The Consolidated Financial Statements of CARBO Ceramics Inc. listed below are contained in pages F-3 through F-23 of this Report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2014 and 2013

Consolidated Statements of Income for each of the three years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Shareholders' Equity for each of the three years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2014, 2013 and 2012

2. Consolidated Financial Statement Schedules

All schedules have been omitted since they are either not required or not applicable.

3. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of, or incorporated by reference into, this Report.

SIGNATURES

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

CARBO Ceramics Inc.

By: _____ /s/ Gary A Kolstad
Gary A. Kolstad
President and Chief Executive Officer

By: _____ /s/ Ernesto Bautista III
Ernesto Bautista III
Vice President and Chief Financial Officer

Dated: February 26, 2015

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gary A. Kolstad and Ernesto Bautista III, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William C. Morris</u> William C. Morris	Chairman of the Board	February 26, 2015
<u>/s/ Gary A. Kolstad</u> Gary A. Kolstad	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2015
<u>/s/ Ernesto Bautista III</u> Ernesto Bautista III	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2015
<u>/s/ Sigmund L. Cornelius</u> Sigmund L. Cornelius	Director	February 26, 2015
<u>/s/ Chad C. Deaton</u> Chad C. Deaton	Director	February 26, 2015
<u>/s/ James B. Jennings</u> James B. Jennings	Director	February 26, 2015
<u>/s/ H.E. Lentz, Jr.</u> H.E. Lentz, Jr.	Director	February 26, 2015
<u>/s/ Randy L. Limbacher</u> Randy L. Limbacher	Director	February 26, 2015
<u>/s/ Robert S. Rubin</u> Robert S. Rubin	Director	February 26, 2015

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (1992). Based on its assessment and those criteria, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting. That report is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
CARBO Ceramics Inc.

We have audited CARBO Ceramics Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). CARBO Ceramics Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CARBO Ceramics Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CARBO Ceramics Inc. as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014, and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana
February 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
CARBO Ceramics Inc.

We have audited the accompanying consolidated balance sheets of CARBO Ceramics Inc. as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARBO Ceramics Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CARBO Ceramics Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana
February 26, 2015

CARBO CERAMICS INC.
CONSOLIDATED BALANCE SHEETS
(\$ in thousands, except per share data)

	December 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,298	\$ 94,250
Trade accounts and other receivables, net	132,573	125,179
Inventories:		
Finished goods	106,941	87,218
Raw materials and supplies	37,502	47,042
Total inventories	144,443	134,260
Prepaid expenses and other current assets	5,241	5,442
Prepaid income taxes	19,708	1,888
Deferred income taxes	11,348	10,363
Total current assets	337,611	371,382
Property, plant and equipment:		
Land and land improvements	40,921	31,163
Land-use and mineral rights	19,877	12,751
Buildings	74,911	72,702
Machinery and equipment	627,517	535,529
Construction in progress	109,378	109,735
Total	872,604	761,880
Less accumulated depreciation and amortization	303,888	283,345
Net property, plant and equipment	568,716	478,535
Goodwill	12,164	12,164
Intangible and other assets, net	15,735	16,870
Total assets	\$934,226	\$878,951
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank borrowings	\$ 25,000	\$ —
Accounts payable	22,922	24,570
Accrued payroll and benefits	12,466	13,650
Accrued freight	5,925	6,873
Accrued utilities	3,714	3,577
Other accrued expenses	7,388	8,018
Total current liabilities	77,415	56,688
Deferred income taxes	80,754	53,676
Shareholders' equity:		
Preferred stock, par value \$0.01 per share, 5,000 shares authorized, none outstanding	—	—
Common stock, par value \$0.01 per share, 80,000,000 shares authorized; 23,092,674 and 23,080,632 shares issued and outstanding at December 31, 2014 and 2013, respectively	231	231
Additional paid-in capital	59,297	56,782
Retained earnings	739,498	714,835
Accumulated other comprehensive loss	(22,969)	(3,261)
Total shareholders' equity	776,057	768,587
Total liabilities and shareholders' equity	\$934,226	\$878,951

See accompanying notes to consolidated financial statements.

CARBO CERAMICS INC.

CONSOLIDATED STATEMENTS OF INCOME
(\$ in thousands, except per share data)

	Years ended December 31,		
	2014	2013	2012
Revenues	\$648,325	\$667,398	\$645,536
Cost of sales	467,045	474,403	422,031
Gross profit	181,280	192,995	223,505
Selling, general and administrative expenses	72,535	68,447	64,033
Start-up costs	811	—	68
Loss (gain) on disposal or impairment of assets	15,079	(43)	518
Operating profit	92,855	124,591	158,886
Other income (expense):			
Interest income, net	597	777	64
Foreign currency exchange loss, net	(303)	(17)	(76)
Other, net	(278)	(150)	(284)
	16	610	(296)
Income before income taxes	92,871	125,201	158,590
Income taxes	37,283	40,315	52,657
Net income	\$ 55,588	\$ 84,886	\$105,933
Earnings per share:			
Basic	\$ 2.41	\$ 3.67	\$ 4.59
Diluted	\$ 2.41	\$ 3.67	\$ 4.59

See accompanying notes to consolidated financial statements.

CARBO CERAMICS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(\$ in thousands)

	Years ended December 31,		
	2014	2013	2012
Net income	\$ 55,588	\$84,886	\$105,933
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(17,952)	(2,031)	2,960
Deferred income tax (expense) benefit	(1,756)	710	(1,035)
Other comprehensive (loss) income, net of tax	(19,708)	(1,321)	1,925
Comprehensive income	\$ 35,880	\$83,565	\$107,858

See accompanying notes to consolidated financial statements.

