

ADVANCED DRAINAGE SYSTEMS, INC.

Form 10-Q/A

March 29, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

Commission file number: 001-36557

Advanced Drainage Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of

51-0105665
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

4640 Trueman Boulevard, Hilliard, Ohio 43026

(Address of Principal Executive Offices, Including Zip Code)

(614) 658-0050

(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, or a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, and accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 31, 2014, 52,938,098 shares of common stock were outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol WMS. In addition, as of October 31, 2014, 234,271 shares of unvested restricted common stock were outstanding and 26,129,869 shares of ESOP preferred stock, convertible into 20,099,096 shares of common stock, were outstanding. As of October 31, 2014, 73,271,465 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

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EXPLANATORY NOTE

During the preparation of its Annual Report on Form 10-K for the fiscal year ended March 31, 2015, Advanced Drainage Systems, Inc. identified errors in its historical financial statements related to the accounting for leases, inventory, long-lived assets, ADS Mexicana, income taxes, and other items. As a result, Advanced Drainage Systems, Inc. is filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the three and six months ended September 30, 2014 as originally filed with the Securities and Exchange Commission on November 10, 2014 (the Original Form 10-Q): (i) Item 1 of Part I, Financial Statements, (ii) Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, (iii) Item 3 of Part I, Quantitative and Qualitative Disclosures About Market Risk, (iv) Item 4 of Part I, Controls and Procedures, (v) Item 1A of Part II Risk Factors, and (vi) Item 6 of Part II, Exhibits. We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.01, 31.02, 32.01 and 32.02, respectively, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, or have been changed; however, for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures, other than as required to reflect the restatement.

This Form 10-Q/A is being filed concurrently with the Company's Form 10-K for the year ended March 31, 2015 and Forms 10-Q/A for the periods ended June 30, 2014 and December 31, 2014.

Table of Contents**PART I. FINANCIAL INFORMATION****ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited, as restated)⁽¹⁾**

(Amounts in thousands, except par value)	As of	
	September 30, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash	\$ 6,581	\$ 3,931
Receivables (less allowance for doubtful accounts of \$4,381 and \$4,490, respectively)	246,046	148,271
Inventories	232,262	259,891
Deferred income taxes and other current assets	13,737	14,465
Total current assets	498,626	426,558
Property, plant and equipment, net	359,742	350,351
Other assets:		
Goodwill	88,000	88,017
Intangible assets, net	54,132	59,194
Other assets	67,660	65,447
Total assets	\$ 1,068,160	\$ 989,567

LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY (DEFICIT)

Current liabilities:		
Current maturities of debt obligations	\$ 11,148	\$ 11,153
Current maturities of capital lease obligations	12,225	12,364
Accounts payable	115,716	110,972
Other accrued liabilities	50,240	43,085
Accrued income taxes	19,698	7,980
Total current liabilities	209,027	185,554
Long-term debt obligation	386,435	442,895
Long-term capital lease obligations	49,237	34,366
Deferred tax liabilities	60,401	66,333
Other liabilities	27,319	32,170
Total liabilities	732,419	761,318
Commitments and contingencies (see Note 14)		
Mezzanine equity:		

Redeemable common stock: \$0.01 par value; 0 and 38,320 shares issued and outstanding, respectively		549,119
Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized; 44,170 shares issued; 26,129 shares outstanding	326,623	291,720
Deferred compensation unearned ESOP shares	(215,024)	(197,888)
Total mezzanine equity	111,599	642,951
Stockholders equity (deficit):		
Common stock: \$0.01 par value; 1,000,000 and 148,271 shares authorized; 153,560 and 109,951 shares issued; 52,935 and 9,141 shares outstanding, respectively	12,393	11,957
Paid-in capital	689,980	12,438
Common stock in treasury, at cost	(447,674)	(448,439)
Accumulated other comprehensive loss	(9,355)	(6,830)
Retained deficit	(40,900)	(2,412)
Total ADS stockholders equity (deficit)	204,444	(433,286)
Noncontrolling interest in subsidiaries	19,698	18,584
Total stockholders equity (deficit)	224,142	(414,702)
Total liabilities, mezzanine equity and stockholders equity (deficit)	\$ 1,068,160	\$ 989,567

(1) See Note 2. Restatement of Previously Issued Financial Statements.
See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, as restated)⁽¹⁾

