

US CONCRETE INC  
Form 10-Q  
May 09, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2014

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  
(State or other jurisdiction of incorporation or  
organization)

76-0586680  
(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  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 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  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

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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  No

There were 14,185,240 shares of common stock, par value \$.001 per share, of the registrant outstanding as of May 7, 2014.

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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)

	March 31, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$96,222	\$112,667
Trade accounts receivable, net of allowances of \$2,961 and \$2,813 as of March 31, 2014 and December 31, 2013, respectively	97,443	92,163
Inventories	27,143	27,610
Deferred income taxes	424	708
Prepaid expenses	5,919	3,416
Other receivables	3,233	3,205
Assets held for sale	6,441	—
Other current assets	320	2,457
Total current assets	237,145	242,226
Property, plant and equipment, net of accumulated depreciation, depletion, and amortization of \$57,530 and \$54,694 as of March 31, 2014 and December 31, 2013, respectively	143,405	138,560
Goodwill	13,809	11,646
Intangible assets, net	12,703	13,073
Other assets	8,364	8,485
Total assets	\$415,426	\$413,990
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$39,441	\$38,518
Accrued liabilities	44,174	42,950
Current maturities of long-term debt	4,061	3,990
Liabilities held for sale	836	—
Derivative liabilities	22,313	21,690
Total current liabilities	110,825	107,148
Long-term debt, net of current maturities	210,462	210,154
Other long-term obligations and deferred credits	5,839	7,921
Deferred income taxes	4,969	5,040
Total liabilities	332,095	330,263
Commitments and contingencies (Note 16)		
Equity:		
Preferred stock	—	—
Common stock	14	14
Additional paid-in capital	153,479	152,695
Accumulated deficit	(64,478)	(63,325)
Treasury stock, at cost	(5,684)	(5,657)
Total stockholders' equity	83,331	83,727
Total liabilities and equity	\$415,426	\$413,990

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



U.S. CONCRETE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)

	Three months ended March 31,	
	2014	2013
Revenue	\$146,257	\$125,425
Cost of goods sold before depreciation, depletion and amortization	124,525	108,592
Selling, general and administrative expenses	13,643	14,345
Depreciation, depletion and amortization	4,898	4,825
(Gain) loss on sale of assets	(349	) 5
Income (loss) from operations	3,540	(2,342 )
Interest expense, net	5,010	2,772
Derivative loss	(623	) (18,446 )
Gain on extinguishment of debt	—	4,310
Other income, net	489	493
Loss from continuing operations before income taxes	(1,604	) (18,757 )
Income tax expense (benefit)	22	(5,197 )
Loss from continuing operations	(1,626	) (13,560 )
Income (loss) from discontinued operations, net of taxes	473	(804 )
Net loss	\$(1,153	) \$(14,364 )
Basic and diluted loss per share:		
Loss from continuing operations	\$(0.12	) \$(1.10 )
Income (loss) from discontinued operations, net of taxes	0.03	(0.06 )
Net loss per share – basic and diluted	\$(0.09	) \$(1.16 )
Weighted average shares outstanding:		
Basic and diluted	13,567	12,359

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		Additional	Accumulated	Treasury	Total
	# of	Par Value	Paid-In	Deficit	Stock	Equity
	Shares		Capital			
BALANCE, December 31, 2012	13,358	\$ 13	\$136,451	\$(43,196)	\$(744)	\$92,524
Stock-based compensation expense	—	—	758	—	—	758
Restricted stock vesting	12	—	—	—	—	—
Restricted stock grants	5	—	—	—	—	—
Purchase of treasury shares	(96)	) —	—	—	(1,280)	(1,280)
Net loss	—	—	—	(14,364)	—	(14,364)
BALANCE, March 31, 2013	13,279	\$ 13	\$137,209	\$(57,560)	\$(2,024)	\$77,638
BALANCE, December 31, 2013	14,036	\$ 14	\$152,695	\$(63,325)	\$(5,657)	\$83,727
Stock-based compensation expense	—	—	530	—	—	530
Restricted stock vesting	7	—	—	—	—	—
Restricted stock grants	—	—	—	—	—	—
Stock options exercised	17	—	243	—	—	243
Warrants exercised	1	—	11	—	—	11
Purchase of treasury shares	(1)	) —	—	—	(27)	(27)
Net loss	—	—	—	(1,153)	—	(1,153)
BALANCE, March 31, 2014	14,060	\$ 14	\$153,479	\$(64,478)	\$(5,684)	\$83,331