CARBO CERAMICS INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(\$ in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2012	231	56,539	577,253	(3,865)	630,158
Net income	—	—	105,933	—	105,933
Foreign currency translation adjustment, net of tax expense of \$1,035	—	—	—	1,925	1,925
Comprehensive income	—	—	—	—	107,858
Exercise of stock options	—	54	—	—	54
Tax benefit from stock based compensation	—	1,388	—	—	1,388
Stock granted under restricted stock plan, net	1	206	—	—	207
Stock based compensation	—	4,903	—	—	4,903
Shares repurchased and retired	(1)	(5,726)	—	—	(5,727)
Shares surrendered by employees to pay taxes	—	—	(2,200)	—	(2,200)
Cash dividends (\$1.02 per share)	—	—	(23,563)	—	(23,563)
Balances at December 31, 2012	231	57,364	657,423	(1,940)	713,078
Net income	—	—	84,886	—	84,886
Foreign currency translation adjustment, net of tax benefit of (\$710)	—	—	—	(1,321)	(1,321)
Comprehensive income	—	—	—	—	83,565
Tax expense from stock based compensation	—	(205)	—	—	(205)
Stock granted under restricted stock plan, net	1	209	—	—	210
Stock based compensation	—	5,247	—	—	5,247
Shares repurchased and retired	(1)	(5,833)	—	—	(5,834)
Shares surrendered by employees to pay taxes	—	—	(1,124)	—	(1,124)
Cash dividends (\$1.14 per share)	—	—	(26,350)	—	(26,350)
Balances at December 31, 2013	231	56,782	714,835	(3,261)	768,587
Net income	—	—	55,588	—	55,588
Foreign currency translation adjustment, net of tax expense of \$1,756	—	—	—	(19,708)	(19,708)
Comprehensive income	—	—	—	—	35,880
Tax benefit from stock based compensation	—	303	—	—	303
Stock granted under restricted stock plan, net	1	699	—	—	700
Stock based compensation	—	6,688	—	—	6,688
Shares repurchased and retired	(1)	(5,175)	—	—	(5,176)
Shares surrendered by employees to pay taxes	—	—	(1,804)	—	(1,804)
Cash dividends (\$1.26 per share)	—	—	(29,121)	—	(29,121)
Balances at December 31, 2014	<u>\$231</u>	<u>\$59,297</u>	<u>\$739,498</u>	<u>\$(22,969)</u>	<u>\$776,057</u>

See accompanying notes to consolidated financial statements.

CARBO CERAMICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in thousands)

	Years ended December 31,		
	2014	2013	2012
Operating activities			
Net income	\$ 55,588	\$ 84,886	\$105,933
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	50,860	47,472	44,893
Provision for doubtful accounts	546	354	19
Deferred income taxes	24,389	10,121	11,212
Excess tax benefits from stock based compensation	(372)	(134)	(1,384)
Lower of cost or market inventory adjustment	5,363	—	—
Loss (gain) on disposal or impairment of assets	15,079	(43)	518
Foreign currency transaction loss, net	303	17	76
Stock compensation expense	7,529	5,837	5,335
Changes in operating assets and liabilities:			
Trade accounts and other receivables	(9,511)	(22,024)	8,945
Inventories	(25,624)	6,068	(7,589)
Prepaid expenses and other current assets	(112)	(1,136)	(150)
Long-term prepaid expenses	(122)	2,969	12,005
Accounts payable	2,079	4,330	(18,201)
Accrued expenses	(2,487)	1,677	(10,628)
Accrued income taxes, net	(17,726)	(2,823)	5,397
Net cash provided by operating activities	105,782	137,571	156,381
Investing activities			
Capital expenditures	(161,469)	(99,936)	(77,189)
Net cash used in investing activities	(161,469)	(99,936)	(77,189)
Financing activities			
Proceeds from bank borrowings	25,000	—	10,000
Repayments on bank borrowings	—	—	(10,000)
Net proceeds from stock based compensation	—	—	54
Dividends paid	(29,121)	(26,350)	(23,563)
Purchase of common stock	(6,979)	(6,958)	(7,927)
Excess tax benefits from stock based compensation	372	134	1,384
Net cash used in financing activities	(10,728)	(33,174)	(30,052)
Effect of exchange rate changes on cash	(3,537)	(846)	225
Net (decrease) increase in cash and cash equivalents	(69,952)	3,615	49,365
Cash and cash equivalents at beginning of year	94,250	90,635	41,270
Cash and cash equivalents at end of year	\$ 24,298	\$ 94,250	\$ 90,635
Supplemental cash flow information			
Interest paid	\$ 135	\$ 10	\$ 78
Income taxes paid	\$ 30,619	\$ 33,015	\$ 36,036

See accompanying notes to consolidated financial statements.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands, except per share data)

1. Significant Accounting Policies

Description of Business

CARBO Ceramics Inc. (the “Company”) was formed in 1987 and is a manufacturer of ceramic proppants and also produces resin-coated ceramic and resin-coated sand proppants. The Company has seven production plants in: New Iberia, Louisiana; Eufaula, Alabama; McIntyre, Georgia; Toombsboro, Georgia; Millen, Georgia; Luoyang, China; and Kopeysk, Russia; and a sand processing facility in Marshfield, Wisconsin. The Company predominantly markets its proppant products through pumping service companies that perform hydraulic fracturing for oil and gas companies. Finished goods inventories are stored at the plant sites and various domestic and international remote distribution facilities. The Company also provides the industry’s most widely used hydraulic fracture simulation software FracPro®, as well as hydraulic fracture design and consulting services. In addition, the Company provides a broad range of technologies for spill prevention, containment and countermeasures. The Company wound-down its geotechnical monitoring business in late 2012.

