US CONCRETE INC
Form 10-Q
August 06, 2015

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2015

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________.

Commission File Number: 001-34530
U.S. CONCRETE, INC.
(Exact name of registrant as specified in its charter)

Delaware	76-0586680
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

331 N. Main Street, Euless, Texas 76039
(Address of principal executive offices, including zip code)
(817) 835-4105
(Registrant's telephone number, including area code)

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 þ 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 þ No ¨

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

Indicate by check mark whether the registrant has filed all documents required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes þ No ¨

There were 14,582,073 shares of common stock, par value $.001 per share, of the registrant outstanding as of August 4, 2015.

U.S. CONCRETE, INC.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$15,026	$30,202
Trade accounts receivable, net of allowances of $5,360 and $3,726 as of June 30, 2015 and December 31, 2014, respectively	163,662	114,902
Inventories	36,037	31,722
Deferred income taxes	4,172	1,887
Prepaid expenses	5,297	3,965
Other receivables	4,421	6,519
Assets held for sale	—	3,779
Other current assets	1,742	301
Total current assets	230,357	193,277
Property, plant and equipment, net of accumulated depreciation, depletion, and amortization of $87,200 and $72,962 as of June 30, 2015 and December 31, 2014, respectively	206,548	176,524
Goodwill	111,925	50,757
Intangible assets, net	42,672	31,720
Other assets	8,241	8,250
Total assets	$599,743	$460,528
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$83,055	$48,705
Accrued liabilities	56,853	50,391
Current maturities of long-term debt	7,976	5,104
Derivative liabilities	44,737	25,246
Liabilities held for sale	—	902
Total current liabilities	192,621	130,348
Long-term debt, net of current maturities	272,558	215,333
Other long-term obligations and deferred credits	9,028	6,940
Deferred income taxes	9,149	6,427
Total liabilities	483,356	359,048
Commitments and contingencies (Note 15)		
Equity:		
Preferred stock	—	—
Common stock	15	15
Additional paid-in capital	174,558	156,745
Accumulated deficit	(43,524)	(42,743)
Treasury stock, at cost	(14,662)	(12,537)
Total stockholders’ equity	116,387	101,480
Total liabilities and equity	$599,743	$460,528

The accompanying notes are an integral part of these condensed consolidated financial statements.

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U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$244,695	$180,358	$416,033	$326,615
Cost of goods sold before depreciation, depletion and amortization	192,296	145,324	332,082	269,849
Selling, general and administrative expenses	22,234	14,388	40,298	28,031
Depreciation, depletion and amortization	10,567	5,484	18,846	10,382
Gain on revaluation of contingent consideration	(664)	—	(664)	—
Loss (gain) on sale of assets	25	46	(38)	(303)
Income from operations	20,237	15,116	25,509	18,656
Interest expense, net	(5,367)	(5,055)	(10,520)	(10,065)
Derivative loss	(8,048)	(1,748)	(19,547)	(2,371)
Other income, net	692	537	1,291	1,026
Income (loss) from continuing operations before income taxes	7,514	8,850	(3,267)	7,246
Income tax (benefit) expense	(2,709)	730	(2,783)	752
Income (loss) from continuing operations	10,223	8,120	(484)	6,494
(Loss) income from discontinued operations, net of taxes	(520)	(259)	(297)	214
Net income (loss)	$9,703	$7,861	$(781)	$6,708
Basic income (loss) per share:				
Income (loss) from continuing operations	$0.73	$0.60	$(0.04)	$0.48
(Loss) income from discontinued operations, net of taxes	(0.04)	(0.02)	(0.02)	0.01
Net income (loss) per share – basic	$0.69	$0.58	$(0.06)	$0.49
Diluted income (loss) per share:				
Income (loss) from continuing operations	$0.67	$0.59	$(0.04)	$0.47
(Loss) income from discontinued operations, net of taxes	(0.03)	(0.02)	(0.02)	0.01
Net income (loss) per share – diluted	$0.64	$0.57	$(0.06)	$0.48
Weighted average shares outstanding:				
Basic	14,049	13,557	13,806	13,562
Diluted	15,218	13,872	13,806	13,874

The accompanying notes are an integral part of these condensed consolidated financial statements.

U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(in thousands)

	Common Stock					
	# of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Equity
BALANCE, December 31, 2013	14,036	$14	$152,695	$(63,325)	$(5,657)	$83,727
Stock-based compensation expense	—	—	1,550	—	—	1,550
Restricted stock vesting	15	—	—	—	—	—
Restricted stock grants	142	1	—	—	—	1
Stock options exercised	23	—	335	—	—	335
Warrants exercised	1	—	11	—	—	11
Share repurchase program	(200)	—	—	—	(4,824)	(4,824)
Other treasury shares purchases	(32)	—	—	—	(735)	(735)
Net income	—	—	—	6,708	—	6,708
BALANCE, June 30, 2014	13,985	$15	$154,591	$(56,617)	$(11,216)	$86,773
BALANCE, December 31, 2014	13,978	$15	$156,745	$(42,743)	$(12,537)	$101,480
Stock-based compensation expense	—	—	2,546	—	—	2,546
Restricted stock vesting	10	—	—	—	—	—
Restricted stock grants	208	—	—	—	—	—
Stock options exercised	1	—	11	—	—	11
Warrants exercised	5	—	168	—	—	168
Other treasury share purchases	(62)	—	—	—	(2,125)	(2,125)
Common stock issuance	442	—	15,088	—	—	15,088
Net loss	—	—	—	(781)	—	(781)
BALANCE, June 30, 2015	14,582	$15	$174,558	$(43,524)	$(14,662)	$116,387

The accompanying notes are an integral part of these condensed consolidated financial statements.

