

US CONCRETE INC
Form 10-Q
November 03, 2017
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 September 30, 2017

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 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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 16,649,356 shares of common stock, par value \$.001 per share, of the registrant outstanding as of November 1, 2017.

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)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 248,263	\$ 75,774
Trade accounts receivable, net of allowances of \$6,284 and \$5,960 as of September 30, 2017, and December 31, 2016, respectively	234,976	207,292
Inventories	45,429	41,979
Other receivables	14,080	8,691
Prepaid expenses	6,328	5,534
Other current assets	1,298	2,019
Total current assets	550,374	341,289
Property, plant and equipment, net of accumulated depreciation, depletion, and amortization of \$167,874 and \$137,629 as of September 30, 2017, and December 31, 2016, respectively	438,789	337,412
Goodwill	147,160	133,271
Intangible assets, net	121,385	130,973
Other assets	1,993	2,457
Total assets	\$ 1,259,701	\$ 945,402
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 123,126	\$ 110,694
Accrued liabilities	90,563	85,243
Current maturities of long-term debt	24,938	16,654
Derivative liabilities	—	57,415
Total current liabilities	238,627	270,006
Long-term debt, net of current maturities	663,480	432,644
Other long-term obligations and deferred credits	60,833	46,267
Deferred income taxes	14,970	7,656
Total liabilities	977,910	756,573
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock	—	—
Common stock	18	17
Additional paid-in capital	317,254	249,832
Accumulated deficit	(10,711) (39,296)
Treasury stock, at cost	(24,770) (21,724)
Total stockholders' equity	281,791	188,829
Total liabilities and stockholders' equity	\$ 1,259,701	\$ 945,402

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$354,628	\$328,588	\$994,687	\$849,383
Cost of goods sold before depreciation, depletion and amortization	278,995	253,477	778,328	674,451
Selling, general and administrative expenses	30,056	25,104	86,073	71,447
Depreciation, depletion and amortization	16,593	14,139	48,802	38,795
Change in value of contingent consideration	719	714	2,047	2,325
Impairment of assets	648	—	648	—
Loss (gain) on disposal of assets, net	(106)	(1,003)	(496)	(1,016)
Operating income	27,723	36,157	79,285	63,381
Interest expense, net	10,552	7,635	31,062	19,933
Derivative loss (income)	(13,119)	(21,772)	791	(6,430)
Loss on extinguishment of debt	60	—	60	12,003
Other income, net	(1,287)	(405)	(2,591)	(1,412)
Income from continuing operations before income taxes	31,517	50,699	49,963	39,287
Income tax expense	7,241	12,577	20,854	14,317
Income from continuing operations	24,276	38,122	29,109	24,970
Loss from discontinued operations, net of taxes	(222)	(166)	(524)	(518)
Net income	\$24,054	\$37,956	\$28,585	\$24,452
Basic income (loss) per share:				
Income from continuing operations	\$1.51	\$2.50	\$1.85	\$1.67
Loss from discontinued operations, net of taxes	(0.01)	(0.01)	(0.03)	(0.04)
Net income per share – basic	\$1.50	\$2.49	\$1.82	\$1.63
Diluted income (loss) per share:				
Income from continuing operations	\$1.46	\$2.35	\$1.75	\$1.54
Loss from discontinued operations, net of taxes	(0.01)	(0.01)	(0.03)	(0.03)
Net income per share – diluted	\$1.45	\$2.34	\$1.72	\$1.51
Weighted average shares outstanding:				
Basic	16,028	15,222	15,745	14,978
Diluted	16,651	16,240	16,633	16,186

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, 2016	15,696	\$ 17	\$ 249,832	\$ (39,296)	\$(21,724)	\$188,829
Stock-based compensation expense	—	—	6,523	—	—	6,523
Restricted stock vesting	13	—	—	—	—	—
Restricted stock grants, net of cancellations	139	—	—	—	—	—
Stock options exercised	6	—	132	—	—	132
Warrants exercised	834	1	60,767	—	—	60,768
Other treasury share purchases	(44)	—	—	—	(3,046)	(3,046)
Net income	—	—	—	28,585	—	28,585
BALANCE, September 30, 2017	16,644	\$ 18	\$ 317,254	\$ (10,711)	\$(24,770)	\$281,791

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)