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)

	Three months ended March 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(1,153 )	\$(14,364 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	4,898	4,862
Debt issuance cost amortization	403	927
Gain on extinguishment of debt	—	(4,310 )
Amortization of facility exit costs	—	(53 )
Amortization of discount on long-term incentive plan and other accrued interest	94	125
Net loss on derivative	623	18,446
Net (gain) loss on sale of assets	(969 )	231
Deferred income taxes	251	(5,215 )
Provision for doubtful accounts	188	204
Stock-based compensation	530	758
Changes in assets and liabilities:		
Accounts receivable	(7,541 )	(503 )
Inventories	85	12
Prepaid expenses and other current assets	(2,596 )	2,619
Other assets and liabilities	49	(1,300 )
Accounts payable and accrued liabilities	3,211	(7,916 )
Net cash used in operating activities	(1,927 )	(5,477 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(10,165 )	(1,848 )
Payments for acquisitions	(3,143 )	—
Proceeds from disposals of property, plant and equipment	2,323	111
Payments for disposal of business units	—	(1,866 )
Net cash used in investing activities	(10,985 )	(3,603 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolver borrowings	159	38,030
Repayments of revolver borrowings	(159 )	(25,959 )
Proceeds from exercise of stock options and warrants	254	—
Payments of other long-term obligations	(2,250 )	—
Payments for other financing	(973 )	(458 )
Debt issuance costs	(537 )	(1,341 )
Purchase of treasury shares	(27 )	(1,280 )
Net cash (used in) provided by financing activities	(3,533 )	8,992
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(16,445 )</b>	<b>(88 )</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>112,667</b>	<b>4,751</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$96,222</b>	<b>\$4,663</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	\$263	\$1,947
Cash paid for income taxes	\$12	\$24



Supplemental Disclosure of Non-cash Investing and Financing Activities:

Capital expenditures funded by capital leases and promissory notes	\$552	\$—
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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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 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, 2013 (the "2013 Form 10-K"). In the opinion of our management, all adjustments necessary to state fairly the information in our unaudited 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 months ended March 31, 2014 are not necessarily indicative of our results expected for the year ending December 31, 2014, 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 July 2013, the Financial Accounting Standards Board (the "FASB") issued an amendment on the financial statement presentation for an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendment specifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward with certain exceptions. The guidance is effective for annual and interim reporting periods beginning after December 15, 2013. We adopted this guidance effective January 1, 2014, and there was no material impact on our consolidated financial statements or results of operations.

For a description of our significant accounting policies, see Note 1 of the consolidated financial statements in our 2013 Form 10-K.

3. ACQUISITIONS AND DISPOSITIONS

Purchase of West Texas Assets

On February 10, 2014, we acquired one ready-mixed concrete plant and related assets in our west Texas market from Young Ready Mix, Inc. and Rodney and Tina Young for \$0.4 million in cash and two promissory notes totaling \$0.8 million with a fixed annual interest rate of 0%. The notes are being paid in 36 equal monthly installments which began in March 2014. We acquired plant and equipment valued at \$1.0 million and recognized goodwill of \$0.2 million.

On March 18, 2014, we acquired one ready-mixed concrete plant and related assets in our west Texas market from T&S Ventures, LLC for \$2.7 million in cash. We acquired plant, equipment, and inventory valued at \$0.8 million and recognized goodwill of \$1.9 million.

The purchase of these assets allows us to expand our business in our existing west Texas market. We have prepared and recorded the purchase price allocations for these acquisitions on a preliminary basis, and any changes to the purchase price allocations will be made as soon as practical, but no later than one year from the respective acquisition dates. The goodwill ascribed to both west Texas acquisitions is related to the synergies we expect to achieve with expansion in the west Texas market in which we already operate. We expect the goodwill to be deductible for tax purposes. See Note 13 for additional information regarding income taxes.

The pro forma impact of these acquisitions have not been included as they are immaterial to our financial statements individually and in the aggregate.