U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(781)	$6,708
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	18,846	10,382
Debt issuance cost amortization	874	819
Amortization of discount on long-term incentive plan and other accrued interest	175	202
Net loss on derivative	19,547	2,371
Net gain on revaluation of contingent consideration	(664)	—
Net loss (gain) on sale of assets	54	(943)
Deferred income taxes	(3,598)	674
Provision for doubtful accounts and customer disputes	2,761	179
Stock-based compensation	2,546	1,550
Changes in assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	(28,479)	(21,075)
Inventories	(1,799)	(844)
Prepaid expenses and other current assets	591	(690)
Other assets and liabilities	23	(297)
Accounts payable and accrued liabilities	25,300	7,268
Net cash provided by operating activities	35,396	6,304
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(7,424)	(19,894)
Payments for acquisitions, net of cash acquired	(86,214)	(4,363)
Proceeds from disposals of property, plant and equipment	540	2,487
Proceeds from disposal of business units	250	—
Net cash used in investing activities	(92,848)	(21,770)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolver borrowings	107,004	159
Repayments of revolver borrowings	(57,004)	(159)
Proceeds from exercise of stock options and warrants	123	346
Payments of other long-term obligations	(2,250)	(2,250)
Payments for other financing	(3,472)	(2,169)
Debt issuance costs	—	(696)
Payments for share repurchases	—	(4,824)
Other treasury share purchases	(2,125)	(735)
Net cash provided by (used in) financing activities	42,276	(10,328)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,176)	(25,794)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,202	112,667
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$15,026	$86,873
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$9,390	$9,473
Cash paid for income taxes	$782	$285

Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Capital expenditures funded by capital leases and promissory notes	$11,990	$552
Acquisitions funded by stock issuance	$15,088	$—
Disposition funded by promissory note	$1,269	$—

The accompanying notes are an integral part of these condensed consolidated financial statements.

U.S. CONCRETE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of U.S. Concrete, Inc. and its subsidiaries (collectively, "we," "us," "our," "U.S. Concrete," or the "Company") and have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for reporting interim financial information. Some information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") have been condensed or omitted pursuant to the SEC's rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K"). In the opinion of our management, all adjustments necessary to state fairly the information in our unaudited condensed consolidated financial statements and to make such financial statements not misleading have been included. All adjustments are of a normal or recurring nature. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of our results expected for the year ending December 31, 2015, or for any future period.

The preparation of financial statements and accompanying notes in conformity with U.S. GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions that we consider critical and that involve complex judgments in the preparation of our financial statements include those related to our goodwill, accruals for self-insurance, income taxes, the valuation of long-lived assets, and the valuation of derivative instruments.

2. RECENT ACCOUNTING PRONOUNCEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

In April 2015, the Financial Accounting Standards Board (the "FASB") issued an amendment related to debt issuance costs. The amendment requires that all costs incurred to issue debt be presented in the balance sheet as a direct reduction from the carrying value of the debt, similar to the presentation of debt discounts. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The amendment is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. We do not expect the adoption of this amendment in fiscal year 2016 to have a material impact on our consolidated financial statements and results of operations.

In May 2014, the FASB issued an amendment related to revenue recognition. The new guidance sets forth a new five step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed under U.S. GAAP. The underlying principle of the new amendment is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it ultimately expects to receive in exchange for the goods or services. The amendment also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. In July 2015, the FASB agreed to delay the effective date of the new guidance by one year. In accordance with the agreed upon delay, the amendment is effective for annual periods beginning after December 15, 2017 and interim periods within those periods. Early adoption will be permitted for annual periods beginning after December 15, 2016 and interim periods within those periods. We are currently evaluating the impact that this standard will have on our consolidated financial statements and results of operations.

In April 2014, the FASB issued an amendment on reporting discontinued operations and disclosures of disposals of components of an entity. Specifically, the amendment revises the definition of a discontinued operation, expands disclosure requirements for transactions that meet the definition of a discontinued operation and requires entities to disclose additional information about individually significant components that are disposed of or held for sale and do not qualify as discontinued operations. Additionally, entities will be required to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position and to separately present certain information related to the operating and investing cash flows of the discontinued operation, for all comparative periods, in the statement of cash flows. The amendment is effective for annual and interim periods beginning after December 15, 2014 and is to be adopted on a prospective basis for all disposals (except disposals classified as held for sale prior to the adoption date) or components initially classified as held for sale in periods beginning on or after the adoption date. We adopted this guidance effective January 1, 2015, and there was no material impact on our consolidated financial statements or results of operations.