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$28,585	\$24,452
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	48,802	38,795
Amortization of debt issuance costs	1,515	1,431
Amortization of discount on long-term incentive plan and other accrued interest	530	445
Amortization of premium on long-term debt	(1,163)	—
Derivative loss (income)	791	(6,430)
Change in value of contingent consideration	2,047	2,325
Net loss (gain) on disposal of assets	(496)	(1,016)
Loss on extinguishment of debt	60	12,003
Asset impairments	648	—
Deferred income taxes	6,863	9,772
Provision for doubtful accounts and customer disputes	3,518	1,421
Stock-based compensation	6,523	5,678
Changes in assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	(30,076)	(24,969)
Inventories	(2,946)	(4,376)
Prepaid expenses and other current assets	1,565	(1,906)
Other assets and liabilities	201	2,168
Accounts payable and accrued liabilities	17,279	32,497
Net cash provided by operating activities	84,246	92,290
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(33,984)	(31,041)
Payments for acquisitions, net of cash acquired	(56,796)	(124,481)
Advance for note receivable	(8,063)	—
Proceeds from disposals of property, plant and equipment	1,003	1,920
Proceeds from disposal of businesses	1,305	375
Net cash used in investing activities	(96,535)	(153,227)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolver borrowings	—	128,904
Repayments of revolver borrowings	—	(173,904)
Proceeds from issuance of debt	211,500	400,000
Repayments of debt	—	(200,000)
Premium paid on early retirement of debt	—	(8,500)
Proceeds from exercise of warrants and stock options	2,695	166
Payments of other long-term obligations	(7,722)	(4,143)
Payments for other financing	(14,317)	(8,880)
Debt issuance costs	(4,332)	(7,786)
Other treasury share purchases	(3,046)	(2,825)
Net cash provided by financing activities	184,778	123,032
NET INCREASE IN CASH AND CASH EQUIVALENTS	172,489	62,095
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	75,774	3,925

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$248,263	\$66,020
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U.S. CONCRETE, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 (Unaudited)
 (in thousands)

	Nine Months Ended September 30, 2017 2016	
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$20,870	\$11,389
Cash paid for income taxes	\$17,377	\$2,892
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Capital expenditures funded by capital leases and promissory notes	\$45,517	\$29,171
Settlement of accounts receivable for acquisition of a business	\$—	\$1,000

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 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, 2016 (the "2016 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 interim periods are not necessarily indicative of the results that may be expected for the full year.

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 business combinations, goodwill and goodwill impairment, impairment of long-lived assets, accruals for self-insurance programs, income taxes, derivative instruments, and contingent consideration.

Certain reclassifications have been made to prior year balances to conform with the current year presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Standards/Updates Adopted This Year

In March 2016, the Financial Accounting Standards Board ("FASB") issued an amendment related to share-based payments to employees, which simplifies several aspects of the accounting for employee share-based payment transactions for public entities. In the first quarter of 2017, we adopted all applicable aspects of this standard on a prospective basis with the exception of the presentation of excess tax benefits on the statement of cash flows, which we adopted on a retrospective basis, and the election to account for forfeitures as they occur, which we adopted on a modified-retrospective basis. The new standard requires companies to recognize all excess tax benefits and tax deficiencies in the income statement when the awards vest or are settled, rather than recognized as additional paid-in capital in the equity section of the balance sheet. Upon adoption, we recognized \$0.2 million in discrete tax benefits related to share-based payment accounting, resulting in a lower effective tax rate. This standard also affects the average shares outstanding used in the diluted earnings per share calculation, as we no longer increase or decrease the assumed proceeds from an employee vesting in, or exercising, a share-based payment award by the amount of excess tax benefits or deficiencies taken to additional paid-in capital.

The guidance also requires excess tax benefits to be classified as an operating activity in the statement of cash flows rather than a financing activity. Retrospective application of the cash flow presentation requirement resulted in an increase to net cash provided by operating activities of \$3.8 million and a decrease to net cash provided by financing activities of \$3.8 million for the nine months ended September 30, 2016. Further, this guidance permits an entity to make an accounting policy election to either estimate forfeitures on stock compensation awards, as previously

required, or to recognize forfeitures as they occur. We elected to change our accounting policy from estimating forfeitures expected to occur to recognizing forfeitures as they occur. This change in policy did not have a material impact on our financial condition, results of operations, or cash flows.

In July 2015, the FASB issued guidance requiring inventory to be measured at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2016, and interim reporting periods within those annual reporting periods. We adopted this guidance as of January 1, 2017, when it became effective for us. There was no impact on our consolidated financial statements or results of operations as a result of adopting this standard.