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

#### Sale of Pennsylvania Precast Operations

On January 30, 2014, our Board of Directors approved the sale of our one remaining precast concrete operation in Pennsylvania, as this business no longer fits our goal of becoming the preeminent supplier of ready-mixed concrete in the United States. The operation is available for immediate sale and any transaction is expected to be completed during 2014. As such, the related assets and liabilities have been classified as held for sale effective with the first quarter of 2014. The results of operations for this unit have been included in discontinued operations for the periods presented. Listed below are the major classes of assets and liabilities expected to be sold as part of any transaction that are included in held for sale captions on the balance sheet as of March 31, 2014 (in thousands):

	March 31, 2014
Assets held for sale:	
Trade accounts receivable, net	\$ 2,073
Inventories	432
Other current assets	2,212
Property, plant and equipment, net	1,724
Total assets held for sale	\$ 6,441
Liabilities held for sale:	
Accounts payable	\$ 827
Accrued liabilities	9
Total liabilities held for sale	\$ 836

#### Purchase of Bodin Concrete Assets

On July 26, 2013, we acquired three ready-mixed concrete plants and related assets in our north Texas market from Bodin Concrete, LP for \$4.4 million in cash. We acquired plant and equipment valued at \$3.3 million and recognized goodwill of \$1.1 million. The goodwill ascribed to the purchase is related to the synergies we expected to and have achieved with expansion into the eastern corridor of the north Texas market in which we already operate. We expect the goodwill to be deductible for tax purposes. See Note 13 for additional information regarding income taxes.

#### Sale of Smith Precast Operations

On December 17, 2012, we completed the sale of substantially all of our assets associated with our Smith Precast operations ("Smith") located in Phoenix, Arizona, to Jensen Enterprises, Inc. ("Jensen") for \$4.3 million in cash and the assumption of certain obligations. The results of operations for this unit have been included in discontinued operations for the periods presented.

During the third quarter of 2013, pursuant to the terms of the asset purchase agreement, we made payments totaling \$0.5 million to Jensen related to the reacquisition of certain uncollected receivables as well as the settlement of certain accrued liabilities.

#### Purchase of Bode Gravel and Bode Concrete Equity Interests

On October 30, 2012, we completed the acquisition of all of the outstanding equity interests of Bode Gravel Co. and Bode Concrete LLC (collectively, the "Bode Companies") pursuant to an equity purchase agreement dated October 17, 2012. The Bode Companies operated two fixed and one portable ready-mixed concrete plant and 41 mixer trucks in the San Francisco, California area. The purchase price for the acquisition was \$24.5 million in cash, plus working capital and closing adjustments of \$1.6 million, plus potential earn-out payments ("Bode Earn-out"). The earn-out payments, which are contingent upon reaching negotiated volume hurdles, have an aggregate present value of up to \$7.0 million in cash payable over a six-year period, and resulted in total consideration fair value of \$33.1 million. During the first quarter of 2014, we completed the first Bode Earn-out payment in the amount of \$2.3 million.

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

#### Sale of California Precast Operations

On August 20, 2012, we sold substantially all of our California precast operations to Oldcastle Precast, Inc. ("Oldcastle") for \$21.3 million in cash, plus net working capital adjustments. In conjunction with the sale to Oldcastle, we also entered into certain sublease and license agreements with Oldcastle for certain land and property that is leased or owned by us. The results of operations for these units have been included in discontinued operations for the periods presented.

During the first quarter of 2013, pursuant to the terms of the asset purchase agreement, we made payments totaling \$1.9 million to Oldcastle related to the reacquisition of certain uncollected receivables as well as the settlement of certain accrued liabilities. At March 31, 2014, \$0.1 million of the re-acquired receivables are recorded in other receivables on the condensed consolidated balance sheet.

On March 28, 2014, we completed the sale of our remaining owned assets related to our California precast operations. We sold land and building for net proceeds of \$1.5 million in cash and recorded a gain on the transaction of \$0.6 million. The gain is included in discontinued operations in the consolidated statements of operations for the three months ended March 31, 2014.

#### 4. DISCONTINUED OPERATIONS

As disclosed in Note 3 above, we completed the sale of our California and Arizona precast operations in August 2012 and December 2012, respectively. In addition, in January 2014, our Board of Directors approved the sale of our one remaining precast concrete operation in Pennsylvania. Accordingly, we have presented the results of operations for these units for all periods as discontinued operations in the accompanying condensed consolidated statements of operations.