Principles of Consolidation

The consolidated financial statements include the accounts of CARBO Ceramics Inc. and its operating subsidiaries. All significant intercompany transactions have been eliminated.

Concentration of Credit Risk, Accounts Receivable and Other Receivables

The Company performs periodic credit evaluations of its customers’ financial condition and generally does not require collateral. Receivables are generally due within 30 days. The majority of the Company’s receivables are from customers in the petroleum pressure pumping industry. The Company establishes an allowance for doubtful accounts based on its assessment of collectability risk and periodically evaluates the balance in the allowance based on a review of trade accounts receivable. Trade accounts receivable are periodically reviewed for collectability based on customers’ past credit history and current financial condition, and the allowance is adjusted if necessary. Credit losses historically have been insignificant. The allowance for doubtful accounts at December 31, 2014 and 2013 was \$1,842 and \$2,083, respectively. Other receivables were \$1,084 and \$2,781 as of December 31, 2014 and 2013, respectively, of which related mainly to miscellaneous receivables in the United States and China.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amounts reported in the balance sheet for cash equivalents approximate fair value.

Inventories

Inventories are stated at the lower of cost (weighted average) or market. Finished goods inventories include costs of materials, plant labor and overhead incurred in the production of the Company’s products and costs to transfer finished goods to distribution centers.

Due to increasing competition in the China proppant market, the Company evaluated the carrying values of its inventories in China and concluded that current market prices were below carrying costs. Consequently, the Company recognized \$5,363 lower of cost or market adjustments in 2014 in cost of sales to adjust finished goods and raw materials carrying values to the lower market prices.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Repair and maintenance costs are expensed as incurred. Depreciation is computed on the straight-line method for financial reporting purposes using the following estimated useful lives:

Buildings and improvements	15 to 30 years
Machinery and equipment	3 to 30 years
Land-use rights	30 years

The Company holds approximately 4,235 acres of land and leasehold interests containing kaolin reserves near its plants in Georgia and Alabama. The Company also holds approximately 490 acres of land and leasehold interests near its resin-coating facility currently under construction in Marshfield, Wisconsin containing sand reserves for use as raw material in the production of its resin-coated sand products. The capitalized costs of land and mineral rights as well as costs incurred to develop such property are amortized using the units-of-production method based on estimated total tons of these reserves.

Impairment of Long-Lived Assets and Intangible Assets

Long-lived assets to be held and used and intangible assets that are subject to amortization are reviewed for impairment whenever events or circumstances indicate their carrying amounts might not be recoverable. Recoverability is assessed by comparing the undiscounted expected future cash flows from the assets with their carrying amount. If the carrying amount exceeds the sum of the undiscounted future cash flows an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Intangible assets that are not subject to amortization are tested for impairment at least annually by comparing their fair value with the carrying amount and recording an impairment loss for any excess of carrying amount over fair value. Fair values are generally determined based on discounted expected future cash flows or appraised values, as appropriate.

During 2014, the Company recorded losses totaling \$15,079 on disposal or impairment of certain long-lived assets as market conditions changed with regard to demand for certain products offered by the Company. The Company evaluated its operations and reviewed the carrying values of related long-lived assets and concluded that certain assets had been impacted by the change in market conditions. As a result of deteriorating market conditions in China during the fourth quarter of 2014, the Company recorded an impairment charge of its long-lived assets in China. In addition, the Company made a decision that it will not move forward with construction of a resin coating plant in Marshfield, Wisconsin for which the Company had previously developed engineering plans and procured certain equipment that had long-lead delivery times. The related resin coating assets were classified as held for sale, and the Company recorded an impairment of those assets. As such, the Company recognized impairment charges totaling \$15,120 to adjust the carrying values to the fair values less cost to sell, totaling \$2,138, at December 31, 2014. During 2013, the Company recognized a gain of \$43, and in 2012, the Company recognized a loss of \$518 on disposal or impairment of various assets. The gain in 2013 consisted primarily of equipment disposals. The loss in 2012 consisted primarily of the wind down of the geotechnical monitoring business.

U.S. GAAP establishes a fair value hierarchy that has three levels based on the reliability of the inputs used to determine the fair value. These levels include: Level 1, defined as inputs such as unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (\$ in thousands, except per share data)

little or no market data exists, therefore requiring an entity to develop its own assumptions. The carrying value of related long-lived assets were adjusted to fair value less cost to sell based on estimates for similar used equipment, which are Level 3 inputs.

Capitalized Software

The Company capitalizes certain software costs, after technological feasibility has been established, which are amortized utilizing the straight-line method over the economic lives of the related products, generally not to exceed five years.

Goodwill

Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at the date of acquisition. Goodwill relating to each of the Company's reporting units is tested for impairment annually as well as when an event, or change in circumstances, indicates an impairment is more likely than not to have occurred. The latest impairment review indicated goodwill was not impaired.

Revenue Recognition

Revenue from proppant sales is recognized when title passes to the customer, generally upon delivery. Revenue from consulting and geotechnical services is recognized at the time service is performed. Revenue from the sale of fracture simulation software is recognized when title passes to the customer at time of shipment. Revenue from the sale of spill prevention services is recognized at the time service is performed. Revenue from the sale of containment goods is recognized at the time goods are delivered.

Shipping and Handling Costs

Shipping and handling costs are classified as cost of sales. Shipping costs consist of transportation costs to deliver products to customers. Handling costs include labor and overhead to maintain finished goods inventory and operate distribution facilities.