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

Standards/Updates Not Yet Adopted

In January 2017, the FASB issued new guidance to simplify the accounting for goodwill impairment. The guidance removes the second step of the goodwill impairment test, which requires a hypothetical purchase price allocation. Upon adoption, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. This guidance is effective in 2020, but early adoption is permitted for any impairment tests performed after January 1, 2017. We are currently evaluating the impact that this guidance will have on our financial condition and results of operations.

In January 2017, the FASB issued an update under business combinations in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The amendments in this update provide a screen to determine when a set of assets is not of a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application is permitted for transactions for which the acquisition (or disposal) date occurs before the effective date of the amendments, if the transaction has not been reported in financial statements that have been issued or made available for issuance. We do not expect the adoption of this standard to have a material impact on our financial condition and results of operations.

In August 2016, the FASB issued guidance to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new amendment is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those periods. Adoption of this standard will not result in any material changes to our statements of cash flows.

In February 2016, the FASB issued an amendment related to leases. The new guidance requires the recognition of lease assets and lease liabilities for all of our leases greater than one year in duration that are currently classified as operating leases. The adoption of this amendment will result in a significant increase to the Company's consolidated balance sheets for lease liabilities and right-of-use assets, and we are still evaluating the other effects the adoption on our financial condition and results of operations. The evaluation process will include reviewing all forms of leases, performing a completeness assessment over the lease population, analyzing the practical expedients, and assessing the need to make any changes to our lease accounting technology system in order to determine the best implementation strategy. The standard will be adopted when it becomes effective for us in the first quarter of 2019 using a modified retrospective transition beginning with the earliest comparative period presented.

In May 2014, the FASB issued guidance that outlines a single comprehensive model for accounting for revenue arising from contracts with customers, which supersedes most of the existing revenue recognition guidance. This guidance requires an entity to recognize revenue when it transfers 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 and also requires certain additional disclosures. The guidance is effective for interim and annual reporting periods that

begin after December 15, 2017. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We primarily earn our revenue by producing and delivering ready-mixed concrete, aggregates, and related building materials, as requested by our customers primarily through purchase orders. We generally do not have significant customer contracts and do not provide post-delivery services, such as paving or finishing. As such, adoption of the new guidance should not result in significant changes in the amount of revenue recognized or the timing of when such revenue is recognized. We will adopt the new guidance in the first quarter of 2018, when it becomes effective for us, using the modified retrospective transition method.

For a description of our significant accounting policies, see Note 1 of the consolidated financial statements in our 2016 Form 10-K.

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

3. ACQUISITIONS

2017 Acquisitions

We completed four acquisitions that expanded our ready-mixed concrete and aggregate products operations during the first nine months of 2017. The total consideration was \$53.7 million, along with contingent consideration for the Corbett acquisition, as defined below, of \$23.0 million, which is based on the amount of reserves permitted and is not payable before a minimum two-year period following the acquisition date. The aggregate purchase price was comprised of \$53.5 million in cash and the assumption of a \$0.2 million working capital payable. We funded the cash portion of the acquisitions from cash on hand.

The acquisitions included the assets of the following:

- Corbett Aggregate Companies, LLC. ("Corbett") located in Quinton, New Jersey on April 7, 2017;
- Harbor Ready-Mix ("Harbor") located in Redwood City, California on September 29, 2017;
- A-1 Materials, Inc. ("A-1") and L.C. Frey Company, Inc. ("Frey") (collectively "A-1/Frey") located in San Carlos, California on September 29, 2017; and
- Action Supply Co., Inc. ("Action Supply") located in Philadelphia, Pennsylvania on September 29, 2017.

The combined assets acquired through these 2017 acquisitions included 401 acres of land with 35 million tons of proven aggregate reserves, 45 mixer trucks, 4 ready-mix concrete plants, a long-term lease with the South Jersey Port Corporation for an export dock as well as a licensing agreement with the exclusive right to move coarse and fine aggregates through the North Shore Terminal located on Staten Island, New York. See Note 11 for additional information related to contingent consideration obligations.

The recording of the Corbett, Harbor, A-1/Frey, and Action Supply business combinations is preliminary, and we expect to record adjustments as we accumulate information needed to estimate the fair value of assets acquired and liabilities assumed, including working capital balances, estimated fair value of identifiable intangible assets, property, plant, and equipment, and goodwill.