The results of these discontinued operations are as follows (in thousands):

	Three months ended March 31,	
	2014	2013
Revenue	\$3,351	\$2,316
Depreciation, depletion and amortization ("DD&A")	—	37
Operating expenses excluding DD&A	3,257	2,872
Income (loss) from discontinued operations	94	(593)
Gain (loss) gain on settlement of assets	620	(226)
Income (loss) from discontinued operations, before income taxes	714	(819)
Income tax expense (benefit)	241	(15)
Income (loss) from discontinued operations, net of taxes	\$473	\$(804)

#### 5. INVENTORIES

Inventory consists of the following (in thousands):

	March 31, 2014	December 31, 2013
Raw materials	\$24,061	\$25,019
Building materials for resale	1,853	1,383
Other	1,229	1,208

Total inventory	\$27,143	\$27,610
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U.S. CONCRETE, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 6. INTANGIBLE ASSETS, NET

Our purchased intangible assets are as follows (in thousands):

	March 31, 2014			Weighted Average Remaining Life (in years)
	Gross	Accumulated Amortization	Net	
Customer relationships	\$ 13,500	\$ (1,913	) \$ 11,587	8.58
Trade name	1,300	(184	) 1,116	8.58
Backlog	800	(800	) —	0
Total purchased intangible assets	\$ 15,600	\$ (2,897	) \$ 12,703	8.58

	December 31, 2013			Weighted Average Remaining Life (in years)
	Gross	Accumulated Amortization	Net	
Customer relationships	\$ 13,500	\$ (1,575	) \$ 11,925	8.83
Trade name	1,300	(152	) 1,148	8.83
Backlog	800	(800	) —	0
Total purchased intangible assets	\$ 15,600	\$ (2,527	) \$ 13,073	8.83

We recorded \$0.4 million and \$0.8 million of amortization expense on our purchased intangible assets for the three months ended March 31, 2014 and 2013, respectively, which is included in our condensed consolidated statements of operations.

As of March 31, 2014, the estimated remaining amortization of our finite-lived intangible assets is as follows (in thousands):

	Total for Year
2014	1,110
2015	1,480
2016	1,480
2017	1,480
2018	1,480
Thereafter	5,673
Total	\$ 12,703



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

## 7. ACCRUED LIABILITIES

A summary of our accrued liabilities is as follows (in thousands):

	March 31, 2014	December 31, 2013
Accrued insurance reserves	\$9,938	\$9,713
Accrued materials	8,505	10,077
Accrued compensation and benefits	6,742	8,179
Accrued interest	6,146	1,896
Accrued property, sales and other taxes	4,524	5,485
Bode Earn-out, current portion	2,250	2,250
Accrued rent	2,156	2,157
Other	3,913	3,193
Total accrued liabilities	\$44,174	\$42,950

## 8. DEBT

A summary of our debt and capital leases is as follows (in thousands):

	March 31, 2014	December 31, 2013
Senior secured notes due 2018	\$200,000	\$200,000
Senior secured credit facility due 2018	—	—
Convertible notes due 2015	117	117
Capital leases	5,532	5,746
Other financing	8,874	8,281
	214,523	214,144
Less: current maturities	4,061	3,990
Long-term debt, net of current maturities	\$210,462	\$210,154

### Senior Secured Notes due 2018

On November 22, 2013, we completed an offering of \$200.0 million aggregate principal amount of 8.5% senior secured notes due 2018 (the "2018 Notes") at an offering price of 100%. We used a portion of the net proceeds from the 2018 Notes to repay all of our outstanding borrowings under the Revolving Facility (as defined below) and to redeem all \$61.1 million of our outstanding 9.5% senior secured notes due 2015 (the "2013 Notes").

The 2018 Notes are governed by an indenture (the "Indenture") dated as of November 22, 2013, by and among us and U.S. Bank National Association, as trustee and noteholder collateral agent (the "Notes Collateral Agent"). We are obligated to pay interest on the 2018 Notes on June 1 and December 1 of each year, commencing on June 1, 2014. The 2018 Notes mature on December 1, 2018, and are redeemable at our option prior to maturity at prices specified in the Indenture. The Indenture contains negative covenants that restrict the ability of us and our restricted subsidiaries to engage in certain transactions, as described below, and also contains customary events of default.

The Indenture contains certain covenants that restrict or limit our ability to, among other things,

incur additional indebtedness or issue disqualified stock or preferred stock;

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pay dividends or make other distributions or repurchase or redeem our stock or subordinated indebtedness or make investments;

prepay, redeem or repurchase certain debt;

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

sell assets or issue capital stock of our restricted subsidiaries;  
incur liens;  
enter into agreements restricting our restricted subsidiaries' ability to pay dividends, make loans to other U.S. Concrete entities or restrict the ability to provide liens;  
enter into transactions with affiliates;  
consolidate, merge or sell all or substantially all of our assets;  
engage in certain sale/leaseback transactions; and  
designate our subsidiaries as unrestricted subsidiaries.

