

US CONCRETE INC
Form 10-K
March 16, 2006

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

FORM 10-K

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

For the fiscal year ended December 31, 2005

Commission file number 000-26025

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)*

2925 Briarpark, Suite 1050, Houston, Texas 77042
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (713) 499-6200

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

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

Common Stock, par value \$.001
(Title of class)

Nasdaq National Market
(Name of exchange on which registered)

**Rights to Purchase Series A Junior
Participating Preferred Stock**
(Title of class)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes No

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

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Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)

Yes No

Aggregate market value of the voting stock held by nonaffiliates of the registrant computed by reference to the last reported sale price of \$6.47 of the registrant's common stock on the Nasdaq National Market as of June 30, 2005, the last business day of the registrant's most recently completed second quarter: \$150,843,456

There were 38,244,766 shares of common stock, par value \$.001 per share, of the registrant outstanding as of March 10, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement related to the registrant's 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

U.S. CONCRETE, INC.

FORM 10-K
For the Year Ended December 31, 2005

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Cautionary Statement Concerning Forward-Looking Statements

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential security holders about our company. These statements may include projections and estimates concerning our business strategies, revenues, income, cash flows and capital requirements. Forward-looking statements generally use words such as estimate, project, predict, believe, expect, anticipate, plan, forecast, budget, goal or other words that convey the uncertainty of future events or outcomes. In addition, some we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

Various statements this report contains, including those that express a belief, expectation or intention and those that are not statements of historical fact, are forward-looking statements under the Private Securities Litigation Reform Act of 1995. Those forward-looking statements appear in Item 1 Business, Item 2 Properties, Item 3 Legal Proceedings, Item 7 Management's Discussion and Analysis of Financial Condition Results of Operations, Item 7A Quantitative and Qualitative Disclosures About Market Risk, Item 9A Controls and Procedures and elsewhere in this report, including in the notes to our Consolidated Financial Statements in Item 8 of this report. Those forward-looking statements speak only as of the date of this report. We disclaim any obligation to update those statements, and we caution you not to rely unduly on them. We have based those forward-looking statements on our current expectations and assumptions about future events, which may prove to be inaccurate. While our management considers those expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those we discuss in this report under the section entitled Risk Factors in Item 1A and the section entitled Risks and Uncertainties in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, and in other reports we file with the Securities and Exchange Commission (the SEC). The factors we discuss in this report are not necessarily all the important factors that could affect us. Unpredictable or unknown factors we have not discussed in this report also could have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises. We advise our existing and potential security holders that they should (1) be aware that important factors to which we do not refer in this report could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

PART I

Item 1. Business General

We are a major producer of ready-mixed concrete and concrete-related products in select markets in the United States. We are a leading ready-mixed concrete producer in substantially all the markets in which we have ready-mixed concrete operations. Ready-mixed concrete is an important building material that is used in the vast majority of commercial, residential and public works construction projects.

We operate principally in California, New Jersey, Michigan and Texas, with those states representing 43%, 18%, 10% and 10%, respectively, of our net sales for the year ended December 31, 2005. According to publicly available industry information, those states represented an aggregate of 28.1% of the U.S. consumption of ready-mixed concrete in 2005 (California, 12.4%, New Jersey, 1.6%, Michigan, 2.4% and Texas, 11.7%). We believe the geographic scope of our operations enables us to achieve cost savings through consolidated purchasing, to reduce our administrative costs and to moderate the impact of regional economic cycles and weather conditions. Our consolidated revenues for the year ended December 31, 2005 were \$575.7 million, of which we derived approximately 79% from the sale of ready-mixed concrete and 21% from the sale of other concrete and concrete-related products and aggregates. For information on our consolidated revenues and income from operations for the years ended December 31, 2005, 2004 and 2003 and our consolidated total assets as of December 31, 2005 and 2004, see our Consolidated Financial Statements included in this report.

As of March 10, 2006, we had 100 fixed and seven portable ready-mixed concrete plants, eight precast concrete plants, three concrete block plants and two aggregates quarries. During 2005, these facilities produced approximately 6.2 million cubic yards of ready-mixed concrete, 4.8 million eight-inch equivalent block units and 1.6 million tons of aggregates.