The following table presents the total consideration for the 2017 acquisitions and the preliminary amounts related to the assets acquired and liabilities assumed based on the estimated fair values as of the respective acquisition dates (in thousands):

	2017 Acquisitions
Accounts receivable ⁽¹⁾	\$ 1,126
Inventory	504
Other current assets	40
Property, plant and equipment	55,315
Definite-lived intangible assets	5,884
Total assets acquired	62,869
Current liabilities	674
Total liabilities assumed	674
Goodwill	12,164
Total consideration (fair value) ⁽²⁾	\$ 74,359

- (1) The aggregate fair value of the acquired accounts receivable approximates the aggregate gross contractual amount as of the respective acquisition dates.
- (2) Contingent consideration payments included at fair value as of the respective acquisition dates.

The accounting for business combinations requires the significant use of estimates and is based on information that was available to management at the time these condensed consolidated financial statements were prepared. We utilized recognized valuation techniques, including the income approach, sales approach, and cost approach to value the net assets acquired. Any changes to the provisional business combination accounting will be made as soon as practical, but no later than one year from the respective acquisition dates.

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

2016 Acquisitions

During 2016, we completed four acquisitions that expanded our ready-mixed concrete operations in the New York Metropolitan market for total consideration of \$142.8 million. The acquisitions included the assets of the following ready-mixed concrete plants in New York:

- Greco Brothers Concrete of L.I., Inc. ("Greco"), located in Brooklyn on February 26, 2016;
- Nycon Supply Corp. ("Nycon"), located in Queens on June 24, 2016;
- Jenna Concrete Corp. ("Jenna"), located in Bronx on August 10, 2016; and
- Kings Ready Mix Inc. ("Kings"), located in Brooklyn on August 22, 2016.

The combined assets acquired through the New York acquisitions included land, 10 ready-mixed concrete plants, and a fleet of 189 mixer trucks. In addition, on March 31, 2016, and September 13, 2016, we acquired two individually immaterial ready-mixed concrete operations in our West Texas market for total consideration of \$3.5 million.

The aggregate consideration for these six acquisitions included \$131.7 million in cash, \$6.1 million in payments deferred over a three-year period, the issuance of \$1.0 million of credits applied against existing trade accounts receivable, plus 136,215 shares of our common stock, calculated in accordance with the terms of the purchase agreement, and valued at approximately \$7.5 million on the date of issuance. We funded the cash portion of these acquisitions through a combination of cash on hand and borrowings under our asset-based revolving credit facility (the "Revolving Facility").

The following table presents the total consideration for the 2016 acquisitions and the final amounts related to the assets acquired and liabilities assumed based on the fair values as of the respective acquisition dates (in thousands):

	2016 Acquisitions
Cash	\$ 9
Accounts receivable ⁽¹⁾	12,314
Inventory	1,249
Other current assets	68
Property, plant and equipment	34,918
Definite-lived intangible assets	47,144
Total assets acquired	95,702
Current liabilities	7,055
Other long-term liabilities	3,713
Total liabilities assumed	10,768
Goodwill	60,583
Total consideration (fair value) ⁽²⁾	\$ 145,517

(1) The aggregate fair value of the acquired accounts receivable approximates the aggregate gross contractual amount as of the respective acquisition dates.

(2) Deferred payments included at fair value as of the respective acquisition dates.

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

Acquired Intangibles

The major classes of intangible assets acquired in 2016 and 2017 were as follows (in thousands of dollars):

	Weighted Average Amortization Period (In Years)	Fair Value At Acquisition Date
Customer relationships	6.00	\$ 37,764
Non-compete agreements	5.00	5,807
Leasehold interests	5.00	4,955
Trade names	4.95	4,118
Favorable Contract	3.67	384
Total		\$ 53,028

The amortization periods of these intangible assets range from seven months to ten years. As of September 30, 2017, the estimated future aggregate amortization expense of definite-lived intangible assets from the acquisitions was as follows (in thousands):

	Year Ending December 31,
2017 (remainder of the year)	\$ 2,350
2018	9,398
2019	9,133
2020	8,604
2021	7,679
Thereafter	5,427
Total	\$ 42,591

Also included in other non-current liabilities in the accompanying condensed consolidated balance sheets is an unfavorable lease intangible with a gross carrying amount of \$0.4 million and a net carrying amount of \$0.3 million as of September 30, 2017. This unfavorable lease intangible will be amortized over its remaining lease term.

During the three and nine months ended September 30, 2017, we recorded \$2.1 million and \$6.5 million of net amortization expense and during both the three and nine months ended September 30, 2016, we recorded \$1.0 million of net amortization expense related to these intangible assets and unfavorable lease intangibles.