As defined in the Indenture, we are entitled to incur indebtedness if, on the date of such incurrence and given effect thereto on a proforma basis, the consolidated coverage ratio exceeds 2.0 to 1.0.

Our obligations under the 2018 Notes are jointly and severally and fully and unconditionally guaranteed on a senior secured basis by each of our existing and future domestic subsidiaries that guarantee the indebtedness under the Revolving Facility. Each guarantee is subject to release in the following customary circumstances:

a disposition of all or substantially all of the assets of the guarantor subsidiary, by way of merger, consolidation or otherwise; provided the proceeds of the disposition are applied in accordance with the Indenture;

a disposition of the capital stock of the guarantor subsidiary to a third person, if the disposition complies with the Indenture and as a result the guarantor subsidiary ceases to be a restricted subsidiary;

the designation by us of the guarantor subsidiary as an unrestricted subsidiary or the guarantor subsidiary otherwise ceases to be a restricted subsidiary, in each case in accordance with the Indenture; or

legal or covenant defeasance of the 2018 Notes and discharge of our obligations under the Indenture.

The 2018 Notes are issued by U.S. Concrete, Inc., the parent company, and are guaranteed on a full and unconditional basis by each of its direct and indirect wholly owned subsidiaries. The guarantees are joint and several, and there are no non-guarantor subsidiaries. U.S. Concrete, Inc. does not have any independent assets or operations. There are no significant restrictions on the ability of the Company or any guarantor to obtain funds from its subsidiaries by dividend or loan.

The 2018 Notes and the guarantees thereof rank equally in right of payment with all of our existing and future senior indebtedness. The 2018 Notes and the guarantees thereof are secured by first-priority liens on certain of the property and assets directly owned by us, including material owned real property, fixtures, intellectual property, capital stock of subsidiaries and certain equipment, subject to permitted liens and certain exceptions, and by a second-priority lien on our assets securing the Revolving Facility on a first-priority basis, including inventory (including as-extracted collateral), accounts, certain specified mixer trucks, chattel paper, general intangibles (other than collateral securing the 2018 Notes on a first-priority basis), instruments, documents, cash, deposit accounts, securities accounts, commodities accounts, letter of credit rights and all supporting obligations and related books and records and all proceeds and products of the foregoing, subject to permitted liens and certain exceptions. The 2018 Notes and the guarantees thereof are effectively subordinated to all indebtedness and other obligations, including trade payables, of each of our future subsidiaries that are not guarantors.

Senior Secured Credit Facility due 2018

On October 29, 2013, we entered into a First Amended and Restated Loan and Security Agreement (the "2013 Loan Agreement") with certain financial institutions named therein, as lenders (the "Lenders"), and Bank of America, N.A., as agent and sole lead arranger (the "Administrative Agent"), which amended and restated our existing credit agreement and provides us with an asset-based revolving credit facility (the "Revolving Facility"). Under the terms of the 2013 Loan Agreement and in conjunction with the issuance of our 2018 Notes, the maximum credit availability under our Revolving Facility increased to \$125.0 million, and the expiration date of the 2013 Loan Agreement was extended to October 2, 2018. The Revolving Facility retains an uncommitted accordion feature that may allow for an increase in the total commitments under the facility to as much as \$175.0 million. As of

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March 31, 2014, we had no outstanding borrowings and \$11.3 million of undrawn standby letters of credit under the 2013 Loan Agreement.

Our actual maximum credit availability under the 2013 Loan Agreement varies from time to time and is determined by calculating a borrowing base, which is based on the value of our eligible accounts receivable, inventory and vehicles, which serve as priority collateral on the facility, minus reserves imposed by the Lenders and other adjustments, all as specified in the 2013 Loan Agreement and discussed further below. Our availability under the 2013 Loan Agreement at March 31, 2014 increased to \$96.6 million from \$88.3 million at December 31, 2013. The 2013 Loan Agreement also contains a provision for discretionary over-advances and involuntary protective advances by the Lenders of up to \$12.5 million in excess of borrowing base levels. The 2013 Loan Agreement provides for swingline loans, up to a \$10.0 million sublimit, and letters of credit, up to a \$30.0 million sublimit.