Cost of Start-Up Activities

Start-up activities, including organization costs, are expensed as incurred. Start-up costs for 2014 related to the start-up of the new manufacturing facility in Millen, Georgia. There were no start-up costs during 2013. Start-up costs for 2012 primarily related to the start-up of the second resin-coating line at the Company's New Iberia, Louisiana facility.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Research and Development Costs

Research and development costs are charged to operations when incurred and are included in Selling, General and Administrative expenses. The amounts incurred in 2014, 2013 and 2012 were \$10,855, \$8,416 and \$6,916, respectively.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (\$ in thousands, except per share data)

Foreign Subsidiaries

Financial statements of the Company's foreign subsidiaries are translated using current exchange rates for assets and liabilities; average exchange rates for the period for revenues, expenses, gains and losses; and historical exchange rates for equity accounts. Resulting translation adjustments are included in, and the only component of, Accumulated Other Comprehensive Loss as a separate component of shareholders' equity.

New Accounting Pronouncements

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items," ("ASU 2015-01") which eliminates the concept of extraordinary items from U.S. GAAP. ASU 2015-01 will be effective for the interim and annual periods beginning after December 15, 2015 with early adoption permitted. The adoption of ASU 2015-01 is not expected to have a material impact on the Company's consolidated financial position, results of operations, cash flows, or related footnote disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "*Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*," ("ASU 2014-15") which provides guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 will be effective for the interim and annual periods beginning after December 15, 2016 with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material impact on the Company's consolidated financial position, results of operations, cash flows, or related footnote disclosures.

In June 2014, the FASB issued ASU No. 2014-12, "*Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*," ("ASU 2014-12") which amends current guidance for stock compensation tied to performance targets. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. ASU 2014-12 will be effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," ("ASU 2014-09") which amends current revenue guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the interim and annual periods beginning after December 15, 2016 with no early adoption permitted. The Company is currently evaluating the potential impact, if any, of adopting this new guidance on the consolidated financial statements and related disclosures.

In April 2014, the FASB issued ASU No. 2014-08, "*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*," ("ASU 2014-08") which amends the reporting requirements of discontinued operations. The main provisions of the guidance require that a disposal of a component of an entity is required to

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on an entity's operations and financial results. ASU 2014-08 will be effective for the interim and annual periods beginning after December 15, 2014 with early adoption permitted. The Company is currently evaluating the potential impact, if any, of adopting this new guidance on the consolidated financial statements and related disclosures.

2. Intangible and Other Assets

Following is a summary of intangible assets as of December 31:

	Weighted Average Life	2014		2013	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangibles:					
Patents and licenses, software and hardware designs	6 years	\$ 4,222	\$2,171	\$ 3,620	\$1,461
Developed technology	10 years	2,782	1,461	2,782	1,182
Customer relationships and non-compete	9 years	2,838	1,753	2,838	1,428
Trademark	Indefinite	833	—	833	—
		<u>\$10,675</u>	<u>\$5,385</u>	<u>\$10,073</u>	<u>\$4,071</u>

Amortization expense for 2014, 2013 and 2012 was \$1,313, \$1,173 and \$1,224, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2019 is \$1,238, \$700, \$638, \$565 and \$279, respectively.

Following is a summary of other assets as of December 31:

	2014	2013
Other assets:		
Bauxite raw materials:		
Inventories	\$ 9,404	\$ 9,949
Prepayments	—	474
Other assets	<u>1,041</u>	<u>445</u>
	<u>\$10,445</u>	<u>\$10,868</u>

Bauxite raw materials are used in the production of heavyweight ceramic products. As of December 31, 2014 and 2013, the Company has classified as long-term assets those bauxite raw materials inventories that are not expected to be consumed in production during the upcoming twelve month period.

3. Bank Borrowings

The Company has an unsecured revolving credit agreement with a bank. On March 5, 2012, the Company entered into a first amendment to this credit agreement to (i) extend its maturity date from January 29, 2013 to July 29, 2013, (ii) increase the size from \$10,000 to \$25,000, and (iii) make other administrative changes to certain covenants and provisions. On July 25, 2013, the Company entered into a second amendment to this credit agreement to (i) extend its maturity date to July 25, 2018, (ii) increase the size of the revolving credit facility to

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

\$50,000, and (iii) make other administrative changes to certain covenants and provisions. On October 31, 2014 the Company entered into a third amendment to this credit agreement that (i) extended the maturity date of the credit agreement from July 25, 2018 to October 31, 2019 and (ii) increased the size of the revolving credit facility from \$50,000 to \$100,000.

The Company has the option of choosing either the bank’s fluctuating Base Rate or LIBOR Fixed Rate, plus an Applicable Margin, all as defined in the credit agreement. The terms of the credit agreement provide for certain affirmative and negative covenants and require the Company to maintain certain financial ratios. Commitment fees are payable quarterly at an annual rate between 0.375% and 0.50% of the unused line of credit. Commitment fees for 2014, 2013 and 2012 were \$207, \$154 and \$107, respectively.

As of December 31, 2014, the Company’s outstanding debt under the credit agreement was \$25,000 and the weighted average interest rate was 2.625% based on LIBOR-based rate borrowings. The company did not have any outstanding debt under the credit agreement as of December 31, 2013.