The goodwill ascribed to each of the 2016 and 2017 acquisitions is related to the synergies we expect to achieve with expansion in the markets in which we already operate as well as entry into new metropolitan areas of our existing geographic markets. The goodwill for the 2016 and 2017 acquisitions relates primarily to our ready-mixed concrete reportable segment. See Note 6 for the allocation of goodwill to our segments. We expect the goodwill to generally be deductible for tax purposes. See Note 12 for additional information regarding income taxes.

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

Actual and Pro Forma Impact of Acquisitions

During the three months ended September 30, 2017, we recorded approximately \$39.9 million of revenue and \$4.8 million of operating income in our condensed consolidated statements of operations related to the 2016 and 2017 acquisitions. During the three months ended September 30, 2016, we recorded approximately \$31.8 million of revenue and \$6.2 million of operating income in our condensed consolidated statements of operations related to the 2016 acquisitions.

During the nine months ended September 30, 2017, we recorded approximately \$122.0 million of revenue and \$17.4 million of operating income in our condensed consolidated statements of operations related to the 2016 and 2017 acquisitions. During the nine months ended September 30, 2016, we recorded approximately \$34.9 million of revenue and \$6.2 million of operating income in our condensed consolidated statements of operations related to the 2016 acquisitions.

The unaudited pro forma information presented below reflects the combined financial results for the 2016 and 2017 acquisitions, excluding the two 2016 individually immaterial acquisitions in West Texas described above, because historical financial results for these operations were not material and were impractical to obtain from the former owners. All other 2016 and 2017 acquisitions have been included and represent our estimate of the results of operations for the three and nine months ended September 30, 2017 and 2016, as if the 2017 acquisitions had been completed on January 1, 2016, and the 2016 acquisitions had been completed on January 1, 2015 (in thousands, except per share information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$361,262	\$349,431	\$1,026,865	\$972,564
Net income (loss)	\$24,813	\$40,128	\$31,869	\$31,397
Net income per share, basic	\$1.55	\$2.64	\$2.02	\$2.10
Net income per share, diluted	\$1.49	\$2.47	\$1.92	\$1.94

The above pro forma results are unaudited and were prepared based on the historical U.S. GAAP results of the Company and the historical results of the acquired companies for which financial information was available, based on data provided by the former owners. These results are not necessarily indicative of what the Company's actual results would have been had the 2017 acquisitions occurred on January 1, 2016, and the 2016 acquisitions occurred on January 1, 2015.

The unaudited pro forma net income (loss) and net income (loss) per share amounts above reflect the following adjustments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Decrease (increase) in intangible amortization expense	\$(203)	\$(1,655)	\$(538)	\$(6,254)

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Exclusion of buyer transaction costs	\$334	\$584	\$867	\$1,395
Decrease (increase) in interest expense	\$54	\$(9)	\$224	\$(193)
Decrease (increase) in income tax expense	\$279	\$969	\$(607)	\$(4,725)

The unaudited pro forma results do not reflect any operational efficiencies or potential cost savings that may occur as a result of consolidation of the operations.

U.S. CONCRETE, INC. AND SUBSIDIARIES
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4. DISCONTINUED OPERATIONS

Discontinued operations primarily relate to real estate leases and subleases of our former precast concrete operations disposed of in prior years. The lease obligations will expire by June 30, 2018.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$—	\$48	\$—	\$48
Operating expenses	363	316	858	887
Loss from discontinued operations, before income taxes	(363)	(268)	(858)	(839)
Income tax benefit	(141)	(102)	(334)	(321)
Loss from discontinued operations, net of taxes	\$(222)	\$(166)	\$(524)	\$(518)

Cash flows from operating activities included operating cash flows used in discontinued operations of \$0.6 million and \$0.4 million during the nine months ended September 30, 2017 and 2016, respectively. Cash flows from investing activities included investing cash flows provided by discontinued operations of \$0.6 million and \$0.4 million for the nine months ended September 30, 2017 and 2016, respectively.