Advances under the Revolving Facility are in the form of either base rate loans or "LIBOR Loans" denominated in U.S. dollars. The interest rate for base rate loans denominated in U.S. dollars fluctuates and is equal to the greater of (a) Bank of America's prime rate; (b) the Federal funds rate, plus 0.50%; or (c) the rate per annum for a 30-day interest period equal to the British Bankers Association LIBOR Rate, as published by Reuters at approximately 11:00 a.m. (London time) two business days prior ("LIBOR"), plus 1.0%; in each case plus the Applicable Margin, as defined in the 2013 Loan Agreement. The interest rate for LIBOR Loans denominated in U.S. dollars is equal to the rate per annum for the applicable interest period equal to LIBOR, plus the Applicable Margin, as defined in the 2013 Loan Agreement. Issued and outstanding letters of credit are subject to a fee equal to the Applicable Margin, as defined in the 2013 Loan Agreement, a fronting fee equal to 0.125% per annum on the stated amount of such letters of credit, and customary charges associated with the issuance and administration of letters of credit. Among other fees, we pay 0.25% or 0.375% per annum (due monthly) on the aggregate unused revolving commitments under the Revolving Facility. The Applicable Margin ranges from 0.25% to 0.75% for base rate loans and from 1.5% to 2.0% for LIBOR Loans, and is determined based on Average Availability for the most recent fiscal quarter, as defined in the 2013 Loan Agreement.

Up to \$30.0 million of the Revolving Facility is available for the issuance of letters of credit, and any such issuance of letters of credit will reduce the amount available for loans under the Revolving Facility. Advances under the Revolving Facility are limited by a borrowing base which is equal to the lesser of the Revolving Facility minus the LC Reserve, the Senior Notes Availability Reserve, and the Tax Reserve, all defined in the 2013 Loan Agreement, or the sum of (a) 90% of the face amount of eligible accounts receivable (reduced to 85% under certain circumstances), plus (b) the lesser of (i) 55% of the value of eligible inventory or (ii) 85% of the product of (x) the net orderly liquidation value of inventory divided by the value of the inventory and (y) multiplied by the value of eligible inventory, and (c) the lesser of (i) \$30.0 million (which may increase up to \$40 million on the occasion of a Revolver Commitments Increase Event, as defined in the 2013 Loan Agreement), or (ii) the sum of (A) 85% of the net orderly liquidation value (as determined by the most recent appraisal) of eligible trucks plus (B) 80% of the cost of newly acquired eligible trucks since the date of the latest appraisal of eligible trucks minus (C) 85% of the net orderly liquidation value of eligible trucks that have been sold since the latest appraisal date and 85% of the depreciation amount applicable to eligible trucks since the date of the latest appraisal of eligible trucks, minus (D) such reserves as the Administrative Agent may establish from time to time in its permitted discretion. The Administrative Agent may, in its permitted discretion, reduce the advance rates set forth above, adjust reserves or reduce one or more of the other elements used in computing the borrowing base.

The 2013 Loan Agreement contains usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on our ability to consolidate or merge; substantially change the nature of our business; sell, lease or otherwise transfer any of our assets; create or incur indebtedness; create liens; pay dividends; and make

investments or acquisitions. The negative covenants are subject to certain exceptions as specified in the 2013 Loan Agreement. The 2013 Loan Agreement also requires that we, upon the occurrence of certain events, maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for each period of 12 calendar months, as determined in accordance with the 2013 Loan Agreement. For the trailing 12-month period ended March 31, 2014, our fixed charge coverage ratio was 3.30 to 1.0. As of March 31, 2014, the Company was in compliance with all covenants under the 2013 Loan Agreement.

The 2013 Loan Agreement also includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, a change of control of the Company, material money judgments and failure to maintain subsidiary guarantees.

The 2013 Loan Agreement is secured by a first-priority lien on certain assets of the Company and the guarantors, including inventory (including as extracted collateral), accounts, certain specified mixer trucks, general intangibles (other than collateral securing the 2018 Notes, on a first-priority basis, as described above), instruments, documents, chattel paper, cash, deposit accounts, securities accounts, commodities accounts, letter of credit rights and all supporting obligations and related books and records and all proceeds and products of the foregoing, subject to permitted liens and certain exceptions. The 2013 Loan Agreement is also secured by a second-priority lien on the collateral securing the 2018 Notes on a first-priority basis.