4. Leases

The Company leases certain property, plant and equipment under operating leases, primarily consisting of railroad equipment leases. Net minimum future rental payments due under non-cancelable operating leases with remaining terms in excess of one year as of December 31, 2014 are as follows:

2015	\$ 17,682
2016	20,369
2017	18,711
2018	16,370
2019	13,567
Thereafter	<u>53,866</u>
Total	<u>\$140,565</u>

Leases of railroad equipment generally provide for renewal options at their fair rental value at the time of renewal. In the normal course of business, operating leases for railroad equipment are generally renewed or replaced by other leases. For the years ended December 31, 2015 and 2016, minimum future rental payments in the table above are presented net of sublease income related to subleases of railroad equipment of \$4,007 and \$2,242, respectively. Rent expense for all operating leases was \$24,116 in 2014, \$22,542 in 2013 and \$21,452 in 2012. For the years ended December 31, 2014 and 2013, rent expense is stated net of sublease income of \$1,816 and \$208, respectively.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

5. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31 are as follows:

	2014	2013
Deferred tax assets:		
Employee benefits	\$ 1,440	\$ 1,757
Inventories	6,966	5,923
Goodwill	874	1,358
Other	2,942	4,438
Foreign losses	4,300	—
Foreign tax assets valuation allowance	(4,300)	—
Total deferred tax assets	12,222	13,476
Deferred tax liabilities:		
Depreciation	81,628	54,973
Foreign earnings	—	1,816
Total deferred tax liabilities	81,628	56,789
Net deferred tax liabilities	\$69,406	\$43,313

Foreign earnings in the table above are presented net of foreign tax credits of \$0 and \$5,019 as of December 31, 2014 and 2013, respectively, which are expected to be utilized upon repatriation of the foreign earnings. Benefits from foreign tax credits were not recognized in 2014 due to the uncertainty of the Company being able to realize the foreign tax assets associated with foreign investments.

Significant components of the provision for income taxes for the years ended December 31 are as follows:

	2014	2013	2012
Current:			
Federal	\$11,310	\$27,188	\$37,596
State	500	2,164	2,268
Foreign	1,084	842	1,581
Total current	12,894	30,194	41,445
Deferred	24,389	10,121	11,212
	\$37,283	\$40,315	\$52,657

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

The reconciliation of income taxes computed at the U.S. statutory tax rate to the Company's income tax expense for the years ended December 31 is as follows:

	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. statutory rate	\$32,505	35.0%	\$43,820	35.0%	\$55,507	35.0%
State income taxes, net of federal tax benefit	1,882	2.0	2,097	1.7	2,199	1.4
Mining depletion	(3,035)	(3.3)	(2,751)	(2.2)	(2,606)	(1.6)
Foreign tax assets valuation allowance	4,300	4.6	—	—	—	—
Non-recognized benefit on foreign investments	2,980	3.2	—	—	—	—
Section 199 Manufacturing Benefit and other	(1,349)	(1.4)	(2,851)	(2.3)	(2,443)	(1.6)
	\$37,283	40.1%	\$40,315	32.2%	\$52,657	33.2%

Provision has been made for deferred U.S. income taxes on all foreign earnings based on the Company's intent to repatriate foreign earnings. The Company did not recognize benefits on foreign investments of \$2,980 and recorded a \$4,300 valuation allowance during the fourth quarter of 2014 due to the uncertainty of the Company being able to realize the foreign tax assets in light of current market conditions in China.

The Company elected to claim bonus tax depreciation totaling \$61,781 on assets placed in service in the United States during 2014. This election reduced current taxable income, which reduced current income tax expense, increased deferred income tax expense, and reduced the Section 199 Manufacturing Benefit. The Company did not claim bonus depreciation on assets placed in service during 2013 or 2012.

The Company had a recorded reserve of \$153 associated with uncertain tax positions as of December 31, 2014 and there were no significant changes to the recorded reserve during 2014. If these uncertain tax positions are recognized, substantially all of this amount would impact the effective tax rate. Related accrued interest and penalties are recorded in income tax expense and are not material.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates, the most significant of which are U.S. federal and certain state jurisdictions. The 2011 and subsequent tax years are still subject to examination. Various U.S. state jurisdiction tax years remain open to examination as well though the Company believes assessments, if any, would be immaterial to its consolidated financial statements.

6. Shareholders' Equity

Common Stock

Holders of Common Stock are entitled to one vote per share on all matters to be voted on by shareholders and do not have cumulative voting rights. Subject to preferences of any Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available for that purpose. In the event of liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of any Preferred Stock then outstanding. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and non-assessable.

On January 20, 2015, the Board of Directors declared a cash dividend of \$0.33 per share. The dividend was paid on February 16, 2015 to shareholders of record on February 2, 2015.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (\$ in thousands, except per share data)

Preferred Stock

The Company's charter authorizes 5,000 shares of Preferred Stock. The Board of Directors has the authority to issue Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the Company's shareholders. In connection with adoption of a shareholder rights plan on February 13, 2002, the Company created the Series A Preferred Stock and authorized 2,000 shares of the Series A Preferred Stock. This shareholder rights plan expired in February 2012.

Common Stock Repurchase Program

On August 28, 2008, the Company's Board of Directors authorized the repurchase of up to two million shares of the Company's Common Stock. Shares are effectively retired at the time of purchase. During the years ended December 31, 2014, 2013 and 2012, the Company repurchased and retired 47,424, 75,000 and 60,000 shares respectively, at an aggregate price of \$5,175, \$5,833 and \$5,727, respectively. As of December 31, 2014, the Company has repurchased and retired 2,000,000 shares at an aggregate price of \$89,309.

7. Stock Based Compensation

On May 20, 2014, the shareholders approved the 2014 CARBO Ceramics Inc. Omnibus Incentive Plan (the "2014 Omnibus Incentive Plan"). The 2014 Omnibus Incentive Plan replaces the expired 2009 Omnibus Incentive Plan. Under the 2014 Omnibus Incentive Plan, the Company may grant cash-based awards, stock options (both non-qualified and incentive) and other equity-based awards (including stock appreciation rights, phantom stock, restricted stock, restricted stock units, performance shares, deferred share units or share-denominated performance units) to employees and non-employee directors. The amount paid under the 2014 Omnibus Incentive Plan to any single participant in any calendar year with respect to any cash-based award shall not exceed \$5,000. Awards may be granted with respect to a number of shares of the Company's Common Stock that in the aggregate does not exceed 750,000 shares prior to the fifth anniversary of its effective date, plus (i) the number of shares that are forfeited, cancelled or returned, and (ii) the number of shares that are withheld from the participants to satisfy an option exercise price or minimum statutory tax withholding obligations. No more than 50,000 shares may be granted to any single participant in any calendar year. Equity-based awards may be subject to performance-based and/or service-based conditions. With respect to stock options and stock appreciation rights granted, the exercise price shall not be less than the market value of the underlying Common Stock on the date of grant. The maximum term of an option is ten years. Restricted stock awards granted generally vest (i.e., transfer and forfeiture restrictions on these shares are lifted) proportionately on each of the first three anniversaries of the grant date, but subject to certain limitations, awards may specify other vesting periods. As of December 31, 2014, 742,534 shares were available for issuance under the 2014 Omnibus Incentive Plan. Although the Company's 2009 Omnibus Incentive Plan has expired, unvested shares granted under that plan remain outstanding in accordance with its terms.