Our operations consist principally of formulating, preparing and delivering ready-mixed concrete to the job sites of our customers. We also provide services intended to reduce our customers' overall construction costs by lowering the installed, or in-place, cost of concrete. These services include the formulation of mixtures for specific design uses, on-site and lab-based product quality control and customized delivery programs to meet our customers' needs. Our marketing efforts primarily target general contractors, developers and home builders whose focus extends beyond the price of ready-mixed concrete to product quality, product consistency and reduction of in-place concrete costs.

In addition, we manufacture and deliver various precast and concrete masonry products for the construction industry. These businesses are complementary to our ready-mixed concrete operations and provide us opportunities to cross-sell various products in markets in which we sell both ready-mixed concrete and other concrete products.

U.S. Concrete, Inc. is a Delaware corporation which was incorporated in 1997. We began operations in 1999 on completion of our initial public offering. In this report, we refer to U.S. Concrete, Inc. and its subsidiaries as we, us or U.S. Concrete unless we specifically state otherwise or the context indicates otherwise.

Industry Overview

General

Ready-mixed concrete is a highly versatile construction material that results from combining coarse and fine aggregates, such as gravel, crushed stone and sand, with water, various admixtures and cement. Ready-mixed concrete can be manufactured in thousands of variations, which in each instance may reflect a specific design use. Manufacturers of ready-mixed concrete generally maintain only a few days' inventory of raw materials and must coordinate their daily materials purchases with the time-sensitive delivery requirements of their customers.

The quality of ready-mixed concrete is time-sensitive, as it becomes difficult to place within 90 minutes after mixing. Many ready-mixed concrete specifications do not allow for its placement beyond that time. Consequently, the market for a permanently installed ready-mixed concrete plant generally is limited to an area within a 25-mile radius of its location. Concrete manufacturers produce ready-mixed concrete in batches at their plants and use mixer and other trucks to distribute and place it at the job sites of their customers. These manufacturers generally do not provide paving or other finishing services, which construction contractors or subcontractors typically perform.

Concrete manufacturers generally obtain contracts through local sales and marketing efforts they direct at general contractors, developers and home builders. As a result, local relationships are very important.

Based on information from the National Ready-Mixed Concrete Association, we estimate that, in addition to vertically integrated manufacturers of cements and aggregates, over 2,300 independent ready-mixed concrete producers currently operate approximately 6,000 plants in the United States. Larger markets generally have numerous producers competing for business on the basis of price, timing of delivery and reputation for quality and service.

Annual usage of ready-mixed concrete in the United States remains near record levels. According to information available from the National Ready-Mixed Concrete Association and F.W. Dodge, total sales from the production and delivery of ready-mixed concrete in the United States over the past three years were as follows (in millions):

2005	\$ 33,219
2004	\$ 29,109
2003	\$ 26,938

As an important material for construction and repair, ready-mixed concrete historically benefited from relatively stable demand and pricing but has experienced significant price increases over the past 18 months, driven largely by strong construction activity and increases in cement prices.

According to recently published F.W. Dodge data, the four major segments of the construction industry accounted for the following approximate percentages of the total volume of ready-mixed concrete produced in the United States in 2005:

Residential construction	34%
Commercial and industrial construction	19%
Street and highway construction and paving	18%
Other public works and infrastructure construction	29%

Historically, barriers to the start-up of a new ready-mixed concrete manufacturing operation were low. During the past several years, public concerns about dust, process water runoff, noise and heavy mixer and other truck traffic associated with the operation of ready-mixed concrete plants and their general appearance have made obtaining the permits and licenses required for new plants more difficult. Delays in the regulatory process, coupled with the substantial capital investment that start-up operations entail, have raised the barriers to entry for those operations.

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For a discussion of the seasonality of the ready-mixed concrete industry generally, see *Risk Factors*. Our operating results may vary significantly from reporting period to reporting period and may be adversely affected by the seasonal and cyclical nature of the markets we serve and *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Overview* in Item 7 of this report.

Significant Factors Impacting the Market for Ready-Mixed Concrete

On the basis of available industry information, we believe that ready-mixed concrete revenue as a percentage of total construction expenditures in the United States has increased over the last five years. In addition to favorable trends in the overall economy of the United States, we believe three significant factors have been expanding the market for ready-mixed concrete in particular:

- the increased level of industry-wide promotional and marketing activities;
- the development of new and innovative uses for ready-mixed concrete; and
- the enactment of federal highway funding legislation.