U.S. CONCRETE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For a description of our significant accounting policies, see Note 1 of the consolidated financial statements in our 2014 Form 10-K.

3. ACQUISITIONS AND DISPOSITIONS

2015 Acquisitions

On February 23, 2015, we acquired the equity of Right Away Redy Mix, Inc. ("Right Away"), in Oakland, California. The purchase price was $18.0 million in cash, plus closing adjustments of $0.9 million, plus potential future earn-out payments of up to $6.0 million based on the achievement of certain defined annual volume thresholds over a six-year period (the "Right Away Earn-out"). We funded the purchase with cash on hand. The acquisition included four ready-mixed concrete facilities, 49 mixer trucks and a fleet of transfer trucks used to transport cement and aggregates. The acquisition expanded our business in our existing northern California market. The fair value of the assets acquired and liabilities assumed in the Right Away acquisition is preliminary and remains subject to adjustments, including, but not limited to, adjustments related to working capital and determination of the fair value of the Right Away Earn-out and identifiable intangible assets.

On April 1, 2015, we acquired the equity of Ferrara Bros. Building Materials Corp. ("Ferrara Bros."), in New York, New York. We acquired the equity of Ferrara Bros. for $45.0 million in cash, approximately 442,000 shares of our common stock, calculated in accordance with the terms of the share purchase agreement ("SPA"), and valued at approximately $15.1 million on the date of issuance, plus potential incentive awards in the form of equity of up to $35.0 million based on the achievement of certain EBITDA thresholds, as defined in the SPA, over a four-year period beginning in 2017 ("Ferrara Bros. Contingent Consideration"). We funded the purchase through a combination of cash on hand and borrowings under our $175.0 million asset-based revolving credit facility (the "Revolving Facility"). Ferrara Bros. operates six ready-mixed concrete plants at its four facilities in New York and New Jersey and a fleet of 89 mixer trucks. The acquisition expanded our presence in the New York metropolitan market and allows us to more effectively serve construction projects in Manhattan. The fair value of the assets acquired and liabilities assumed in the Ferrara Bros. acquisition is preliminary and remains subject to adjustments, including, but not limited to, adjustments related to working capital, the fair value of the Ferrara Bros. Contingent Consideration, identifiable intangible assets, and property, plant and equipment.

On May 21, 2015, we acquired the equity of Colonial Concrete Co. ("Colonial"), in Newark, New Jersey. The purchase price was $15.0 million in cash, plus closing adjustments of $0.2 million. We funded the purchase through a combination of cash on hand and borrowings under our Revolving Facility. The acquisition included four ready-mixed concrete plants at three locations and a fleet of approximately 40 mixer trucks. The acquisition expanded our business in the New York metropolitan and northern New Jersey markets. The fair value of the assets acquired and liabilities assumed in the Colonial acquisition is preliminary and remains subject to adjustments, including, but not limited to, adjustments related to working capital, identifiable intangible assets, certain accrued liabilities, and property, plant and equipment.

On May 29, 2015, we acquired the assets of DuBrook Concrete, Inc., ("DuBrook"), in Chantilly, Virginia, located in the greater Washington, D.C. metropolitan area. The purchase price was $11.5 million in cash, plus potential future earn-out payments based on volumes sold over a four-year period (the "DuBrook Earn-out"). The DuBrook Earn-out payments are not capped; however, we do not expect total payments to be in excess of $1.0 million. We funded the purchase through a combination of cash on hand and borrowings under our Revolving Facility. The acquisition included three ready-mixed concrete plants and a fleet of 42 mixer trucks. The purchase of these assets expanded our existing business in the Washington, D.C. metropolitan area. The fair value of the assets acquired and liabilities assumed in the DuBrook acquisition is preliminary and remains subject to adjustments, including, but not limited to, adjustments related to working capital, the fair value of the DuBrook Earn-out, identifiable intangible assets, and property, plant and equipment.

U.S. CONCRETE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the consideration transferred for Right Away, Ferrara Bros., Colonial and DuBrook and the allocation of these amounts to the net tangible and intangible assets acquired and liabilities assumed based on the estimated fair values as of the respective acquisition date (in thousands).

	2015 Acquisitions			
	Right Away[1]	Ferrara Bros.[2][3]	Colonial[2]	DuBrook[2]
Cash	$928	$67	$888	$—
Accounts receivable	1,832	14,157	4,490	1,228
Inventory	348	1,386	378	349
Other current assets	196	608	279	—
Property, plant and equipment	9,696	12,092	—	—
Definite-lived intangible assets	7,036	—	—	—
Total assets acquired	$20,036	$28,310	$6,035	$1,577
Current liabilities	3,181	7,004	3,277	910
Long-term deferred income tax	3,315			