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Convertible Notes due 2015

On August 31, 2010, we issued \$55.0 million aggregate principal amount of 9.5% Convertible Notes due 2015 (the "Convertible Notes"). Under the terms of the indenture governing the Convertible Notes, the Convertible Notes bore interest at a rate of 9.5% per annum and mature on August 31, 2015. Interest payments were payable quarterly in cash in arrears. Additionally, at issuance, we recorded a discount of approximately \$13.6 million related to an embedded derivative that was bifurcated and separately valued (see Note 11). This discount was being accreted over the term of the Convertible Notes and included in interest expense.

On March 22, 2013, we completed our offer to exchange (the "Exchange Offer") up to \$69.3 million aggregate principal amount of newly issued 2013 Notes for all \$55.0 million of outstanding Convertible Notes. At the time of settlement, we issued \$61.1 million aggregate principal amount of 2013 Notes in exchange for \$48.5 million of Convertible Notes, plus approximately \$0.3 million in cash for accrued and unpaid interest on the Convertible Notes exchanged in the Exchange Offer. After giving effect to the exchange, \$6.5 million aggregate principal amount of Convertible Notes remained outstanding as of March 22, 2013.

In accordance with the terms of the indenture governing the Convertible Notes, we provided a Conversion Event Notice, as defined in the indenture, to the remaining holders of Convertible Notes on June 18, 2013. Holders had until the close of business on August 2, 2013, the Conversion Termination Date (as defined in the indenture), to tender their Convertible Notes for shares of common stock. Prior to August 3, 2013, remaining note holders tendered \$6.4 of Convertible Notes in exchange for 0.6 million shares of common stock. As of August 3, 2013, the remaining Convertible Notes no longer include a conversion feature and ceased to accrue interest. After giving effect to the tendered Convertible Notes, \$0.1 million aggregate principal amount of Convertible Notes remain outstanding as of March 31, 2014.

For the three months ended March 31, 2014 and 2013, we recorded to our consolidated statements of operations, interest expense related to the coupon rate and amortization of the discount on our Convertible Notes of zero and \$1.8 million, respectively.

Capital Leases and Other Financing

In connection with an acquisition we completed in October 2010, we issued a promissory note for \$2.6 million of the purchase price, payable monthly for a term of five years, with a fixed annual interest rate of 5.0%.

In connection with an acquisition we completed in September 2012, we issued a promissory note in the amount of \$1.9 million with a fixed annual interest rate of 4.5%. This note is being paid in twenty-four equal monthly installments which began in January 2013.

On July 23, 2013, we entered into a master leasing agreement with Capital One Equipment Finance Corporation ("Capital One") to provide up to \$5.0 million in total lease commitments for mixer trucks. Prior to December 31, 2013, we had utilized all \$5.0 million of available lease commitments from Capital One with fixed annual interest rates ranging from 4.31% to 4.54%. Payments are due monthly for a term of five years. The lease terms include a one dollar buyout option at the end of the lease term. Accordingly, this financing has been classified as a capital lease.

On December 19, 2013, we entered into a master leasing agreement with GE Capital Commercial, Inc. ("GE Capital") to provide up to \$5.0 million in total lease commitments for mixer trucks. As of March 31, 2014, we have utilized \$0.8 million of lease commitments with a fixed interest rate of 4.80% per annum, payable monthly for a term of five

years. The lease terms include a one dollar buyout option at the end of the lease term. Accordingly, this financing has been classified as a capital lease.

The current portion of capital leases included in current maturities of long term debt is \$1.1 million as of March 31, 2014 and December 31, 2013.

Between July 26, 2013 and December 31, 2013, we signed four promissory notes with Daimler Truck Financial ("Daimler") for the purchase of mixer trucks in the aggregate amount of \$6.2 million with a fixed annual interest rate ranging from 3.02% to 3.23%. We signed an additional promissory note with Daimler in January 2014 for the purchase of mixer trucks in the amount of \$0.6 million with a fixed annual interest rate of 3.18%. The Daimler promissory notes signed in 2013 and 2014 are payable monthly for a term of five years.

The weighted average interest rate of our capital leases and other financing was 3.59% and 3.83% as of March 31, 2014 and December 31, 2013, respectively. We made cash principal payments associated with our capital leases and other financing totaling \$1.0 million and \$0.5 million during the three months ended March 31, 2014 and 2013, respectively.