Industry-wide Promotional and Marketing Activities. We believe industry participants have only since the 1990s focused on and benefited from promotional activities to increase the industry's share of street and highway construction, commercial and industrial construction and residential construction expenditures. Many of these promotional efforts resulted from an industry-wide initiative called RMC 2000, a program established in 1993 under the leadership of our chief executive officer, Eugene P. Martineau. The National Ready-Mixed Concrete Association, the industry's largest trade organization, has adopted this program. The program's principal goals have been to (1) promote ready-mixed concrete as a building and paving material, (2) improve the overall image of the ready-mixed concrete industry and (3) improve financial returns for producers of ready-mixed concrete. We believe RMC 2000 has been a catalyst for increased investment in the promotion of concrete.

Development of Concrete Products. Concrete has many attributes that make it a highly versatile construction material. In recent years, industry participants have developed various uses for concrete products, including:

- concrete housing;
- precast modular paving stones;
- pre-stressed concrete railroad ties to replace wood ties;
- flowable fill for backfill applications;
- continuous-slab rail-support systems for rapid transit and heavy-traffic rail lines; and
- concrete bridges, tunnels and other structures for rapid transit systems.

Other examples of successful innovations that have opened new markets for concrete include:

- overlaying asphalt pavement with concrete, or white topping ;
- highway median barriers;
- highway sound barriers;
- paved shoulders to replace less permanent and increasingly costly asphalt shoulders;
- pervious concrete parking lots providing a long-lasting and aesthetically pleasing urban environment; and
- colored pavements to mark entrance and exit ramps and lanes of expressways.

Federal Highway Funding Legislation. In August 2005, President Bush signed a six-year, \$244.1 billion transportation reauthorization act known as the Safe, Accountable, Flexible and Efficient Transportation Equity Act: A Legacy for Users. The new law funds, among other things, federal bridge and highway construction programs. While we do not expect this new law to affect our revenues materially in 2006, we believe that the new law may lead to market opportunities for our products and a strong base for the public works construction segment for the future.

Our Business Strategy

Our objectives are to become the leading provider of ready-mixed concrete and related concrete products in each of our markets, to further expand the geographic scope of our business and, on a select basis, to integrate our operations vertically through acquisitions of aggregates supply sources that support our ready-mixed concrete operations. We plan to achieve this objective by continuing to implement our business strategy, which includes the primary elements we discuss below.

Pursuing Disciplined Growth Through Acquisitions

The U.S. ready-mixed concrete industry, with over 2,300 small, independent producers, is a fragmented but increasingly consolidating industry. We believe these industry characteristics present growth opportunities for a company with a focused acquisition program and access to capital.

Our acquisition program targets opportunities for expanding in our existing markets and entering new geographic markets in the U.S. We typically pursue acquisitions that we believe represent attractive opportunities to strengthen local management teams, implement cost-saving initiatives, achieve market-leading positions and establish best practices. We adhere to a disciplined pricing methodology when acquiring businesses. Based on our methodology for valuing, acquiring and integrating target businesses, we expect our future acquisitions to be accretive to our earnings per share after a reasonable period of integration. We cannot provide any assurance, however, as to the impact of any future acquisition we may complete on our future earnings per share.

Expanding in Existing Markets. We seek to further penetrate our markets by acquiring other well-established companies in those markets. We have completed follow-on acquisitions in substantially all of our ready-mixed concrete markets. By expanding in existing markets through acquisitions, we strive to:

- eliminate duplicate staff and facilities and reduce material and operating costs and other selling, general and administrative expenses;

- increase customer cross-selling opportunities; and

- improve utilization and range of mixer trucks through access to additional plants.

Entering New Geographic Markets. We seek to enter new geographic markets that demonstrate prospects for growth. In any new market we enter, we will target for acquisition one or more leading local or regional companies that can serve as platform businesses into which we can consolidate other operations. We generally expect these platform acquisition candidates to have historically successful operating results, established customer relationships and superior operational management personnel whom we will be able to retain.

We believe there are numerous potential acquisition candidates in our existing markets and in new markets. Although we have no binding agreement to effect any acquisition, we have experienced increases in inquiries and similar communications with brokers and other representatives of potential acquisition candidates over the past year, and we are currently evaluating several potential acquisitions. We are currently a party to several nonbinding letters of intent relating to potential acquisitions of ready-mixed concrete and related businesses. We expect the economic and other industry conditions supporting recent consolidation activity within the industry will continue into the foreseeable future.