(Amounts in thousands, except per share data)	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Net sales	\$ 366,714	\$ 332,727	\$ 693,148	\$ 625,306
Cost of goods sold	296,951	267,139	562,527	503,368
Gross profit	69,763	65,588	130,621	121,938
Operating expenses:				
Selling	20,240	18,635	39,792	35,155
General and administrative	13,843	13,655	29,641	26,742
Loss (gain) on disposal of assets or businesses	281	204	345	(4,532)
Intangible amortization	2,610	2,620	5,223	5,240
Income from operations	32,789	30,474	55,620	59,333
Other expense:				
Interest expense	5,044	4,721	10,095	9,450
Other miscellaneous (income) expense, net	(240)	(24)	(456)	20
Income before income taxes	27,985	25,777	45,981	49,863
Income tax expense	8,926	8,928	16,819	18,139
Equity in net loss of unconsolidated affiliates	62	192	724	518
Net income	18,997	16,657	28,438	31,206
Less net income attributable to noncontrolling interest	2,153	1,917	3,028	3,492
Net income attributable to ADS	16,844	14,740	25,410	27,714
Change in fair value of Redeemable convertible preferred stock	7,319	(3,186)	(11,054)	(4,764)
Dividends to Redeemable convertible preferred stockholders	(37)	(214)	(75)	(430)
Dividends paid to unvested restricted stockholders		(8)		(16)
Net income available to common stockholders and participating securities	24,126	11,332	14,281	22,504
Undistributed income allocated to participating securities	(2,768)	(1,203)	(1,702)	(2,406)
Net income available to common stockholders	\$ 21,358	\$ 10,129	\$ 12,579	\$ 20,098
Weighted average common shares outstanding:				
Basic	51,518	47,250	49,538	47,220
Diluted	56,463	47,579	52,198	47,634

Net income per share:

Basic	\$ 0.41	\$ 0.21	\$ 0.25	\$ 0.43
Diluted	\$ 0.41	\$ 0.21	\$ 0.25	\$ 0.42
Cash dividends declared per share	\$	\$ 0.03	\$	\$ 0.06

(1) See Note 2. Restatement of Previously Issued Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, as restated)⁽¹⁾

(Amounts in thousands)	Three Months Ended		Six Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Net income	\$ 18,997	\$ 16,657	\$ 28,438	\$ 31,206
Other comprehensive (loss) income:				
Currency translation, before tax	(3,591)	1,405	(3,432)	(3,076)
Other, before tax				5
Total other comprehensive (loss) income, before tax	(3,591)	1,405	(3,432)	(3,071)
Tax attributes of items in other comprehensive (loss) income:				
Other				(2)
Total tax benefit				(2)
Comprehensive income	15,406	18,062	25,006	28,133
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(761)	(293)	(907)	(1,266)
Less net income attributable to noncontrolling interest	2,153	1,917	3,028	3,492
Total comprehensive income attributable to ADS	\$ 14,014	\$ 16,438	\$ 22,885	\$ 25,907

(1) See Note 2. Restatement of Previously Issued Financial Statements
See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, as restated)⁽¹⁾

(Amounts in thousands)	Six Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities	\$ 14,906	\$ 8,385
Cash Flows from Investing Activities		
Capital expenditures	(15,596)	(21,561)
Proceeds from sale of assets or businesses	156	6,056
Investment in unconsolidated affiliate	(7,566)	(5,300)
Additions of capitalized software	(441)	(186)
Other investing activities	(525)	(533)
Net cash used in investing activities	(23,972)	(21,524)
Cash Flows from Financing Activities		
Proceeds from Revolving Credit Facility	174,760	225,400
Payments on Revolving Credit Facility	(227,000)	(242,300)
Proceeds from term loan		100,000
Payments on term loan	(2,500)	(77,500)
Proceeds from Senior Notes		25,000
Payments of notes, mortgages, and other debt	(1,665)	(963)
Payments on capital lease obligation	(5,467)	(5,899)
Payments for deferred initial public offering costs	(4,458)	
Debt issuance costs		(2,311)
Proceeds from initial public offering of common stock, net of underwriter discounts and commissions	79,131	
Cash dividends paid	(1,007)	(4,293)
Redemption of Redeemable convertible preferred stock		(3,146)
Other financing activities	152	(183)
Net cash provided by financing activities	11,946	13,805
Effect of exchange rate changes on cash and cash equivalents	(230)	9