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### 9. EXTINGUISHMENT OF DEBT

In connection with the Exchange Offer, described in Note 8 above, during the first quarter of 2013, we exchanged \$48.5 million of Convertible Notes for \$61.1 million of 2013 Notes. As a result, we wrote-off \$2.4 million of previously deferred financing costs, \$26.6 million in derivative liabilities, and \$7.3 million of unamortized discount. We recorded a net gain on extinguishment of debt associated with this transaction of \$4.3 million on our condensed consolidated statements of operations.

In connection with the 2018 Notes and the 2013 Loan Agreement, we have incurred \$8.8 million of deferred financing costs. Deferred financing costs are classified as other assets on our condensed consolidated balance sheets. These deferred financing costs are being amortized over the terms of the related agreements using the straight line method, which approximates the effective interest method.

### 10. WARRANTS

On August 31, 2010, we issued warrants to acquire common stock (the "Warrants") in two tranches: Class A Warrants to purchase an aggregate of approximately 1.5 million shares of common stock and Class B Warrants to purchase an aggregate of approximately 1.5 million shares of common stock. The Warrants were issued to holders of our predecessor common stock pro rata based on a holder's stock ownership. The fair value of these Warrants have been included in derivative liabilities on the accompanying condensed consolidated balance sheets (see Note 11).

### 11. DERIVATIVES

We are exposed to certain risks relating to our ongoing business operations. However, derivative instruments are not used to hedge these risks. We are required to account for derivative instruments as a result of the issuance of the Warrants and Convertible Notes on August 31, 2010. None of our derivative contracts manage business risk or are executed for speculative purposes. Our Convertible Notes embedded derivative was written-off as of the Conversion Termination Date as discussed in Notes 8 and 9 above, as the remaining note holders no longer have conversion rights.

Our derivative instruments are summarized as follows:

Derivative instruments not designated as hedging instruments under ASC 815	Balance Sheet Location	Fair Value	
		March 31, 2014	December 31, 2013
Warrants	Derivative liabilities	\$22,313	\$21,690

The following table presents the effect of derivative instruments on our condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013, respectively, excluding income tax effects:

Derivative instruments not designated as hedging instruments under ASC 815	Location of Income/(Loss) Recognized	Three months ended	
		March 31, 2014	March 31, 2013
Warrants	Derivative loss	\$623	\$5,713
Convertible Notes embedded derivative	Derivative loss	\$—	\$12,733
		\$623	\$18,446

Warrant volume positions are presented in the number of shares underlying the instruments. The table below presents our volume positions (in thousands) as of March 31, 2014 and December 31, 2013:

	Number of Shares	
	March 31, 2014	December 31, 2013
Derivative instruments not designated as hedging instruments under ASC 815		
Warrants	2,999	3,000

We do not have any derivative instruments with credit features requiring the posting of collateral in the event of a credit downgrade or similar credit event.

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## 12. FAIR VALUE DISCLOSURES

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Accounting guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. We review the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain assets and liabilities within the fair value hierarchy.

The following tables present our fair value hierarchy for liabilities measured at fair value on a recurring basis (in thousands):

	March 31, 2014			
	Total	Level 1	Level 2	Level 3
Derivative – Warrant <sup>(1)</sup>	\$22,313	\$—	\$—	\$22,313
Other obligations - Bode Earn-out <sup>(2)</sup>	5,344	—	—	5,344
	\$27,657	\$—	\$—	\$27,657
	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Derivative – Warrant <sup>(1)</sup>	\$21,690	\$—	\$—	\$21,690
Other obligations - Bode Earn-out <sup>(2)</sup>	7,000	—	—	7,000
	\$28,690	\$—	\$—	\$28,690

(1) Represents the fair value of the Warrants (see Note 10).

(2) Represents the fair value of the Bode Earn-out (see Note 3). The fair value was determined based on expected payouts that will be due to the former owners based on the achievement of certain incremental sales volume milestones, using a contractual discount rate of 7.0%. These payments are capped at a fair value of \$7.0 million.

The liability for the Warrants was valued utilizing a Black-Scholes-Merton model. Inputs into the model were based upon observable market data where possible. Where observable market data did not exist, the Company modeled inputs based upon similar observable inputs. The key inputs in determining our derivative liabilities include our stock price, stock price volatility, risk free interest rates and interest rates for conventional debt of similarly situated companies.

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A reconciliation of the changes in Level 3 fair value measurements from December 31, 2013 to March 31, 2014 is provided below (in thousands):

	Warrants	Bode Earn-out
Balance at December 31, 2013	\$21,690	7,000
Total losses included in earnings		