Improving Marketing and Sales Initiatives

Our marketing strategy emphasizes the sale of value-added products to customers more focused on reducing their in-place building material costs than on the price per cubic yard of the ready-mixed concrete they purchase. Key elements of our customer-focused approach include:

- corporate-level marketing and sales expertise;

- technical service expertise to develop innovative new branded products; and

- training programs that emphasize successful marketing and sales techniques that focus on the sale of high-margin concrete mix designs.

We have also formed strategic alliances with several national companies to provide alternative solutions for designers and contractors by using value-added concrete products. Through these alliances, we offer color-conditioned, fiber-reinforced and high-performance concretes and utilize software technology that can be used to design buildings constructed of reinforced concrete.

Promoting Operational Excellence and Achieving Cost Efficiencies

We strive to be an operationally excellent organization by:

- implementing and enhancing standard operating procedures;
- standardizing plants and equipment;
- investing in software and communications technology;
- implementing company-wide quality-control initiatives;
- providing technical expertise to optimize mix designs; and
- developing strategic alliances with key suppliers of goods and services for new product development.

We also strive to increase operating efficiencies. We believe that, if we continue to increase in size on both a local and national level, we should continue to experience future productivity and cost improvements in such areas as:

- materials, through procurement and optimized mix designs;
- purchases of mixer trucks and other equipment, supplies, spare parts and tools;
- vehicle and equipment maintenance; and
- insurance and other risk management programs.

Products and Services

Ready-Mixed Concrete. Our ready-mixed concrete products consist of proportioned mixes we prepare and deliver in an unhardened plastic state for placement and shaping into designed forms. Selecting the optimum mix for a job entails determining not only the ingredients that will produce the desired permeability, strength, appearance and other properties of the concrete after it has hardened and cured, but also the ingredients necessary to achieve a workable consistency considering the weather and other conditions at the job site. We believe we can achieve product differentiation for the mixes we offer because of the variety of mixes we can produce, our volume production capacity and our scheduling, delivery and placement reliability. We also believe we distinguish ourselves with our value-added service approach that emphasizes reducing our customers' overall construction costs by reducing the in-place cost of concrete and the time required for construction.

From a contractor's perspective, the in-place cost of concrete includes both the amount paid to the ready-mixed concrete manufacturer and the internal costs associated with the labor and equipment the contractor provides. A contractor's unit cost of concrete is often only a small component of the total in-place cost that takes into account all the labor and equipment costs required to build the forms for the ready-mixed concrete and place and finish the ready-mixed concrete, including the cost of additional labor and time lost as a result of substandard products or delivery delays not covered by warranty or insurance. By carefully designing proper mixes and using advances in mixing technology, we can assist our customers in reducing the amount of reinforcing steel, time and labor they will require in various applications.

We provide a variety of services in connection with our sale of ready-mixed concrete that can help reduce our customers' in-place cost of concrete. These services include:

- production of formulations and alternative product recommendations that reduce labor and materials costs;
- quality control, through automated production and laboratory testing, that ensures consistent results and minimizes the need to correct completed work; and
- automated scheduling and tracking systems that ensure timely delivery and reduce the downtime incurred by the customer's placing and finishing crews.

We produce ready-mixed concrete by combining the desired type of cement, sand, gravel and crushed stone with water and, typically, one or more admixtures. These admixtures, such as chemicals, minerals and fibers, determine the usefulness of the product for particular applications.

We use a variety of chemical admixtures to achieve one or more of five basic purposes:

- to relieve internal pressure and increase resistance to cracking in subfreezing weather;
- to retard the hardening process to make concrete more workable in hot weather;
- to strengthen concrete by reducing its water content;
- to accelerate the hardening process and reduce the time required for curing; and
- to facilitate the placement of concrete having low water content.

We frequently use various mineral admixtures as supplementary cementing materials to alter the permeability, strength and other properties of concrete. These materials include fly ash, ground granulated blast-furnace slag and silica fume.

We also use fibers, such as steel, glass and synthetic and carbon filaments, as additives in various formulations of concrete. Fibers help to control shrinkage cracking, thus reducing permeability and improving abrasion resistance. In many applications, fibers replace welded steel wire and reinforcing bars. Relative to the other components of ready-mixed concrete, these additives generate comparatively high margins.