5. INVENTORIES

Inventories as of September 30, 2017, and December 31, 2016, consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Raw materials	\$ 41,486	\$ 38,752
Building materials for resale	2,263	1,923
Other	1,680	1,304
Total inventories	\$ 45,429	\$ 41,979

6. GOODWILL AND OTHER INTANGIBLES

Goodwill

The changes in goodwill by reportable segment from December 31, 2016, to September 30, 2017, were as follows (in thousands):

	Ready-Mixed Concrete Segment	Mixed Aggregate Products Segment	Other Non-Reportable Segments	Total
Balance at December 31, 2016	\$ 127,515	\$ 2,494	\$ 3,262	\$ 133,271
2017 acquisitions ⁽¹⁾	12,164	—	—	12,164
Adjustment for prior period business combination ⁽²⁾	549	1,176	—	1,725
Balance at September 30, 2017	\$ 140,228	\$ 3,670	\$ 3,262	\$ 147,160

(1) The measurement period adjustments for the 2017 acquisitions recorded during the nine months ended September 30, 2017, primarily included the impact of recording a \$0.9 million definite-lived intangible asset. (See Note 3)

Reflects a \$1.2 million correction to the change in the acquisition accounting for a 2015 acquisition and a \$0.5 million adjustment related to determination of the conclusion of tax attributes as of the acquisition date for a 2016 (2) acquisition. The correction to the 2015 acquisition accounting was recorded in the current period as it was not material to the prior periods and had no impact on the Condensed Consolidated Statements of Operations of any period.

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Other Intangibles

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

	As of September 30, 2017			Weighted Average Remaining Life (In Years)
	Gross	Accumulated Amortization	Net	
Definite-lived intangible assets				
Customer relationships	\$85,993	\$ (25,041)	\$60,952	5.30
Trade names	45,756	(7,353)	38,403	19.62
Non-competes	17,375	(7,673)	9,702	3.24
Leasehold interests	12,480	(2,956)	9,524	6.85
Favorable contracts	4,034	(2,708)	1,326	1.54
Total definite-lived intangible assets	165,638	(45,731)	119,907	9.79
Indefinite-lived intangible assets				
Land rights ⁽¹⁾	1,478	—	1,478	
Total purchased intangible assets	\$167,116	\$ (45,731)	\$121,385	

(1) Land rights acquired in a prior year acquisition will be reclassified to property, plant, and equipment upon the division of certain shared properties and settlement of the associated deferred payment.

	As of December 31, 2016			Weighted Average Remaining Life (In Years)
	Gross	Accumulated Amortization	Net	
Definite-lived intangible assets				
Customer relationships	\$82,174	\$ (16,414)	\$65,760	5.97
Trade names	44,456	(4,948)	39,508	20.20
Non-competes	16,862	(5,160)	11,702	3.81
Leasehold interests	12,480	(1,693)	10,787	7.46
Favorable contract	3,650	(1,912)	1,738	1.67
Total definite-lived intangible assets	159,622	(30,127)	129,495	10.19
Indefinite-lived intangible assets				
Land rights ⁽¹⁾	1,478	—	1,478	
Total purchased intangible assets	\$161,100	\$ (30,127)	\$130,973	

(1) Land rights acquired in a prior year acquisition will be reclassified to property, plant, and equipment upon the division of certain shared properties and settlement of the associated deferred payment.

U.S. CONCRETE, INC. AND SUBSIDIARIES
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As of September 30, 2017, the estimated remaining amortization of our definite-lived intangible assets was as follows (in thousands):

	Year Ending December 31,
2017 (remainder of the year)	\$ 5,362
2018	21,018
2019	19,176
2020	16,985
2021	15,561
Thereafter	41,805
Total	\$ 119,907

Also included in other non-current liabilities in the accompanying condensed consolidated balance sheets are unfavorable lease intangibles with a gross carrying amount of \$1.5 million and a net carrying amount of \$1.1 million as of September 30, 2017, which have a weighted average remaining life of 5.14 years.

We recorded \$5.1 million and \$4.2 million of amortization expense on our definite-lived intangible assets and unfavorable lease intangibles for the three months ended September 30, 2017 and 2016, respectively. We recorded \$15.4 million and \$11.1 million of amortization expense on our definite-lived intangible assets and unfavorable lease liabilities for the nine months ended September 30, 2017 and 2016, respectively. This amortization expense is included in the accompanying condensed consolidated statements of operations.