As of December 31, 2012, all compensation cost related to stock options granted under the expired stock option plan has been recognized. During 2012, a total of 2,425 options, with a weighted-average exercise price of \$22.35 per share, were exercised. There were no options outstanding at December 31, 2012 and thereafter. The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was none, none, and \$118, respectively.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

A summary of restricted stock activity and related information for the year ended December 31, 2014 is presented below:

	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested at January 1, 2014	136,195	\$ 90.50
Granted	76,085	\$111.99
Vested	(59,533)	\$ 94.70
Forfeited	(5,258)	\$100.95
Nonvested at December 31, 2014	147,489	\$ 99.51

As of December 31, 2014, there was \$7,499 of total unrecognized compensation cost, net of estimated forfeitures, related to restricted shares granted under the Omnibus Incentive Plans. That cost is expected to be recognized over a weighted-average period of 1.6 years. The weighted-average grant date fair value of restricted stock granted during the years ended December 31, 2014, 2013 and 2012 was \$111.99, \$82.18 and \$105.22, respectively. The total fair value of shares vested during the years ended December 31, 2014, 2013 and 2012 was \$5,638, \$4,995 and \$4,696, respectively.

The Company also made phantom stock awards to key international employees pursuant to the expired 2009 Omnibus Incentive Plan prior to its expiration. The units subject to an award vest and cease to be forfeitable in equal annual installments over a three-year period. Participants awarded units of phantom stock are entitled to a lump sum cash payment equal to the fair market value of a share of Common Stock on the vesting date. In no event will Common Stock of the Company be issued with regard to outstanding phantom stock awards. As of December 31, 2014, there were 18,180 units of phantom stock granted under the expired 2009 Omnibus Incentive Plan, of which 9,397 have vested and 1,570 have been forfeited, with a total value of \$289, a portion of which is accrued as a liability within Accrued Payroll and Benefits.

8. Earnings Per Share

ASC Topic 260, “*Earnings Per Share*”, provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company’s outstanding non-vested restricted stock awards are participating securities. Accordingly, earnings per common share are computed using the two-class method.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

The following table sets forth the computation of basic and diluted earnings per share under the two-class method:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Numerator for basic and diluted earnings per share:			
Net income	\$ 55,588	\$ 84,886	\$ 105,933
Effect of reallocating undistributed earnings of participating securities	(376)	(530)	(553)
Net income available under the two-class method	<u>\$ 55,212</u>	<u>\$ 84,356</u>	<u>\$ 105,380</u>
Denominator:			
Denominator for basic earnings per share—weighted-average shares	22,946,395	22,957,013	22,968,696
Effect of dilutive potential common shares	—	—	625
Denominator for diluted earnings per share—adjusted weighted—average shares	<u>22,946,395</u>	<u>22,957,013</u>	<u>22,969,321</u>
Basic earnings per share	<u>\$ 2.41</u>	<u>\$ 3.67</u>	<u>\$ 4.59</u>
Diluted earnings per share	<u>\$ 2.41</u>	<u>\$ 3.67</u>	<u>\$ 4.59</u>

9. Quarterly Operating Results – (Unaudited)

Quarterly results for the years ended December 31, 2014 and 2013 were as follows:

	<u>Three Months Ended</u>			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
2014				
Revenues	\$148,564	\$176,561	\$155,402	\$167,798
Gross profit	44,364	53,648	42,150	41,118
Net income	18,427	23,017	13,744	399
Earnings per share:				
Basic	\$ 0.80	\$ 1.00	\$ 0.60	\$ 0.02
Diluted	\$ 0.80	\$ 1.00	\$ 0.60	\$ 0.02
2013				
Revenues	\$147,657	\$153,744	\$201,477	\$164,520
Gross profit	42,384	39,333	62,759	48,519
Net income	17,577	16,307	30,148	20,854
Earnings per share:				
Basic	\$ 0.76	\$ 0.71	\$ 1.31	\$ 0.90
Diluted	\$ 0.76	\$ 0.71	\$ 1.31	\$ 0.90

Quarterly data may not sum to full year data reported in the Consolidated Financial Statements due to rounding.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

10. Sales to Customers

The following schedule presents customers from whom the Company derived 10% or more of total revenues for the years ended December 31:

	<u>Major Customers</u>	
	<u>A</u>	<u>B</u>
2014	22.4%	29.9%
2013	13.1%	34.7%
2012	13.7%	35.2%

11. Geographic Information

Long-lived assets, consisting of net property, plant and equipment and other long-term assets, as of December 31 in the United States and other countries are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Long-lived assets:			
United States	\$561,109	\$454,031	\$403,534
International (primarily China and Russia)	18,052	35,372	36,535
Total	<u>\$579,161</u>	<u>\$489,403</u>	<u>\$440,069</u>

During 2014, the Company recorded an impairment of most of the long-lived assets in China. Consequently, the above international assets in 2014 are primarily associated with Russia.