Precast Concrete. We produce precast concrete products at eight plants in three states, including six in California. Our precast concrete products consist of concrete we produce and then pour into molds at our plant sites. These operations produce a wide variety of specialized finished products, including specialty-engineered structures, custom signage, manholes, catch basins, highway barriers and curb inlets. After the concrete sets, we strip the molds from the products and ship the finished product to our customers. Because these products are not perishable, precast concrete plants can serve a much larger market than ready-mixed concrete plants. Our precast operations in northern California and Delaware are located near our ready-mixed concrete operations.

Building Materials. Our building materials operations supply various resale materials, products and tools contractors use in the concrete construction industry. These materials include rebar, wire mesh, color additives, curing compounds, grouts, wooden forms and numerous other items. Our building materials operations are located near several of our ready-mixed concrete operations in northern California, central New Jersey, Michigan and Delaware.

Aggregates. We produce crushed stone aggregates from our granite quarry in northern New Jersey. We sell these aggregates for use in commercial, residential and public works projects primarily in that area and in Orange County, New York. We acquired the quarry in January 2002 principally to expand our market presence in northern New Jersey and to provide crushed stone aggregates to third-party customers as well as to our existing ready-mixed concrete operations in that market. Production during 2005 was approximately 0.9 million tons, and we estimate the quarry has approximately 33 million tons of remaining reserves, assuming a 20% loss factor for unusable material. In addition, in connection with our December 2005 acquisition of substantially all the operating assets of Go-Crete and South Loop Development Corporation, we acquired a sand and gravel quarry in the Dallas/Fort Worth, Texas area. The aggregate quarry is situated on 2,100 acres and is estimated to have approximately 10 million tons of remaining aggregate reserves. These aggregate reserves provide us with additional raw materials sourcing flexibility and supply availability.

Concrete Masonry. We manufacture various shapes and sizes of concrete masonry, commonly known as concrete block, for use in various applications. We produced approximately 4.8 million units of concrete masonry during 2005 at our plants in Michigan, Delaware and New Jersey. All our concrete masonry plants are located near our ready-mixed operations and provide us cross-selling opportunities in those markets.

Operations

Our ready-mixed concrete plants consist of fixed and portable facilities that produce ready-mixed concrete in wet or dry batches. Our fixed-plant facilities produce ready-mixed concrete that we transport to job sites by mixer trucks. Our portable plant operations deploy our seven portable plant facilities to produce ready-mixed concrete at the job site that we direct into place using a series of conveyor belts or a mixer truck. We use our portable plants to service high-volume projects or projects in remote locations. Several factors govern the choice of plant type, including:

- production consistency requirements;
- daily production capacity requirements; and
- job-site proximity to fixed plants.

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Generally, we will construct wet batch plants to serve markets that we expect will have consistently high demand as opposed to dry batch plants that will serve markets that we expect will have a less consistent demand. A wet batch plant generally has a higher initial cost and daily operating expense but yields greater consistency with less time required for quality control in the concrete produced and generally has greater daily production capacity than a dry batch plant. We believe that construction of a wet batch plant having an hourly capacity of 250 cubic yards currently would cost approximately \$1.5 million, while a dry batch plant having the same capacity currently would cost approximately \$0.7 million. As of March 10, 2006, our fixed batch plants included 21 wet batch plants and 79 dry batch plants. Of our seven portable plants, six are dry batch plants and one is a wet batch plant.

The batch operator in a dry batch plant simultaneously loads the dry components of stone, sand and cement with water and admixtures in a mixer truck that begins the mixing process during loading and completes that process while driving to the job site. In a wet batch plant, the batch operator blends the dry components and water in a plant mixer from which the operator loads the already mixed concrete into the mixer truck, which leaves for the job site promptly after loading.

Any future decisions we make regarding the construction of additional plants will be impacted by market factors, including:

- the expected production demand for the plant;

- the expected types of projects the plant will service; and

- the desired location of the plant.

Mixer trucks slowly rotate their loads en route to job sites in order to maintain product consistency. A mixer truck typically has a load capacity of 10 cubic yards, or approximately 20 tons, and an estimated useful life of 12 years. A new truck of this size currently costs approximately \$160,000. Depending on the type of batch plant from which the mixer trucks generally are loaded, some components of the mixer trucks usually require refurbishment after three to five years. As of March 10, 2006, we operated a fleet of approximately 1,120 mixer trucks, which had an average age of approximately 7.6 years.