7. ACCRUED LIABILITIES

Our accrued liabilities were as follows (in thousands):

	September 30, 2017	December 31, 2016
Accrued materials	\$ 17,827	\$ 20,349
Accrued compensation and benefits	16,724	16,553
Accrued insurance reserves	16,409	15,206
Accrued interest	12,871	2,217
Accrued property, sales and other taxes	8,811	11,829
Deferred consideration	6,448	9,227
Contingent consideration, current portion	2,322	2,418
Deferred rent	2,270	2,232
Other	6,881	5,212
Total accrued liabilities	\$ 90,563	\$ 85,243

U.S. CONCRETE, INC. AND SUBSIDIARIES
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8. DEBT

Our debt and capital leases were as follows (in thousands):

	September 30, 2017	December 31, 2016
Senior unsecured notes due 2024 and unamortized premium ⁽¹⁾	\$610,337	\$400,000
Senior secured credit facility	—	—
Capital leases	62,490	37,860
Other financing	26,817	20,248
Debt issuance costs	(11,226)	(8,810)
Total debt	688,418	449,298
Less: current maturities	(24,938)	(16,654)
Long-term debt, net of current maturities	\$663,480	\$432,644

⁽¹⁾ The effective interest rates for these notes as of September 30, 2017, and December 31, 2016, were 6.56% and 6.62%, respectively.

Senior Unsecured Notes due 2024

In 2016, we issued \$400.0 million aggregate principal amount of 6.375% senior unsecured notes due 2024 (the "2024 Notes"). On January 9, 2017, we completed an offering of \$200.0 million aggregate principal amount of additional 2024 Notes (the "Additional Notes," and together with the 2024 Notes, the "Senior Unsecured Notes") at an issue price of 105.75%. The terms of the Additional Notes are identical to the terms of the 2024 Notes, other than the issue date, the issue price, the first interest payment date, and the provisions relating to transfer restrictions and registration rights. We used the net proceeds from the offering of the Additional Notes, which were approximately \$208.4 million, to increase our liquidity.

The Senior Unsecured Notes are governed by an indenture (the "Indenture") dated as of June 7, 2016, by and among U.S. Concrete, Inc., as issuer, the subsidiary guarantors party thereto, and U.S. Bank National Association, as trustee. The Senior Unsecured Notes accrue interest at a rate of 6.375% per annum. We pay interest on the Senior Unsecured Notes on June 1 and December 1 of each year. The Senior Unsecured Notes mature on June 1, 2024, and are redeemable at our option prior to maturity at prices specified in the Indenture. The Indenture contains negative covenants that restrict our ability and our restricted subsidiaries' ability to engage in certain transactions, as described below, and also contains customary events of default.

The Indenture contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- incur additional debt or issue disqualified stock or preferred stock;
- pay dividends or make other distributions, repurchase or redeem our stock or subordinated indebtedness or make certain investments;
- sell assets and issue capital stock of our restricted subsidiaries;
- incur liens;
-

allow to exist certain restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us;

enter into certain transactions with affiliates;

consolidate, merge or sell all or substantially all of our assets; and

designate our subsidiaries as unrestricted subsidiaries.

U.S. CONCRETE, INC. AND SUBSIDIARIES
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The Senior Unsecured Notes are issued by U.S. Concrete, Inc. (the "Parent"). Our obligations under the Senior Unsecured Notes are jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by each of our restricted subsidiaries that guarantees any obligations under the Revolving Facility or that guarantees certain of our other indebtedness or certain indebtedness of our restricted subsidiaries (other than foreign restricted subsidiaries that guarantee only indebtedness incurred by another foreign subsidiary).

U.S. Concrete, Inc. does not have any independent assets or operations, and none of its foreign subsidiaries guarantee the Senior Unsecured Notes. There are no significant restrictions on the ability of the Company or any guarantor to obtain funds from its subsidiaries by dividend or loan. For additional information regarding our guarantor and non-guarantor subsidiaries, see the information set forth in Note 16.

The Senior Unsecured Notes and the guarantees thereof are effectively subordinated to all of our and our guarantors' existing and future secured obligations, including obligations under the Revolving Facility, to the extent of the value of the collateral securing such obligations; senior in right of payment to any of our and our guarantors' future subordinated indebtedness; pari passu in right of payment with any of our and our guarantors' existing and future senior indebtedness, including our and our guarantors' obligations under the Revolving Facility; and structurally subordinated to all existing and future indebtedness and other liabilities, including preferred stock, of any non-guarantor subsidiaries.

Senior Secured Credit Facility

On August 31, 2017, we entered into the Third Amended and Restated Loan and Security Agreement (the "Third Loan Agreement") with certain financial institutions named therein as lenders (the "Lenders") and Bank of America, N.A., as agent for the Lenders, which amended and restated the Second Amended and Restated Loan and Security Agreement, dated as of November 18, 2015 (the "Second Loan Agreement"). Among other things, the Third Loan Agreement increased the revolving commitments from \$250.0 million to \$350.0 million and extended the maturity date to August 31, 2022. The Third Loan Agreement also amended certain terms of the Second Loan Agreement, including, without limitation, a provision to permit the incurrence of other secured indebtedness up to amounts specified in the Third Loan Agreement. As of September 30, 2017, we had no outstanding borrowings on the Third Loan Agreement, and we had \$14.3 million of undrawn standby letters of credit under the Revolving Facility.