Revenues outside the United States accounted for 24%, 21% and 23% of the Company's revenues for 2014, 2013 and 2012, respectively. Revenues for the years ended December 31 in the United States, Canada and other countries are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
United States	\$491,004	\$529,603	\$500,106
Canada	73,092	43,329	30,929
Other international	84,229	94,466	114,501
Total	<u>\$648,325</u>	<u>\$667,398</u>	<u>\$645,536</u>

12. Benefit Plans

The Company has defined contribution savings and profit sharing plans pursuant to Section 401(k) of the Internal Revenue Code. Benefit costs recognized as expense under these plans consisted of the following for the years ended December 31:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contributions:			
Profit sharing	\$2,337	\$2,126	\$2,132
Savings	1,849	1,609	1,241
	<u>\$4,186</u>	<u>\$3,735</u>	<u>\$3,373</u>

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (\$ in thousands, except per share data)

All contributions to the plans are 100% participant directed. Participants are allowed to invest up to 20% of contributions in the Company's Common Stock.

13. Commitments

In January 2011, the Company entered into an agreement with one of the Company's existing suppliers to purchase from the supplier at least 70 percent of the annual kaolin requirements for the Eufaula plant at specified contract prices. The term of the agreement was three years, with options to extend for an additional six years. In May 2012, the agreement was amended to require the Company to purchase from the supplier at least 50 percent of the annual kaolin requirements for the Eufaula, Alabama plant at specified contract prices for the remainder of 2012 and the ensuing five calendar years. The agreement has options to extend the term for an additional three years. For the years ended December 31, 2014, 2013 and 2012, the Company purchased from the supplier \$2,263, \$3,788 and \$3,012, respectively, of kaolin under the agreement.

In January 2003, the Company entered into a mining agreement with a contractor to provide kaolin for the Company's McIntyre plant at specified contract prices, from lands owned or leased by either the Company or the contractor. The term of the agreement, which commenced on January 1, 2003, and remains in effect until such time as all Company-owned minerals have been depleted, requires the Company to accept delivery from the contractor of at least 80 percent of the McIntyre plant's annual kaolin requirements. In 2006, the Company's plant in Toombsboro, Georgia commenced operations and became part of this agreement. For the years ended December 31, 2014, 2013 and 2012, the Company purchased \$14,823, \$13,091 and \$12,919, respectively, of kaolin under the agreement.

In July 2011, the Company entered into a new agreement with a supplier to provide hydro sized sand for the Company's Marshfield, Wisconsin plant at a specified contract price. The term of the agreement was five years commencing on July 30, 2011 and required the Company to purchase a minimum of 40,000 tons and 100,000 tons of hydro sized sand during 2011 and 2012, respectively. Effective January 30, 2012, the agreement was amended and requires the Company to purchase a minimum of 150,000 tons of hydro sized sand annually during 2012 and 2013 and a minimum of 350,000 tons of hydro sized sand in 2014, all at a stated contract price. For the years ended December 31, 2014, 2013 and 2012, the Company purchased \$6,922, \$3,546 and \$2,538, respectively, of sand under this agreement.

In May 2012, the Company entered into a new supply agreement to provide kaolin for the Company's manufacturing plant in Millen, Georgia at specified contract prices, from lands owned or leased by either the Company or the contractor. The term of the agreement, which commenced in July 2014, has an initial term of five years with options to extend for an additional five years and requires the Company to accept delivery from the contractor of at least 50 percent of the Millen plant's annual kaolin requirements. For the year ended December 31, 2014, the Company purchased \$1,465 of kaolin under this agreement.

The Company has entered into a lease agreement dated November 1, 2008 with the Development Authority of Wilkinson County (the "Wilkinson County Development Authority") and a lease agreement dated November 1, 2012 with the Development Authority of Jenkins County (the "Jenkins County Development Authority" and together with the Wilkinson County Development Authority, the "Development Authorities") each in the State of Georgia. Pursuant to the 2008 agreement, the Wilkinson County Development Authority holds the title to the real and personal property of the Company's McIntyre and Toombsboro manufacturing facilities and leases the facilities to the Company for an annual rental fee of \$50 per year through the year 2022. Pursuant to the 2012 agreement, the Jenkins County Development Authority holds title to the real estate and

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (\$ in thousands, except per share data)

personal property of the Company's Millen, Georgia manufacturing facility, a portion of which is currently under construction, and leases the facility to the Company until the tenth anniversary of completion of the final phase of the facility. At any time prior to the scheduled termination of either lease, the Company has the option to terminate the lease and purchase the property for a nominal fee plus the payment of any rent payable through the balance of the lease term. Furthermore, the Company has security interests in the titles held by the Development Authorities. The Company has also entered into a Memorandum of Understanding (the "MOU") with the Development Authorities and other local agencies, under which the Company receives tax incentives in exchange for its commitment to invest in the county and increase employment. The MOU with the Jenkins County Development Authority also requires the Company to pay an administrative payment of \$50 per year during the term of the Millen lease. The Company is required to achieve certain employment levels in order to retain its tax incentives. In the event the Company does not meet the agreed-upon employment targets or the MOU is otherwise terminated, the Company would be subjected to additional property taxes annually. The properties subject to these lease agreements are included in Property, Plant and Equipment (net book value of \$367,053 at December 31, 2014) in the accompanying consolidated financial statements.

The Company uses natural gas to power its domestic manufacturing plants. From time to time the Company enters into contracts to purchase a portion of the anticipated natural gas requirements at specified prices. As of December 31, 2014, the Company had natural gas contracts totaling \$25,119, \$20,142, \$13,473 and \$9,923 for years ended 2015, 2016, 2017 and 2018, respectively.