In our ready-mixed concrete operations, we emphasize quality control, pre-job planning, customer service and coordination of supplies and delivery. We often obtain purchase orders for ready-mixed concrete months in advance of actual delivery. A typical order contains specifications the contractor requires the concrete to meet. After receiving the specifications for a particular job, we use computer modeling, industry information and information from previous similar jobs to formulate a variety of mixtures of cement, aggregates, water and admixtures which meet or exceed the contractor's specifications. We perform testing to determine which mix design is most appropriate to meet the required specifications. The test results enable us to select the mixture that has the lowest cost and meets or exceeds the job specifications. The testing center creates and maintains a project file that details the mixture we will use when we produce the concrete for the job. For quality control purposes, the testing center also is responsible for maintaining batch samples of concrete we have delivered to a job site.

We use computer modeling to prepare bids for particular jobs based on the size of the job, location, desired margin, cost of raw materials and the design mixture identified in our testing process. If the job is large enough and has a projected duration beyond the supply arrangement in place at that time, we obtain quotes from our suppliers as to the cost of raw materials we use in preparing the bid. Once we obtain a quotation from our suppliers, the price of the raw materials for the specified job is informally established. Several months may elapse from the time a contractor has accepted our bid until actual delivery of the ready-mixed concrete begins. During this time, we maintain regular communication with the contractor concerning the status of the job and any changes in the job's specifications in order to coordinate the multisourced purchases of cement and other materials we will need to fill the job order and meet the contractor's delivery requirements. We confirm that our customers are ready to take delivery of manufactured product throughout the placement process. On any given day, a particular plant may have production orders for dozens of customers at various locations throughout its area of operation. To fill an order:

- the customer service office coordinates the timing and delivery of the concrete to the job site;

- a load operator supervises and coordinates the receipt of the necessary raw materials and operates the hopper that dispenses those materials into the appropriate storage bins;

- a batch operator, using a computerized batch panel, prepares the specified mixture from the order and oversees the loading of the mixer truck with either dry ingredients and water in a dry batch plant or the premixed concrete in a wet batch plant; and

- the driver of the mixer truck delivers the load to the job site, discharges the load and, after washing the truck, departs at the direction of the dispatch office.

The central dispatch system tracks the status of each mixer truck as to whether a particular truck is:

- loading concrete;
- en route to a particular job site;
- on the job site;
- discharging concrete;
- being washed; or
- en route to a particular plant.

The system is updated continuously via signals received from the individual truck operators as to their status. In this manner, the dispatcher can determine the optimal routing and timing of subsequent deliveries by each mixer truck and monitor the performance of each driver.

A plant manager oversees the operation of each plant. Our operational employees also include:

- maintenance personnel who perform routine maintenance work throughout our plants;
- mechanics who perform substantially all the maintenance and repair work on our rolling stock;
- testing center staff who prepare mixtures for particular job specifications and maintain quality control;
- various clerical personnel who perform administrative tasks; and
- sales personnel who are responsible for identifying potential customers and maintaining existing customer relationships.

We generally operate each of our plants on an extended single shift, with some overtime operation during the year. On occasion, however, we may have projects that require deliveries around the clock.

Cement and Other Raw Materials

We obtain most of the materials necessary to manufacture ready-mixed concrete on a daily basis. These materials include cement, which is a manufactured product, stone, gravel and sand. Each plant typically maintains an inventory level of these materials sufficient to satisfy its operating needs for a few days. Cement represents the highest cost material used in manufacturing a cubic yard of ready-mixed concrete, while the combined cost of the stone, gravel and sand used is slightly less than the cement cost. In each of our markets, we purchase each of these materials from several suppliers.

During the last three quarters of 2004, supplies of cement were tight in some of our markets as a result of increased demand for cement, lower inventories of cement, downtime at certain cement plants and insufficient availability to increase imports of cement. This shortage curtailed some sales of our ready-mixed concrete, and cement prices increased, which adversely affected our gross margins. During the first quarter of 2005, cement shortages temporarily abated, although tightness of supply brought about by strong domestic consumption and insufficient availability of imported cement resulted in a continuation of the cement price increases experienced in the prior year. During the remainder of 2005, these conditions persisted and we experienced further increases in cement prices in the majority of our markets. In the second quarter of 2005, we experienced cement shortages in our north Texas market that had a negative impact on our operating results through both decreased sales and higher cost of raw materials. Because of expected continued strong domestic consumption and insufficient availability of cement in certain markets, we could experience continued shortages in future periods, which could adversely affect our operating results, through both decreased sales and higher cost of raw materials.