Our actual maximum credit availability under the Revolving Facility varies from time to time and is determined by calculating the value of our eligible accounts receivable, inventory, mixer trucks and machinery, minus reserves imposed by the Lenders and other adjustments, all as specified in the Third Loan Agreement. Our maximum availability under the Revolving Facility at September 30, 2017, was \$245.8 million as compared to \$221.3 million at December 31, 2016. The Third Loan Agreement also contains a provision for over-advances and protective advances by Lenders, in each case, of up to \$25.0 million in excess of borrowing base levels and provides for swingline loans, up to a \$15.0 million sublimit.

Up to \$50.0 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. Loans under the Revolving Facility may not exceed a borrowing base as defined in the Third Loan Agreement.

The Third 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 Third

Loan Agreement. As of September 30, 2017, we were in compliance with all covenants under the Third Loan Agreement.

The Third Loan Agreement is secured by a first priority lien on substantially all of the personal property of the Company and our guarantors, subject to permitted liens and certain exceptions.

Capital Leases and Other Financing

We have a series of promissory notes with various lenders for the purchase of mixer trucks and other machinery and equipment in an aggregate original principal amount of \$44.4 million, with fixed annual interest rates ranging from 2.50% to 4.64%, payable monthly with terms ranging from one to five years.

U.S. CONCRETE, INC. AND SUBSIDIARIES
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We have leasing agreements with various other lenders for the purchase of mixer trucks and other machinery and equipment for a total original principal amount of \$82.3 million, with fixed annual interest rates ranging from less than 0.01% to 5.24%, payable monthly for terms ranging from two to seven years. The lease agreements include bargain purchase options at the end of the lease terms; accordingly, these financings have been classified as capital leases. The current portion of capital leases included in current maturities of long-term debt was \$16.2 million as of September 30, 2017, and \$9.8 million as of December 31, 2016.

The weighted average interest rate of our capital leases and other financings was 3.30% as of September 30, 2017, and 3.11% as of December 31, 2016.

9. WARRANTS

In 2010, we issued warrants to acquire common stock 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 (collectively, the "Warrants"). The Warrants were issued to holders of our predecessor common stock pro rata based on a holder's stock ownership as of the issuance date and expired on August 31, 2017. The Warrants were included in derivative liabilities in the accompanying condensed consolidated balance sheet as of December 31, 2016, (see Note 10) and were recorded at their fair value (see Note 11). The Warrants were treated as potentially dilutive securities in the calculation of diluted earnings (loss) per share as shares of our common stock would have been issued if the Warrants had been exercised. A total of 112,638 Class A Warrants and 114,775 Class B Warrants expired unexercised on August 31, 2017.

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. DERIVATIVES

Prior to their expiration on August 31, 2017, we were required to account for our warrants as derivative instruments, which were not used to manage business risk and were not executed for speculative purposes.

The following table presents the fair value of our derivative instruments as of September 30, 2017, and December 31, 2016 (in thousands):

Derivative Instruments Not Designated As Hedging Instruments Under ASC 815	Balance Sheet Classification	Fair Value September 30, 2017 December 31, 2016
Warrants	Derivative liabilities	\$-\$57,415

The following table presents the effect of derivative instruments on our condensed consolidated statements of operations for the three and nine months ended September 30, 2017 and 2016, respectively, excluding income tax effects (in thousands):

Derivative Instruments Not Designated As Hedging Instruments Under ASC 815	Classification in Statement of Operations	Three Months Ended September 30, 2017	
Warrants	Derivative loss (income)	\$(13,119)	\$(21,772)

Derivative Instruments Not Designated As Hedging Instruments Under ASC 815	Classification in Statement of Operations	Nine Months Ended September 30, 2017	
Warrants	Derivative loss (income)	\$791	\$(6,430)

Warrant volume positions represent the number of shares of common stock underlying the instruments. The table below presents our volume positions as of September 30, 2017, and December 31, 2016 (in thousands):

Derivative Instruments Not Designated As Hedging Instruments Under ASC 815	Number of Shares September 30, 2017 December 31, 2016
Warrants	-1,395

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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11. 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 tra