14. Employment Agreements

The Company has an employment agreement through December 31, 2015 with its President and Chief Executive Officer. The agreement provides for an annual base salary and incentive bonus. If the President and Chief Executive Officer is terminated early without cause, the Company will be obligated to pay two years base salary and a prorated incentive bonus. Under the agreement, the timing of the payment of severance obligations to the President in the event of the termination of his employment under certain circumstances has been conformed so that a portion of such obligations will be payable in a lump sum, with the remainder of the obligations to be paid over an 18 month period. The agreement also contains a two-year non-competition covenant that would become effective upon termination for any reason. The employment agreement extends automatically for successive one-year periods without prior written notice.

15. Foreign Currencies

As of December 31, 2014, the Company's net investment that is subject to foreign currency fluctuations totaled \$45,829, and the Company has recorded a cumulative foreign currency translation loss of \$22,969. This cumulative translation loss is included in and is the only component of Accumulated Other Comprehensive Loss. There were no amounts reclassified to net income during the year ended December 31, 2014. During 2014, the value of the Russian Ruble significantly declined relative to the U.S. dollar for which the financial impact on the Company's net assets in Russia is included in Other Comprehensive Income and the cumulative foreign currency translation loss noted above. No income tax benefits have been recorded on these losses as a result of the uncertainty about recoverability of the related deferred income tax benefits.

16. Legal Proceedings and Regulatory Matters

The Company is subject to legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

CARBO CERAMICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(\$ in thousands, except per share data)

17. Subsequent Events

In January 2015, the Company awarded 204,395 shares of restricted stock to certain employees. The fair value of the stock award on the date of grant totaled \$6,906, which will be recognized as expense, net of estimated forfeitures, on a straight-line basis over the three-year vesting period.

In January 2015, the Company awarded 5,020 units of phantom shares to certain key international employees. The fair value of the stock award on the date of grant totaled \$169.

In January 2015, the Company's Board of Directors authorized the repurchase of up to two million shares of the Company's Common Stock. As of February 17, 2015, the Company had not yet repurchased any shares under this plan.

Subsequent to December 31, 2014, the Company drew down \$10,000 on its existing revolving credit facility to support various commitments. As of February 26, 2015, the balance outstanding on the Company's revolving credit facility was \$35,000.

Given current business conditions, the Company expects to idle its plant in China during the first quarter of 2015.

BOARD OF DIRECTORS

William C. Morris

Chairman of the Board, CARBO Ceramics Inc.
Chairman of the Board – Clysar, LLC and
Gulf Coast Supply & Manufacturing, LLC

Sigmund L. Cornelius

President & COO, Freeport LNG, L.P.

Chad Deaton

Retired Chairman & Chief Executive Officer,
Baker Hughes Incorporated

James B. Jennings

Former Senior Advisor,
Brown Brothers Harriman & Co.
Former Chairman, Hunt Oil Company

Gary A. Kolstad

President and Chief Executive Officer,
CARBO Ceramics Inc.

H. E. Lentz, Jr.

Former Managing Director,
Lazard Frères & Co.

Randy L. Limbacher

President, Chief Executive Officer and Director
Samson Resources Corporation

Robert S. Rubin

Former Senior Vice President,
JPMorgan Chase & Co.

CORPORATE OFFICERS

Gary A. Kolstad

President and Chief Executive Officer

Ernesto Bautista, III

Vice President and Chief Financial Officer

Don P. Conkle

Vice President, Marketing and Sales

Roger Riffey

Vice President, Manufacturing

Ellen M. Smith

Vice President, Human Resources

R. Sean Elliott

Vice President and General Counsel

Chad D. Cannan

Vice President, Research and Development

CORPORATE OFFICES

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Suite 300
Houston, Texas 77079
281-921-6400

STOCK EXCHANGE LISTING

The New York Stock Exchange
Symbol: CRR

TRANSFER AGENT AND REGISTRAR

Computershare
P.O. Box 30170
College Station, Texas 77842-3170
866-683-2970

INDEPENDENT AUDITORS

Ernst & Young LLP
New Orleans, Louisiana

FORM 10-K

A copy of the Company's Annual Report to the
Securities and Exchange Commission (Form 10-K)
is available free of charge by contacting:

Ernesto Bautista, III
Chief Financial Officer
CARBO Ceramics Inc.
575 N. Dairy Ashford
Suite 300
Houston, Texas 77079

CERTIFICATIONS

The certifications required by Section 302 of the
Sarbanes-Oxley Act of 2002 were filed as exhibits to
the Form 10-K. In addition, we have submitted to the
New York Stock Exchange the annual certification of
our Chief Executive Officer regarding the Company's
compliance with the NYSE corporate governance
listing standards.

INVESTOR RELATIONS

Additional corporate information is available from
our website at www.carboceramics.com or by
e-mailing the Company at IR@carboceramics.com.

Mission Statement – Profitable Growth for CARBO and Clients

Production Enhancement:

Our Production Enhancement
businesses increase E&P Operators'
Production and **EUR** by providing
industry-leading technology to
Design, Build, and Optimize the Frac.

Environmental Services:

Our Environmental Services business
protects E&P Operators' assets,
minimizes environmental risk, and
lowers lease operating expenses (LOE).

Core Values

We achieve our mission within the framework established by our core values.

- **HSE:** We are committed to a Safe and Healthy workplace and protection of the Environment.
- **Ethics:** We conduct our business with the highest ethical standards. We are truthful and honor our commitments and responsibilities.
- **Respect:** We foster a supportive environment by treating each other with mutual respect and understanding.
- **Goals:** We set aggressive goals and strive to exceed them.
- **Results:** We value and celebrate a high level of individual achievement and team performance.
- **Profitable Growth:** We encourage innovation and continuous improvement to ensure future profitable business growth.

CARBO[®]

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