Marketing and Sales

General contractors typically select their suppliers of ready-mixed concrete. In large, complex projects, an engineering firm or division within a state transportation or public works department may influence the purchasing decision, particularly if the concrete has complicated design specifications. In those projects and in government-funded projects generally, the general contractor or project engineer usually awards supply orders on the basis of either direct negotiation or competitive bidding. We believe the purchasing decision for many jobs ultimately is relationship-based. Our marketing efforts target general contractors, developers, design engineers, architects and homebuilders whose focus extends beyond the price of ready-mixed concrete to product quality and consistency and reducing the in-place cost of concrete.

Customers

Of our 2005 sales, we made approximately 42% to commercial and industrial construction contractors, 46% to residential construction contractors, 3% to street and highway construction contractors and 9% to other public works and infrastructure contractors. In 2005, no single customer or project accounted for more than 3% of our total sales.

We rely heavily on repeat customers. Our management and sales personnel are responsible for developing and maintaining successful long-term relationships with key customers.

Competition

The ready-mixed concrete industry is highly competitive. Our competitive position in a market depends largely on the location and operating costs of our ready-mixed concrete plants and prevailing prices in that market. Price is the primary competitive factor among suppliers for small or simple jobs, principally in residential construction, while timeliness of delivery and consistency of quality and service along with price are the principal competitive factors among suppliers for large or complex jobs. Our competitors range from small, owner-operated private companies to subsidiaries or operating units of large, vertically integrated manufacturers of cement and aggregates. Our vertically integrated competitors generally have greater manufacturing, financial and marketing resources than we have, providing them with a competitive advantage. Competitors having lower operating costs than we do or having the financial resources to enable them to accept lower margins than we do will have a competitive advantage over us for jobs that are particularly price-sensitive. Competitors having greater financial resources also may have competitive advantages over us. See **Risk Factors** We may lose business to competitors who underbid us and we may be otherwise unable to compete favorably in our highly competitive industry.

Employees

As of March 1, 2006, we had approximately 511 salaried employees, including executive officers and management, sales, technical, administrative and clerical personnel, and approximately 1,834 hourly personnel. The number of employees fluctuates depending on the number and size of projects ongoing at any particular time, which may be impacted by variations in weather conditions throughout the year.

As of March 1, 2006, approximately 878 of our employees were represented by labor unions having collective bargaining agreements with us. Generally, these agreements have multi-year terms and expire on a staggered basis between 2006 and 2010. Under these agreements, we pay specified wages to covered employees and make payments to multi-employer pension plans and employee benefit trusts rather than administering the funds on behalf of these employees.

Other than a two-day strike at certain operations within our Atlantic Region in 2004, we have not experienced any strikes or significant work stoppages in the past five years. We believe our relationships with our employees and union representatives are satisfactory.

Training and Safety

Our future success will depend, in part, on the extent to which we can attract, retain and motivate qualified employees. We believe that our ability to do so will depend on the quality of our recruiting, training, compensation and benefits, the opportunities we afford for advancement and our safety record. We support and fund continuing education and training programs for our employees. We intend to continue and expand these programs. We require all field employees to attend periodic safety training meetings and all drivers and other delivery personnel to participate in training seminars. We employ a national safety director whose responsibilities include managing and executing a unified, company-wide safety program.

Governmental Regulation and Environmental Matters

A wide range of federal, state and local laws, ordinances and regulations apply to our operations, including the following matters:

land usage;

street and highway usage;

noise levels; and

health, safety and environmental matters.

In many instances, we are required to have various certificates, permits or licenses to conduct our business. Our failure to maintain these required authorizations or to comply with applicable laws or other governmental requirements could result in substantial fines or possible revocation of our authority to conduct some of our operations. Delays in obtaining approvals for the transfer or grant of authorizations, or failures to obtain new authorizations, could impede acquisition efforts.

Environmental laws that impact our operations include those relating to air quality, solid waste management and water quality. These laws are complex and subject to frequent change. They impose strict liability in some cases without regard to negligence or fault. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Some environmental laws provide for joint and several strict liability for remediation of spills and releases of hazardous substances. In addition, businesses may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, as well as damage to natural resources. These laws also may expose us to liability for the conduct of or conditions caused by others, or for acts that complied with all applicable laws when performed.

We have conducted Phase I investigations to assess environmental conditions on substantially all the real properties we own or lease and have engaged independent environmental consulting firms to complete those assessments. We have not identified any environmental concerns associated with those properties that we believe are likely to have a material adverse effect on our business, financial position, results of operations or cash flows, but we can provide no assurance material liabilities will not occur. In addition, we can provide no assurance our compliance with amended, new or more stringent laws, stricter interpretations of existing laws or the future discovery of environmental conditions will not require additional, material expenditures. OSHA regulations establish requirements our training programs must meet.

We have all material permits and licenses we need to conduct our operations and are in substantial compliance with applicable regulatory requirements relating to our operations. Our capital expenditures relating to environmental matters were not material in 2005. We currently do not anticipate any material adverse effect on our business, financial condition, results of operations or cash flows as a result of our future compliance with existing environmental laws controlling the discharge of materials into the environment.

Product Warranties

Our operations involve providing ready-mixed and other concrete formulations that must meet building code or other regulatory requirements and contractual specifications for durability, stress-level capacity, weight-bearing capacity and other characteristics. If we fail or are unable to provide product, meeting these requirements and specifications, material claims may arise against us and our reputation could be damaged. In the past, we have had significant claims of this kind asserted against us that we have resolved. There currently are, and we expect that in the future there will be, additional claims of this kind asserted against us. If a significant product-related claim is resolved against us in the future, that resolution may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Insurance

Our employees perform a significant portion of their work moving and storing large quantities of heavy raw materials, driving large mixer trucks in heavy traffic conditions and delivering concrete at construction sites or in other areas that may be hazardous. These operating hazards can cause personal injury and loss of life, damage to or destruction of properties and equipment and environmental damage. We maintain insurance coverage in amounts and against the risks we believe accord with industry practice, but this insurance may not be adequate to cover all losses or liabilities we may incur in our operations, and we may be unable to maintain insurance of the types or at levels we deem necessary or adequate or at rates we consider reasonable. For additional discussion of our insurance programs, see Note 13 to our Consolidated Financial Statements included in this report.

Item 1A. Risk Factors

Set forth below and under Management's Discussion and Analysis of Financial Condition and Results of Operations Risks and Uncertainties in Item 7 of Part I of this report are various risks and uncertainties that could adversely impact our business, financial condition, results of operations and cash flows.

There are risks related to our internal growth and operating strategy.

Our ability to generate internal growth will be affected by, among other factors, our ability to:

attract new customers;

differentiate ourselves in a competitive market by emphasizing new product development and value-added sales and marketing;

hire and retain employees; and

reduce operating and overhead expenses.

One key component of our operating strategy is to operate our businesses on a decentralized basis, with local or regional management retaining responsibility for day-to-day operations, profitability and the internal growth of the individual business. If we do not implement and maintain proper overall business controls, this decentralized operating strategy could result in inconsistent operating and financial practices and our overall profitability could be adversely affected.

Our resources, including management resources, are limited and may be strained if we engage in a significant number of acquisitions. Also, acquisitions may divert our management's attention from initiating or carrying out programs to save costs or enhance revenues.

Our inability to achieve internal growth could materially and adversely affect our business, financial condition, results of operations and cash flows.

Our operating results may vary significantly from one reporting period to another and may be adversely affected by the seasonal and cyclical nature of the markets we serve.

The ready-mixed concrete business is seasonal. In particular, demand for our products and services during the winter months is typically lower than in other months because of inclement winter weather. In addition, sustained periods of inclement weather or permitting delays could postpone or delay projects over geographic regions of the United States and consequently could adversely affect our business, financial condition, results of operations and cash flows. The relative demand for ready-mixed concrete is a function of the highly cyclical construction industry. As a result, our revenues may be adversely affected by declines in the construction industry generally and in our local markets for ready-mixed concrete and other concrete products. Our results also may be materially affected by:

the level of residential and commercial construction in our regional markets, including possible reductions in the demand for new residential housing construction below current levels;

the availability of funds for public or infrastructure construction from local, state and federal sources;

unexpected events that delay or adversely affect our ability to deliver concrete according to our customers' requirements;

changes in interest rates;